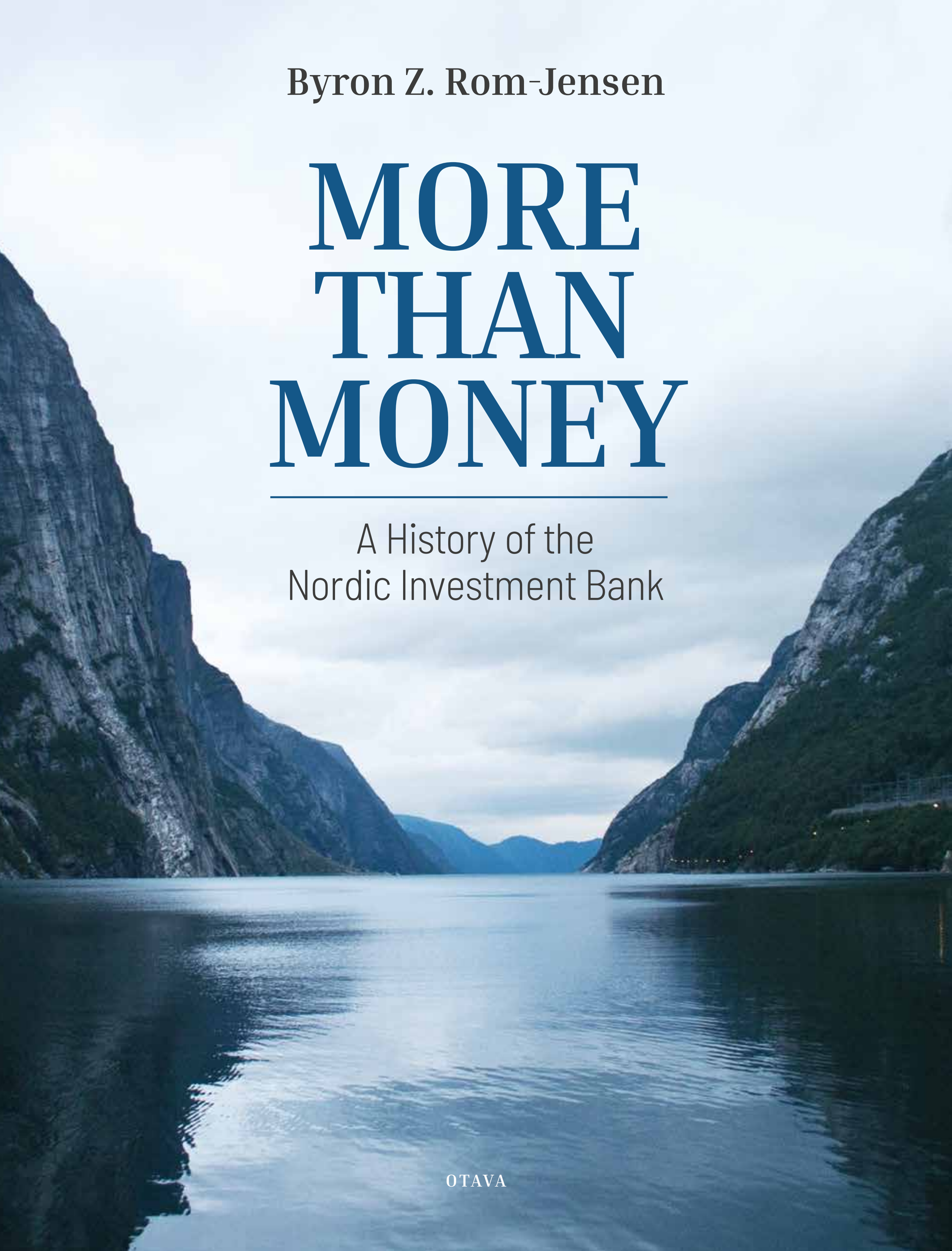
Byron Z. Rom-Jensen

MORE THAN MONEY

A History of the Nordic Investment Bank



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A History of the Nordic Investment Bank

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Cover Image
Lysefjorden, seen from Lysebotn at the end of the fjord in Sandnes, Rogaland, in southwestern Norway. Here, NIB co-financed Lysebotn 2, a hydropower plant built inside the mountain. The plant replaces the outdated Lysebotn hydropower plant from 1953 and produces around 15% more electricity. The project is representative of NIB's longer history of lending to renewable energy production. It also reflects the Bank's mission to improve productivity and benefit the environment the Nordic-Baltic region.
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top from left to right: NIB Annual Report, 1980; Peer Pedersen/Ritzau Scanpix/Lehtikuva; Nordiska Investeringsbanken och dess verksamhet 1976–1985; L. Vasausko/Wikimedia Commons; NIB; bottom: (NIB Day in Tallinn 2022), photographed by Rene Lutterus (NIB copyright)

Endpaper Map
Carta Marina of Olaus Magnus, Map of Scandinavia, 1539

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Contents

Abbreviations

BIB	Baltic Investment Bank
BIL	Baltic Investment Loan
BIP	Baltic Investment Programme
CNC	Nordic Committee for Economic Cooperation
CIDIE	Committee of International Development Institutions on the Environment
CLEERE	Climate Change, Energy Efficiency and Renewable Energy
EBRD	European Bank for Reconstruction and Development
EIA	Environmental impact assessment
EIB	European Investment Bank
HELCOM	Helsinki Commission
IBRD	International Bank for Reconstruction and Development
IFI	International financial institution
IMF	International Monetary Fund
LO	The Confederation of Trade Unions
MIL	Environmental Investment Loan
NDEP	Northern Dimension Environmental Partnership
NBIC	Nordic-Baltic Investment Committee
NCM	Nordic Council of Ministers
NDF	Nordic Development Fund
NECC	Nordic Economic Cooperation Council
NEFCO	Nordic Environment Finance Corporation
NFS	Council of Nordic Trade Unions
NIB	Nordic Investment Bank
NOPEF	Nordic Project Fund
NORDEK	Nordic Economic Union
PIL	Project Investment Loan
SIDA	Swedish International Development Cooperation Authority/Agency
SME	Small and medium-sized enterprise
S&P	Standard & Poor's
UNDP	United Nations Development Programme

Currency Abbreviations

DKK	Danish krona
ECU	European Currency Unit
EUR	Euro
FIM	Finnish markka
NOK	Norwegian krona
SDR	Special Drawing Rights
SEK	Swedish krona
USD	US dollars

Author Introduction

The Nordic Investment Bank is not like most other banks. Many banks offer a wide range of functions and services, from accepting deposits to issuing credit to trading securities. For most of the Nordic Investment Bank's history, conversely, its activities have centred on one primary product: long-term loans. Yet such consistency should not be interpreted as a sign of stagnation. The Bank's relatively limited array of financial products is contrasted with its complex and changing motivations and visions for the future.[1] As such, the Nordic Investment Bank (NIB) is a dynamic organisation whose story provides insights into the development of the Nordic and Baltic Sea regions over the past fifty years.

As a public institution operating on private banking principles, NIB has always been about more than making money. It instead has sought to influence the socioeconomic progress of its region – "Financing the Future" as NIB's slogan declares – in accordance with the political agendas and outlooks of its members, which, in 2026, constitutes Lithuania, Latvia, Estonia, Finland, Sweden, Denmark, Norway, and Iceland. NIB's focus on the future makes it, ironically, a valuable lens for understanding the past. In trying to envision and shape the future of its member countries, NIB has historically acted as a magnet for new and competing ideas about which principles, values, and activities should guide the Nordic-Baltic region and how financial mechanisms could best serve them.

This element of NIB's identity is captured in the original prescription that the Bank should finance projects with a "Nordic interest". Conceptions of a Nordic interest were threaded throughout the Bank's first thirty years, as both the Bank's management and outside observers sought to identify the best path towards regional strength. With the accession of the Baltic states in 2005, it no longer became practical for NIB to think of itself as a primarily Nordic institution. Subsequently, "the Nordic interest" was replaced with a more nebulous regional definition. By viewing NIB through the perspective of its work towards a Nordic interest, as well as its later mandates of competitiveness and the environment, this book aims to shine a light on the fluctuating and contested visions of what NIB should be and who it should work for.

In identifying critical moments in NIB's past and seeking to understand why the Bank went down particular paths, it becomes clear that the Bank has always existed in the balance between external pressures and contexts and internal initiatives and visions. This story seeks to incorporate and comprehend these complex factors. NIB's placement within the international history of the Nordic-Baltic region helps clarify how and why the Nordic Investment Bank ended up where it is today – an institution that has continuously grown over the past half-century and yet occupies less public and political awareness than when it was opened in 1976.

While it is useful for banks and other organisations to understand their history when developing new strategies and facilities,[2] this book does not make direct recommendations for the current staff, management, and governors of the Bank, who are immersed in processes, cases, and rules that can be very different from those covered in this book. Nonetheless, an examination of the Bank's first fifty years can prove a resource for understanding how institutional traditions developed and influenced NIB's decisions, practices, and identity.

To better understand the Nordic Investment Bank and the decisions that shaped it, NIB allowed me access to their internal archives through 2015. These records yielded minutes of board and committee meetings, memoranda on loan agreements and new bond issues, handwritten

notes, strategy documents, letters and emails, presentations and speeches – even a few doodles in the margins. Together, they revealed an institution keenly determined to act for the benefit of the region and the world around it, even as opinions of what that benefit was and how it should be achieved shifted and came into conflict. Archival documentation was combined with publicly available material and interviews with relevant individuals. When appropriate, I provide the names of senior management and directors who were involved with significant decisions or events in the hopes of showing how the Bank evolved alongside the individuals who led it.

The book opens not with the Bank's founding but with its decades-long prehistory. Before NIB officially commenced operations, the idea of a joint Nordic bank would go through years of scrutiny, retooling, and failure following the vagaries of Nordic economic cooperation. Chapter 1 outlines the context for the various attempts to create a Nordic investment bank and their fates. Once NIB finally emerged in the mid-1970s, it faced a new set of challenges as a small international institution opposed by powerful political opponents. The initial structure and early years of NIB are detailed in Chapter 2.

Under its first two presidents, NIB would soar into the 1980s with the wind in its sails, expanding not only its size but its ambitions. In Chapter 3, the Bank's participation in new economic processes and far-flung regions is explored. These efforts were rocked in the 1990s by the end of the Cold War and existential questions about its future. Chapter 4 focuses upon NIB's expanding operations in the Baltic Sea, culminating in perhaps its most important achievement: the successful incorporation of the Baltic member states. Finally, Chapter 5 takes a chronological step back, exploring how NIB's early investments in energy production paved the way to its increasing efforts at financing sustainability since 2005. As a Baltic Sea bank, NIB incorporated new perspectives and methods for improving the environment and productivity throughout its operations while growing to hitherto unknown proportions. The Conclusion chapter brings the story up to 2026.

The Nordic Investment Bank is a unique and often overlooked institution in the history of Nordic-Baltic cooperation. At a moment when that cooperation itself is in transformation, it is all the more important to understand NIB and its potential to shape the future.

TEEMU KUUSIMURTO / NIB

NIB's reception at Fabianinkatu 34 in Helsinki, 2025

Chapter 1

The Long Road to the Nordic Investment Bank, 1950–1976

It was early morning on November 15, 1975 when delegates from the five Nordic countries converged on the Old Parliamentary Building in Stockholm. Vacated by the Swedish Parliament in 1905, on this day the building would host the Nordic Council and with it a collection of the most powerful politicians in Northern Europe, with at least ten former, current, and future prime ministers in attendance. As the clock struck nine, the delegates found their seats in the main hall to begin an unprecedented day.

These delegates, consisting of various Nordic parliamentarians and government ministers, had gathered for a unique event in Nordic Council history. After two decades of existence, the Nordic Council had never met outside of its regular schedule of annual meetings rotating through the major Nordic urban centres. Neither global developments nor regional plans had necessitated an extraordinary meeting of the Council. Yet this session had been called around a singular issue, one likely exceedingly familiar to many of the assembled delegates. The founding of the Nordic investment bank was on the agenda.

The Stockholm session in 1975 was not the beginning of the Nordic Investment Bank's creation but rather the end of an exceedingly long road that had wound through optimistic visions, failed plans, and a region in transformation. The first discussions around a joint Nordic bank took place in the 1950s between countries traumatised by war and strained by the opening acts of a bipolar global conflict. However, the Bank's spiritual roots stretched back even further, connecting with elusive dreams of a Nordic region unified by common goals and shared culture. While the Nordic Investment Bank as it was eventually constructed was hardly the fulfilment of such idyllic visions, they nevertheless were central to its formation and purpose.

The Investment Bank Emerges

Alliances from the Ashes

First cresting amidst a wave of nationalism in the 19th century, aspirations to unify the Scandinavian countries had proved an enticing but elusive ambition for the cultural and political elite that pursued it. Students, lawyers, and other well-educated professionals met regularly for celebrations of their common ancestry and shared values, while political elites, notably the Scandinavian kings, pledged military support in the face of continental enemies. While dreams of a single, pan-Scandinavian state went unfulfilled, these interactions produced tangible and lingering ties, reinforced by countless cross-border interactions and notable governmental initiatives, such as a monetary union in 1873. Extensive contacts continued through the interwar period between 1918 and 1939, when excitement around prospects of a unified Nordic region led to various initiatives for integration, only to be torn asunder as the world again descended into war and chaos.[3]

Dreams of a united Nordic region re-emerged following the Second World War and its devastation to resources, goods, manpower, and capital reserves throughout the continent. The material and economic toll of a half-decade of war had proven uneven. Norway and Finland suffered

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Declarations of Scandinavian unity in the 19th century proved enticing, but elusive. Image: Skandinavianisme, painting by unknown Danish artist between 1844 and 1850.

extensive damage to their infrastructure and industry: Norway saw a 14 percent decline in pre-war capital due to prolonged German occupation, while Finland's economy emerged exhausted from a brutal conflict with the Soviet Union.[4] In contrast, Denmark's occupation was less severe, preserving much of its productive capacity, and Sweden remained largely unscathed due to its neutrality policy during the war. Iceland also faced modernisation challenges but did not experience significant physical destruction.

Postwar rebuilding took many forms, some lasting and others, like an abandoned Scandinavian Defence Union that would have maintained traditional neutrality by joining Sweden, Denmark, and Norway in a defensive pact, rapidly discarded and replaced by other arrangements. The most significant of these arrangements for the Nordic economies was hammered out at an international monetary conference in Bretton Woods, New Hampshire in 1944, where leaders from the Allied countries and other associated states gathered to erect the scaffolding for a postwar financial order.

The Bretton Woods agreement intended to rectify the problems of competitive monetary policy that had turned an economic crisis in the early 1930s into a worldwide depression and eventually armed conflict in Europe and beyond. The new agreement, eventually signed by the nascent Western Bloc, would transform former enemies into inter-dependent allies by demolishing economic barriers and stabilising currencies by tying them to a US dollar convertible to gold. Two institutions stood at its epicentre. The International Monetary Fund (IMF) would stabilise exchange rates and mitigate imbalances in the international financial system, including placing restrictions on monetary flows to prevent wealthier nations from economically dominating poorer states. Meanwhile, the International Bank for Reconstruction and Development, later known as the World Bank, would promote international trade by providing loans to rebuild infrastructure in war-ravaged Europe.[5] Despite criticism, including amongst sceptical Nordic observers, of the arrangement as a strategy for American economic "imperialism",[6] the Nordic states quickly rallied to the Bretton Woods institutions, forming a Nordic bloc in the IMF's governing board upon Swedish accession in 1951.[7]

In practice, efforts to demolish economic barriers to trade and international finance did not prevent the imposition of tight postwar capital controls that limited the flow of money across borders. Rather, currency and investment restrictions coexisted with efforts towards economic liberalisation. European states, generally working through their central banks, sought to control domestic financial markets and channel investments towards industrial production and reconstruction. Even though the currency policies of the Nordic countries all differed slightly, the tight controls on incoming and outgoing monetary flows remained stable into the 1960s. While currency restrictions limited the ability of Nordic banks to operate in other Nordic countries, much less on a global stage, these limitations appeared an acceptable sacrifice to economic stability and peaceful politics.[8]

The central role of the US dollar in the Bretton Woods system was but one indication of the US's new status as a global superpower. The launch of the Economic Recovery Act, better known as the Marshall Plan, in 1948 underscored the US's role as a dominant economic and political partner for a rebuilding Europe. US Secretary of State George C. Marshall, for whom the plan was nicknamed, announced the programme with a promise and a warning: "Any government that is willing to assist in the task of recovery will find full co-operation I am sure, on the part of the United States Government. Any government which manoeuvres to block the recovery of other countries cannot expect help from us."[9]

The Scandinavian governments gazed hungrily at the capital funds made available by the United States. Finland, while no less interested in funds to rebuild its shattered economy, was unable to participate due to their connections to the Soviet Union, especially after the Soviet Union offered Finland a treaty of mutual friendship in 1948, a "proposal" that Finland had little choice but to accept. Alarm over the Agreement of Friendship, Cooperation, and Mutual Assistance, in which Finland acquiesced to Soviet demands that the country remain outside "antagonist great power interests", in reality making the country deferential to the caprices of Soviet leadership, helped override any lingering concerns in Scandinavia about Marshall Aid's potentially negative effects on their neutrality and bridge-building policies, especially in Norway, where rumours swirled that the government had received a similar offer from the Soviets.[10] As part of the conditionality of Marshall Aid, and in hopes of countering communist influence from the East, the Americans encouraged regional cooperation as a prelude to western European cooperation.[11] With their own anxieties about the communist threat, both in the form of military intervention and domestic agitation, plans for economic integration akin to the Benelux model found many eager converts in the Nordic region.[12]

At the beginning of the 1950s, the Nordic countries confronted the challenge of navigating this atmosphere of bubbling hostility while asserting their identity and securing their economic futures.

The Search for a "Rich Uncle"

Plans to increase economic cooperation received mixed reactions amongst the Nordic countries, in large part due to differing understandings of its purposes. While in Sweden, and initially Norway, ideas of a Nordic common market emerged as an alternative to geopolitical alignment with the West, the Danish Social Democratic government viewed Nordic cooperation as a largely unproblematic precursor to European integration, costing little and allowing Denmark access to resources and markets to develop its lagging manufacturing industry.[13] However, the Danish trade unions, generally erstwhile allies of the Social Democrats, feared the effects of European integration on the Danish welfare state and full employment policies and instead favoured "a Nordic alternative". Such debate lent itself easily to passionate appeals, such as the President of the Danish Unskilled Labourers Union declaring in 1962 that "he would prefer to stagnate economically as a free citizen in a free country" rather than join the European Economic Community (EEC) that had been founded in 1957 by the Treaty of Rome.[14] Finland, by virtue of its proximity and relationship with the Soviet Union, could likewise not countenance European options and remained wary of measures that would inadvertently tie Finland to pro-Western arrangements.

While European integration proved a divisive topic, Nordic cooperation remained popular, a paradoxical compensation for the failures of the Scandinavian Defence Union. This renewed enthusiasm speedily resolved itself into various Nordic initiatives, including the establishment of a passport union, a common labour market, the inter-parliamentary Nordic Council, and a proposal at a meeting of Nordic foreign ministers in June 1947 to explore greater economic cooperation – including coordinating financial investments.[15]

The Nordic Committee for Economic Cooperation (CNC) was subsequently formed in early 1948 to investigate and propose common tariffs and other measures to benefit the region. Collectively, these proposals became known as the Nordic customs union. "Scandinavian customs union" may have been more accurate, as Finland stood outside the negotiations while Iceland, heavily dependent on its fishing industry, sent representation but mostly abstained from negotiations. By eliminating barriers to trade and organising import quotas, the CNC intended to increase prosperity, streamline the flow of goods and labour, and expand capital in a region where economic recovery was proceeding more slowly than elsewhere in Europe.[16]

The CNC produced a preliminary report in 1950 backing the liberalisation of inter-Nordic trade while shying away from specific proposals, a sign of diverging agendas within the committee.[17] The preliminary report was then circulated for review and comment. Norway's foreign minister proved especially sceptical about the benefits of a Nordic customs union, fearing that liberalised trade would wreak havoc on Norway's underdeveloped manufacturing industry and even decrease the country's preparedness for war.[18] In line with Nordic neo-corporatist traditions,[19] economic interest groups were also asked to comment, including the Scandinavian labour federations (LOs), who appointed three economists to review the CNC's report. The economists' subsequent response, although not formally approved by the labour federations, became a major talking point upon release in 1952. In their report, the LO economists noted the need for significant investment to modernise Scandinavian, particularly Norwegian, industries by purchasing new technologies and rationalising production. The economists argued that nothing less than the futures of Scandinavian social welfare and self-defence were riding on such improvements.

With these high stakes in mind, the LO economists broached the idea of a Nordic investment bank for the first time. A Nordic bank could assist in making the Nordic economies, particularly their agricultural and manufacturing industries, more modern, complementary, and internationally competitive. In particular, the LO economists noted the desirability of Sweden actively injecting capital to boost production and develop markets in Norway and, to a lesser degree, Denmark. A Nordic investment bank would ensure efficient investments and productive cooperation.

What this bank would look like, however, was ill-defined and rested on "state and private interests injecting capital to finance Nordic investment projects on reasonable terms". A draft proposal included in the economists' report broadly outlined an institution that would not only include the Scandinavian governments as its members, but also their central banks, private banks, economic organisations, and even certain individuals. Sweden (39%) and Denmark (37%) would own most of the authorised capital for the bank, and loans would be provided only to companies that could compete in a common Nordic market.[20]

Even though the CNC included the LO economists' proposal for the Nordic investment bank in its 1954 report, not all were convinced that it would have its desired effect. The dissent came into full display at the second-ever session of the Nordic Council in 1954. The Nordic Council had been initiated as a consolatory body of Nordic parliamentarians, albeit with non-voting representation from the Nordic governments as

well.[21] Although the Nordic Council was a pathway for establishing common initiatives, the body itself had few formal powers and was largely confined to issuing recommendations and discussing proposals. In 1954, discussion centred on the CNC report, during which Norwegian representative Christian L. Holm explained his concerns that an investment bank would pump capital into manufacturing, while "agriculture, forestry, communications, health care, and a number of other industries were forced to 'stand in line and wait.'"[22] While Holm's concern about the over-saturation of capital into manufacturing was likely coloured by his background in the lumber industry, he was hardly alone in his scepticism. The non-socialist Nordic political parties showed a largely solid front against the Nordic customs union. Realising this, the Norwegian Social Democrats, while positively disposed to Nordic solutions, dismissed supranational integration in favour of looser arrangements.[23]

Norwegian concerns, combined with the unstable geopolitical situation as the European Six – Germany, Italy, France and the Benelux countries – moved towards further integration, led to the shelving of the 1954 report. Instead, guidelines were given to launch a new investigatory committee.[24] That the committee would renew the idea of an investment bank was uncertain, and industry representatives argued instead for the establishment of individual Nordic funds for modernising their businesses. Such an arrangement would be a "waste of resources", concluded Erik Brofoss, the Social Democratic head of the Bank of Norway, who believed a Nordic or Scandinavian investment bank more capable of rationally distributing funds and improving the Nordic region's international competitiveness. To ease potential friction about which countries and sectors would receive funds, Brofoss recommended placing all authority for lending in the bank's board of governors, which he suggested could be modelled on a recent example of successful Nordic commercial cooperation: the Scandinavian Airlines System

(SAS). In Brofoss' model, Sweden, a capital exporter thanks to its strong economy, would hold two seats and have a weightier vote, while the other countries held one. Still, a joint investment bank was a risky venture, politically if not financially. Brofoss predicted potential conflicts based on whether board members would be nominated by the governments or whether private industry would also have input.[25]

In July 1957, the Nordic Economic Cooperation Council (NECC) returned its recommendations. The NECC asserted the desirability of developing a Nordic common market that would include the Scandinavian countries and Finland, which joined negotiations in 1956 after Josef Stalin's death.[26] To finance expanded production in such an arrangement and mitigate potentially harmful effects, additional capital was desperately needed. The committee considered but ultimately rejected European-style measures to stimulate capital movement *inside* the Nordic region, finding it unsuitable for the current state of Nordic economies. Instead, they urged that supply of capital be increased from the *outside*.[27] Tage Erlander, Prime Minister of Sweden, echoed such sentiments in a speech at the following Nordic Council meeting in 1958, rejecting the idea of inter-Nordic capital circulation, which would likely have resulted in a large outflow of funds from Sweden to its neighbours. Nor, Erlander warned, was any "rich uncle" coming to save the Nordics from outside. The Nordic governments had to develop their *own* institutions to attract foreign funds.[28]

With the necessity of foreign capital in mind, the NECC drafted statutes and structures for a Nordic investment bank. The draft was explicitly based on a recent proposal for a European investment bank and to a lesser extent on the existing World Bank and IMF. The NECC recommended that capital raised by the bank could be directed towards investments in and commercial credits for cooperation projects and projects of a "common Nordic interest",[29] a term that had not appeared in the 1952 report by the LO economists and was likely influenced by concurrent developments to design a bank in the "interest" of the European Economic Community (see Chapter 2).[30] This included projects to strengthen the proposed common market or even counter its perceived damage, such as a loss of competitiveness or productive employment in certain areas. The committee also envisioned the potential of joint-Nordic projects, although the nature of these projects remained largely theoretical in 1957. Projects would be decided by a sixteen-member board consisting of four members each from Sweden, Denmark, Finland, and Norway, with each country having equal votes. This proposed Nordic investment bank would open its doors in 1959, in time to cooperate with the forthcoming Nordic customs union.[31]

While the Nordic investment bank was moving from vague idea to concrete proposal, its placement within a Nordic customs union programme ensured that its fate was tied to broader debates around economic cooperation. According to political scientist Stanley Andersen, uncertainty about Europe and lingering "economic nationalism" prevented the "material bonuses" that an investment bank would have brought, especially in applying Swedish wealth to the capital-starved parts of the Nordic region.[32] Thus, when the Nordic prime ministers decided to reject the Nordic customs union proposal in July 1959, the bank proposal was also placed on the shelf. Its replacement, the European Free Trade Association (EFTA), contained no parallel provisions for a financial institution to strengthen economic competitiveness amongst its members.

New Initiatives, Same Results

The Independent Proposals

Despite the collapse of the Nordic customs union, the dream of greater economic cooperation was not easily forgotten, even as the region discovered new prosperity and international regard. In the following years, various elements of the collapsed proposal would be picked up and polished off, including the investment bank. In May 1960, at a meeting of the Minister Committee for Nordic Economic Cooperation, a proposal passed to explore the creation of an independent Nordic investment bank, untethered from other plans for Nordic integration. A subcommittee on finance was assigned to investigate the matter, although the Swedish government ensured that any recommendations were non-binding. Responses within the subcommittee proved mixed. Amongst the Icelandic and Finnish members, the proposal to create an investment bank met with enthusiasm that such an institution would be able to enhance their countries' access to external capital by providing creditable guarantees. Finland's historical geographic and economic peripherality had limited access to global capital markets, forcing the Finnish government to settle for higher interest and shorter loans than its Scandinavian counterparts. Iceland faced similar problems, as well as tight regulations around foreign loans to protect its balance of payments.[33]

The Scandinavian delegates were more sceptical that this revenant of the failed customs union package would actually attract foreign capital. Moreover, the Danish and Norwegian decision to join the United Kingdom in applying for European Economic Community membership (in 1961 and 1962 respectively) encouraged a wait-and-see attitude amongst their delegates,[34] since a Nordic bank might create unfortunate overlaps with the newly established European Investment Bank (EIB).

Some members of the committee floated the idea of instead erecting a larger Nordic financial institution that would develop a common Nordic industrial area through investments and export credits, but also supply aid to underdeveloped countries, a broad mandate covering an even larger area than the European Investment Bank. The various concerns made unanimity amongst the subcommittee impossible. Their final report cautiously recommended greater cooperation between Nordic financial sectors but avoided calling for the creation of a new institution.[35]

The first efforts to independently establish a Nordic investment bank flared and dissipated with little to show for the initiative. Yet supporters did not have to wait long for another opportunity to present itself. When French President Charles de Gaulle, fearful of the effects of an enlarged free trade area and the potential of the United Kingdom to act as a Trojan horse for American machinations, vetoed the UK's application in 1963, both Denmark and Norway, reliant on British markets, were forced to rescind their own applications. The unexpected failure again sparked consideration of joint-Nordic financial cooperation.

At a Nordic Council session a few weeks after the de Gaulle veto, Erik Eriksen, former Danish Prime Minister of the Liberal party, reminded the assembled delegates of the merits of a Nordic investment bank that could import much needed capital into the region. Shortly after, Aksel Larsen, founder of the left-wing Danish Social People's Party, voiced support for reconsidering a Nordic customs union programme in the context of EFTA but urged the Nordic Council to proceed slowly on such matters of economic coordination.[36] The following year, the bank's proponents made their push.

Knud Børge Andersen, a Danish Social Democrat with a preference for pan-Nordic solutions,[37] represented a coalition of Economic Committee members, primarily Scandinavian social democrats, when he proposed renewing the investigation of a Nordic financial institution.

While acknowledging that the investment bank idea was not fresh, Andersen insisted that the back catalogue of failed proposals were an advantage, since it meant that the proposal was more concrete and had pre-existing political support. On these premises, Andersen called for an investigation that would quickly confirm the desirability of a Nordic investment bank or shelve it once and for all.

Andersen's proposal passed easily, although not everyone who voted for an investigation was certain that the idea was sound. Poul Møller, in the middle of transforming the Danish Conservative Party into Denmark's largest non-socialist party, used his opening speech at the Nordic Council's presidium to dampen the swirling talk of an investment bank. Møller reminded his fellow delegates that they were supposed to be working for the Nordic people, not creating common Nordic institutions "if there was no need for them". First, Møller expressed doubt that a bank would be able to raise capital that was not already accessible to existing institutions. Far worse, it might pave the way to the Nordic Council's "overlordship" of the Nordic nations and their people. Møller instead proposed liberalisation of capital movement in the Nordic region, a plan that he saw as more practical and less dangerous.[38]

The Nordic subcommittee on financial issues worked quickly, producing a report in October 1964. The report reviewed the status of Nordic and global markets in order to evaluate the economic justification for a Nordic investment bank. The committee expounded on the success of the new European Investment Bank as an illustration of a Nordic institution's potential, noting that the EIB's success in lending to underdeveloped regions in Southern Italy, Sicily, and Sardinia had quieted its doubters. The committee believed that Finland and Iceland, which still struggled to secure lower interest rates on global financial markets, would directly benefit from a bank backed by the guarantees of the five Nordic Council members. Sweden could thereby put its lofty international reputation to good use for the benefit of its neighbours. Denmark and Norway, meanwhile, would be largely unaffected in their foreign lending, and might even find their loans becoming more expensive. The committee moreover admitted the difficulty of providing examples of projects that satisfied the vision of trans-Nordic interest, but was certain that such projects would arise given the governments' efforts to maintain full employment. Yet the unbalanced outcomes, benefitting the Nordic "periphery" more than its core, meant that that committee could not recommend the bank on an economic basis. Instead, the report left the decision on a Nordic investment bank to the politicians. The issue was *cooperation*, not commerce.[39]

The proposition returned to the Nordic Council, but it was clear the push towards an investment bank had exhausted itself. Despite a coalition of Finnish, Icelandic, and Swedish Nordic Council members backing a Nordic financial institution to assist "the countries with weaker capital", the result was disappointing: another proposal to investigate an investment bank, which would have been the fourth such investigation in under a decade.[40] Such a proposal was dead in the water, and the Nordic investment bank seemed to be as well. Knud Børge Andersen's proclaimed political will for a Nordic investment bank had proven illusory. Three alternatives proposed by the financial committee for supporting the capital-deficient Nordic countries the following year – including joint state guarantees, collaboration with private financial institutions, and favourable currency swaps between Nordic central banks – demonstrated that establishing a new financial institution was perceived as unviable.[41]

Yet again, the investment bank had failed to gain traction as an independent solution for the Nordic countries. What ultimately doomed the various efforts to establish a Nordic investment bank throughout the 1950s and early 1960s was the unanswered question of how the

Nordic region would fit into an increasingly integrated European core. Economically, could the opportunities provided by Nordic cooperation make up for the lack of participation in a European common market, especially if the United Kingdom remained outside? Politically, what did the European Community mean for the geopolitical chessboard of the global Cold War? These questions remained open when a surprising proposal rocked the 16th meeting of the Nordic Council.

Up in Flames – The NORDEK Plan

Danish Prime Minister Hilmar Baunsgaard gazed over the collected Nordic Council delegates in Oslo. It was February 17, 1968, and Baunsgaard had only been in office for a little over two weeks. One may have expected some hesitancy, or at least a greater reticence, from Denmark's first non-Social Democratic prime minister in nearly fifteen years. However, Baunsgaard's address to the Nordic Council was clear and bold: the Danish Prime Minister called unequivocally for a major expansion of Nordic cooperation in the economic sector, including "cooperation to solve financing problems in connection with industry's production and market conditions".[42]

JOHAN BRUN, NTB SCANPIX / LEHTIKUVA

Although hardly an original idea, Danish Prime Minister Hilmar Baunsgaard's call for strengthening Nordic economic integration sparked rounds of negotiation. On October 19, 1968, the Nordic prime ministers met in Oslo while awaiting the results of preliminary investigations on NORDEK. From left: Bjarni Benediktsson (Iceland), Tage Erlander (Sweden), Per Borten (Noway), Hilmar Baunsgaard (Denmark) and Mauno Koivisto (Finland).

The Baunsgaard speech took the other Nordic attendees by surprise, in part because it pre-empted similar ambitions elsewhere.[43] While sudden and audacious, there was little novelty in the idea of expanding Nordic economic cooperation. Plans to integrate Nordic economic activity had been circulating since the end of the Second World War. Moreover, the Danish Foreign Ministry had been working on a Nordic economic union plan for the past nine months, and Nordic cooperation had featured, albeit somewhat cynically, in the campaign of former Prime Minister Jens Otto Krag.[44] Yet, the Nordic economic union found a willing midwife in the pro-Nordic Baunsgaard, who believed that the positive effects of EFTA on trade necessitated further growth of the Nordic market.[45]

Pro-Nordic statesmen quickly coalesced around Baunsgaard's call for a Nordic economic union amidst growing concern that the potential European avenues for the small, export-oriented Nordic economies were closing one by one.[46] Two Danish and Norwegian applications to membership in the European Economic Community had collapsed after de Gaulle's vetoes of UK membership in 1963 and 1967. Meanwhile, EFTA appeared to have stagnated with the reluctance of the United Kingdom to broaden the agreement's provisions.[47] The stalemates pushed the Nordic countries towards each other, while greater industrialisation made it easier to imagine integration throughout the region. While previous years had witnessed Sweden leading the charge, Baunsgaard's speech, made with little to no consultation of the other prime ministers, appropriated the issue as a "Danish" proposal, raising the hackles of some Swedish and Norwegian delegates who felt themselves poorly used.[48]

Baunsgaard's proposal again set in motion the tectonic plates of Nordic cooperation. A subsequent working group found that the existing Nordic economic union within EFTA functioned rather imperfectly, lacking agreements in areas like capital movement. Ten mandates for a concrete proposal were developed for the programme subsequently known as the Nordic Economic Union or NORDEK, amongst them the liberalisation of capital movements between the countries and the establishment of a Nordic finance fund. These ideas were developed further in the preliminary report of the newly reformulated "Nordic Government Official's Committee". The report, delivered on January 3, 1969, justified the establishment of new economic institutions as a means of strengthening Nordic manufacturing's competitiveness. To accomplish this, the committee recommended reviving proposals for a Nordic investment bank, along with creating two industry-specific funds for agriculture and fishing and one general fund to encourage modernisation.[49]

The plans reanimated the investment bank after its uneasy death in 1964/65, indicating its embeddedness in the memory of economic experts and advocates of Nordic solutions. The Nordic countries, experiencing full employment and general prosperity, faced new concerns around balance of payment deficits, which investments could help rectify. Moreover, the bank promised to be both a massive resource for the rapid industrialisation of the Nordic peripheries and an opportunity to ensure equality amongst the various areas of cooperation housed in the preliminary NORDEK agreement. Lastly, the idea of the multilateral investment bank, like the common market itself, captured the spirit of the mid-20th century, an outgrowth of the realisation that small nations were dependent on common institutions in order to succeed in the new global economy. Even Trygve Bratteli, Norway's Social Democratic

Finance Minister, used his speech on the 1st of May 1968, International Workers' Day, to call for the establishment of a "Nordic development bank" to help build the region.[50]

While the Nordic investment bank emerged as a zombie proposal, rising from the dead whenever discussions of economic integration arose, it was hardly the most contentious aspect of NORDEK when compared to areas like agricultural and fishing exports. That NORDEK did not get bogged down was a testament to the efforts of the Nordic prime ministers, who pushed discussions forward through early 1969. New committees were assigned to draft an agreement, including a committee on financial issues headed by Hermod Skånland, a young Norwegian economist who was already making a name for himself in the Economics Department at the Norwegian Ministry of Finance. Physically, Skånland was a contradiction: a sharp and mature mind in a body that looked too young for its years. However, his willingness to participate in public debate made him a rising star amongst the conservative wing of the Norwegian

HENRIK LAURVIK / NTB SCANPIX / LEHTIKUVA

Hermod Skånland's work in NORDEK's financial committee would help provide the framework for the later Nordic Investment Bank.

Social Democrats.[51] In the coming decade, Skånland would prove himself willing to break with traditional Social Democratic platforms in order to combat inflation and Norway's loss of international economic competitiveness.[52] The economic prodigy's committee was tapped with developing the financial foundation for NORDEK, including the statutes that would govern a Nordic investment bank upon its creation.[53]

NORDEK's rapid pace disguised unresolved disputes between the Nordic negotiators, for example over time frames or whether NORDEK should imitate the EEC by establishing strong supranational organisations funded by a concrete common budget, as Denmark desired, or remain weaker with financial cooperation limited to the proposed investment bank and funds, as Norway and particularly Sweden argued. Finland, meanwhile, maintained reservations about NORDEK's effect on their relationship to the USSR, requiring affirmations that NORDEK would not affect foreign or security policy.

Amongst the proposals included in the NORDEK draft treaty delivered on 17 July 1969 were programs for strengthening Nordic economic competitiveness through industrial modernisation and rationalisation, a customs union that would establish a collective Nordic trade policy, and a Nordic Council of Ministers with representation from each Nordic government. In addition, the report drew upon the Skånland committee's recommendations for an investment bank providing loans and guarantees to stimulate Nordic economic integration. Consisting of the four countries that would participate in NORDEK – Iceland had followed the negotiations but saw little benefit in opening its markets to industrial goods[54] – the bank would fund "projects of Nordic interest", meaning projects unable to secure funds from traditional financial alternatives. The bank would initially be capitalised with 1000 million Swedish krona (about USD 200 million in 1969) with a loan capacity of about 2500 million SEK. Member countries would pay ¼ of initial capital over the

first five years, set in US dollars: Denmark $12 million, Finland $7 million, Norway $8 million, and Sweden $23 million. The proposed statutes for the Nordic investment bank generally followed previous models with only some minor changes, such as a managing board with 12 members, rather than the 16 proposed in 1957.

While the three funds – for agriculture, fishing, and modernisation – would be overseen by the newly created Council of Ministers, the Nordic investment bank would be an independent institution managed like a private bank and owned by the four states. Because their leadership would not be chosen by the governing parties that made up the Nordic Council of Ministers, the bank would ostensibly be free from direct political steering.[55] A non-voting representative of the Council of Ministers secretariat would attend board meetings, and the bank's capital would be kept separate from the general fund established to finance NORDEK.[56] The provision made the investment bank stand out in the broader infrastructure of NORDEK, which mainly concentrated on establishing "weak" institutions run by national governments, rather than institutions governed autonomously as a single entity.[57]

Even after the submission of the final report and draft treaty, significant distance remained about trade issues.[58] Despite this discord, historian Lasse Sonne argues that what may have really denied NORDEK a swift and successful conclusion in mid-1969 were the disputes around financing institutions like the Nordic Council of Ministers, the new Nordic investment bank, and the three proposed funds. Denmark, Finland, and Norway had agreed to pay the share dictated by their national GDP, despite concerns that the investment bank's authorised capital would be insufficient to effectively promote cooperation between Nordic businesses. However, Sweden balked at footing so much of the bill while compromising in other areas like trade. The Swedish pretences to withhold financing may have signalled a declining faith in the project by

Tage Erlander and his government or, as Sonne speculates, was part of a tactical manoeuvre to extract further concessions, particularly from Norway and Finland, who were interested in financial cooperation. However, if Sonne is correct, the strategy proved a poisoned chalice, delaying enactment of NORDEK since "the plan for modernising Nordic industrial production could not be realised without this money".[59]

The following months were devoted to circulating the NORDEK plan amongst interest groups for comment. Some of the most enthusiastic support for NORDEK, and particularly the Nordic investment bank and three funds, came from the labour union federations, who issued a joint-Nordic statement that heralded these institutions as strengthening the effectiveness and competitiveness of both private and state enterprises and, in the process, contributing to labour movement goals like full employment and economic democracy.[60] Conversely, the reaction amongst the region's industrial federations were mixed. Sweden and Finland saw NORDEK as a positive development, with the Finnish industrial federations particularly optimistic about the investment bank's potential to raise capital for industrial projects. On the other hand, the Norwegian and Danish federations issued statements critical of NORDEK, potentially rooted in fears of association with Sweden's active neutrality politics.[61]

The reactions of the Nordic political parties reflected divisions between the various economic interests. Social democratic parties, especially in Norway and Finland, favoured NORDEK, the Finns believing that an injection of foreign capital would lead to a return of Finnish workers who had sought employment in Sweden after the Second World War. On the other end of the spectrum, Kåre Willoch, Minister of Trade from the Norwegian Conservative Party, challenged his own government's support of NORDEK and decried its effects on Norwegian farmers. For Willoch, who likewise was critical of EFTA and preferred Norwegian accession to the European Community, this was the beginning of a long adversarial relationship with the Nordic investment bank.[62] His views appeared to mirror those of the Scandinavian banking associations, which described a Nordic investment bank as redundant, while the Danish Merchants Society saw the Nordic investment bank as little more than another attempt by the state to flex its control of economic steering.[63] Such objections cast a jaundiced eye upon claims of the bank's independence from political manipulation.

Willoch and other objectors to NORDEK were in a minority, though, and the NORDEK negotiations proceeded with renewed vigour in October 1969. The new Swedish Prime Minister Olof Palme proved instrumental in pushing the process forward, actively seeking to bridge divides between the countries. This was accomplished in part by releasing the funds that the previous Swedish negotiators had refused to commit to NORDEK, including the financing of the investment bank and the three funds. By the end of November 1969, a deal seemed imminent, but Finland's hesitation about continuing negotiations led to a compromise with the insertion of an escape clause permitting Finnish withdrawal

BJÖRN SIGURDSÖN / NTB SCANPIX / LEHTIKUVA

Kåre Willoch, Norwegian Minister of Trade and a partisan of EEC membership, proved willing to break with his government over its support of NORDEK.

TT / LEHTIKUVA

Olof Palme provided renewed vigour to the NORDEK negotiations in autumn 1969.

should other member countries join the EEC within a short time after signing NORDEK. Consequently, meetings between the prime ministers in Reykjavík on 4 February 1970 resulted in furious final negotiations that included discussion of the financing of the investment bank. The Swedes accepted the bank's total capitalisation of USD 200 million, which allowed the bank to raise up to USD 500 million on the back of a 2.5-to-1 gearing ratio borrowed from EIB. In a concession to the Finns, Sweden also agreed to the possibility of future capital increases and "special arrangements" to make lending easier. With the success of the final negotiations, the four prime ministers signed an agreement on NORDEK a few days later, with the intention to hold a formal signing on April 2, 1970 at Christiansborg castle in Copenhagen. At long last, the Nordic investment bank appeared to be a reality.[64]

Any celebrations following the Reykjavík meetings would prove premature. As the process rounded the home stretch, NORDEK suddenly and unexpectedly fell apart. On March 24, 1970, Finland unliterally withdrew from the treaty prior to its ratification. In a communication sent to the other Nordic countries, Prime Minister Mauno Koivisto justified Finland's decision to withdraw by pointing to considerations in the other Nordic countries to join the EEC following Charles de Gaulle's resignation as President of France the previous year. The shocking move generated speculation of Soviet pressure upon the Finns to abort the treaty.

Modern historians, however, tend to locate primary responsibility neither with Koivisto nor the Soviet Union, but with long-time Finnish president Urho Kekkonen. For a variety of reasons, including a fear that NORDEK would disrupt Finnish relationships with the USSR as well as a political rivalry with the pro-Nordic Koivisto, Kekkonen had sought to sabotage NORDEK, even at one point writing negative articles about the programme under a pseudonym. However, when it appeared that NORDEK would go through and Soviet diplomats made clear their unhappiness about the treaty, Kekkonen acted to ensure its demise.[65]

JARMO MATILAINEN / HS / LEHTIKUVA

Despite his own inclinations, Finnish Prime Minister Mauno Koivisto delivered news of Finland's withdrawal from NORDEK on March 24, 1970.

Subsequent discussions of a three-country Scandinavian treaty went nowhere. The idea of a Nordic economic union was returned to the catalogue of failed Nordic projects, this time seemingly permanently. It appeared that the Nordic investment bank would join it.

An Idea That Would Not Die

The Bank Proposal Revived

In the embers of NORDEK's failure, the face of Nordic cooperation was dramatically altered. No ambitious and far-reaching project of Nordic economic integration loomed on the horizon. Indeed, with Denmark's success in obtaining EEC membership in 1973, there was significant

EUROPEAN COMMUNITIES, 1972

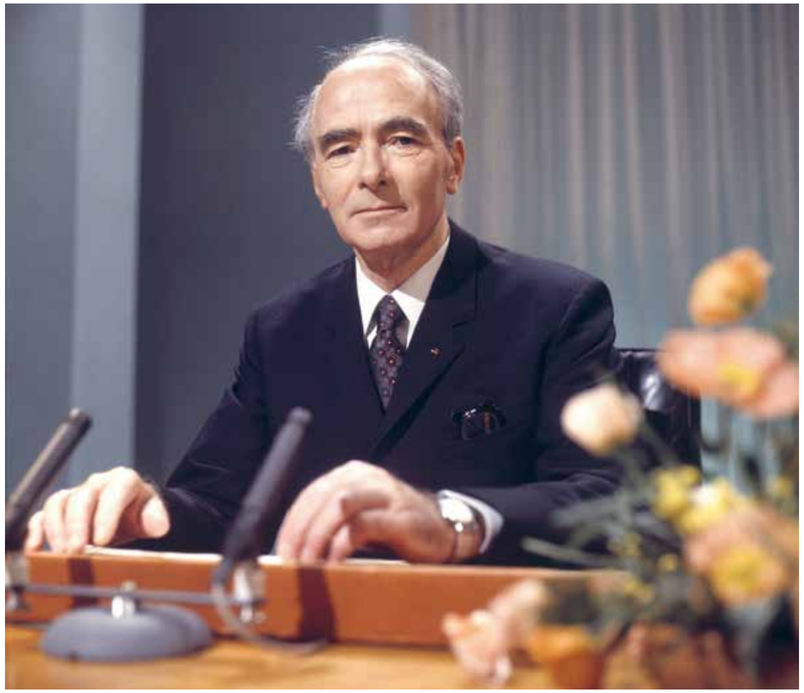
By 1973, the Danish flag flew alongside the other members of the European Community in Brussels. Denmark's membership raised significant questions about the future of Nordic cooperation.

concern that the air had gone out of the Nordic balloon. Europe was becoming more interconnected and open, while Nordic cooperation was compartmentalised into less politically contentious areas such as labour market agreements, a culture fund, and judiciary and social policy committees.[66] At least for the moment, the era of grand plans of Nordic cooperation was over.

Still, with compartmentalisation came opportunities. No longer did the failure of a single integrated project doom smaller initiatives within it, as had stymied the creation of a Nordic investment bank in 1959 and 1970. Rather, a proposal in one sector was insulated from failure in others. The subsequent decade was consequently dedicated to erecting the programs of NORDEK without its institutional scaffolding, beginning with the Nordic Council of Ministers (NCM) in 1971. Consisting of the ministers of the five Nordic governments, the NCM could issue common reports and proposals for review by the Nordic Council and potential ratification by the individual Nordic parliaments. Thus, while not a law-making body in the style of the European parliaments, the NCM gave the Nordic countries a more direct avenue for developing common policy, in the process commandeering responsibilities from a Nordic Council that was becoming increasingly competitive and ideologically divided.[67]

The early part of the 1970s proved quiet for a Nordic investment bank. The dynamic and hopeful decade of the 1960s, with its mixture of industrial optimism and counterculture revolution, gave way to what historian Tony Judt has referred to as, "the most dispiriting decade of the twentieth century".[68] Signalling oncoming changes, the Bretton Woods arrangement collapsed in 1971 when President Richard Nixon pulled the United States off the gold standard in the face of increasing trade competition from countries like West Germany and Japan. The decision weakened the previously rigid regulations around global monetary flows, prompting new challenges and openings for Nordic industries.

Yet, the plans for a joint financial institution were not forgotten, and pressure for a Nordic investment bank again began to bubble in the final months of 1974. Much of this motivation came from the continuation of high-level contacts. In November 1974, in preparation for a visit to Norway from Mauno Koivisto, now Governor of the Bank of Finland, a memorandum was dispatched from Hermod Skånland to now Prime Minister Trygve Bratteli. Skånland, himself now second-in-command at the Bank of Norway, suggested exploring "alternative methods for Norwegian financial investment in the Nordic region."[69] Given that Skånland's previous work in NORDEK had gone unrewarded, it is perhaps unsurprising that he resurrected the idea of a common investment bank



NTB SCANPIX / LEHTIKUVA

Trygve Bratteli helped revive the idea of a Nordic Investment Bank on the back of Norway's anticipated wealth from oil and gas.

as a potential solution. The bank idea also served other functions for Skånland professionally, as he was in the middle of a battle for control of the Bank of Norway. Skånland advocated decreasing Norway's alignment with European monetary policy to allow the Bank of Norway greater independence in managing its currency. Inter-Nordic collaboration may in this case have proven an enticing alternative and salve.[70]

A month later and in a very different setting, a Nordic investment bank was again the subject of keen debate. At a dinner on the 3rd of December 1974, the NCM's deputies discussed the establishment of a Nordic investment bank, although the participants proved hesitant to advance the discussion to official channels given recent memories of failed proposals.[71]

The re-emergence of interest in a Nordic investment bank reflected a world that had undergone economic, financial, and geopolitical transformations. In 1973, Arab oil producers drastically reduced oil exports to countries supporting Israel during that year's Arab-Israeli War, sending energy prices skyrocketing and wreaking havoc, including in the Nordic region. Denmark was especially hard hit, experiencing surging inflation and turgid growth. Gasoline rationing and restrictions on weekend driving, restrictive measures unseen since the Second World War, were introduced. A photograph of the Norwegian king riding Oslo's tram symbolised the sense of public responsibility in the face of crisis.

Deliberations between the Nordic governments became more targeted towards addressing the looming challenges around energy and economic politics. A major concern was increasing cooperation on industry and energy – including in delivering oil and natural gas – across the Nordics without creating a wilderness of new institutions.[72] This agenda revealed a fundamental shift in power relations in the region. No longer on the economic periphery, both Finland and Norway had greatly increased their global competitiveness, the latter thanks in part to significant oil

JAN GREVE / NTB SCANPIX / LEHTIKUVA

The oil crisis was widely felt throughout the Nordic countries. In a well-publicized photo op, King Olav takes the tram to go skiing in Oslo.

discoveries in the North Sea. Indeed, the financial investments mentioned in Skånland's memorandum referred to the expected profits from future oil sales, which the investment bank could help distribute regionally, thereby taking pressure off the Norwegian authorities.

The oil crisis not only rewrote regional relationships, but also prompted the Nordic countries to increase their contacts and solidarity with the countries of the Third World, as it was then called. This included significant support in 1974 for the chartering of a "New Industrial Economic Order" to combat the widening gap between developed and developing countries. These developing countries, many of them abundant in raw materials, also represented potential markets that could stabilise the northern European economies.[73]

These considerations were at the forefront of a meeting of the NCM's Committee of Deputies on 11 January 1975. The committee was tasked

HANS T. DAHLSKOG / TT / LEHTIKUVA

Bengt Dennis, later head of the Swedish Riksbank, was involved in many of the 1975 discussions around a Nordic investment bank.

with planning a gathering of the five Nordic prime ministers later that month, to be held in Oslo by invitation of Trygve Bratteli. As Bengt Dennis, a Swedish governmental representative at the meeting, recounts, the idea of resurrecting the Nordic investment bank was initially raised by the Danes. Denmark was currently led by a caretaker government following its election two days prior, but it is possible that Danish representative Lars Blinkenberg had received the green light for a Nordic investment bank from the prospective social democratic government. At the same time, the subject may have had personal importance for Blinkenberg, one of two possible individuals Dennis identifies as the progenitor of the Nordic investment bank discussion during the December 3rd dinner.[74] If such a personal interest did exist, its continuation in the following years was marked by Blinkenberg serving as the first vice-chairman of the bank's Board of Directors.

Based on the preparatory meeting, two of Bratteli's secretaries, Kjell Thorbjørn Kristensen and Arne Lie,[75] drew up a preparatory report on the creation of a Nordic investment bank. The report noted the utility of such an institution with the recent quadrupling of oil prices and Nor-

MORTEN JUHL, RITZAU SCANPIX / LEHTIKUVA

Lars Blinkenberg, a Danish representative, would eventually serve as the first vice-chairman of NIB's Board of Directors.

way's anticipated profits from oil and gas exports. It speculated as to why each Nordic country might favour a joint investment bank: Norway's desire to strengthen Nordic cooperation, Denmark's need to expand exports in the face of international deficits, and Iceland's lack of funds for industry and energy investments. Kristensen had further heard from Bengt Dennis that Sweden would support an investment bank should the political will for such an institution exist amongst the other countries. In Dennis' notes, political will would be determined by testing public opinion towards a bank; however, Kristensen and Lie interpreted Dennis' remarks to mean that the bank's statutes and conditions should simply be discussed by the prime ministers.[76] On this foundation, the report recommended that the prime ministers should order the creation of a Nordic investment bank to advance industrial cooperation and leave the ministers of Nordic cooperation to handle the practicalities.[77]

Bratteli had reviewed these proposals by the time the meeting began at the recently opened offices of the NCM's secretariat in Oslo. Amongst the heads of state were Bratteli, Palme, and Icelandic prime minister Geir Hallgrimsson. Denmark still did not have a sitting government, while Finnish Prime Minister Kalevi Sorsa was sick. Thus, Denmark and Finland were represented by Cultural Minister Nathalie Lind and Foreign Minister Ulf Sundqvist respectively. Amongst the items on the agenda were plans for future energy cooperation, Nordic approaches to Portugal in the wake of the previous year's Carnation Revolution, and an item on "Nordic cooperation in the long term."[78] The establishment of a Nordic investment bank was filed under this final item.

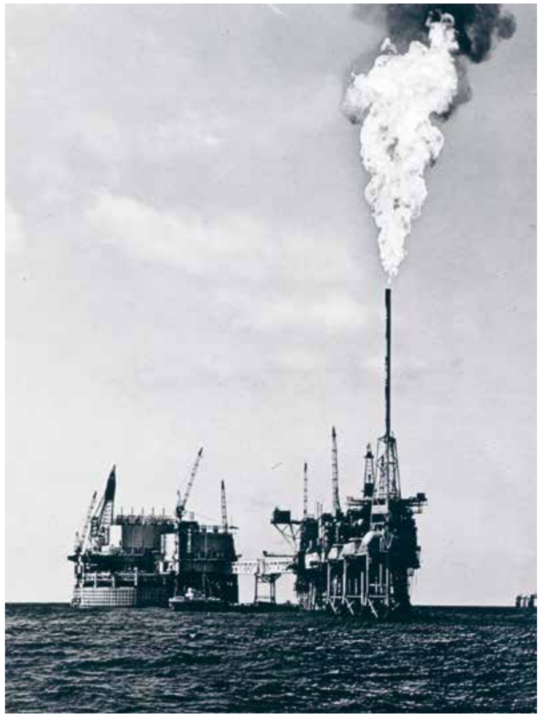
Based on discussions with aides present at the meeting, Bengt Dennis describes how the discussion unfolded. After Geir Hallgrimsson initiated the topic of the investment bank, Palme urged the other leaders to be ready to implement a Nordic investment bank if a study was commissioned, since the act of forming a study represented de facto political approval of the bank idea. Next, Bratteli backed a "concrete proposal" as a means of securing capital inflows that could counter existing trade deficits. Lind and Sundqvist, meanwhile, voiced no objections and Sundqvist even spoke cautiously in favour of the proposal.[79]

A press communique distributed after the meeting gave only a brief nod to this discussion, noting that a Nordic bank could complement existing credit institutions by financing investments and exports of a Nordic interest, as well as coordinate major investment projects to ensure the effective use of resources. Consequently, "the ministers were in agreement that a proposal for the creation of a Nordic investment bank based on banking principles and with foundational capital from the participating countries should be prepared as quickly as possible."[80]

The decision by the prime ministers placed the investment bank as political glue to hold the Nordic region together. In a period where prognostications of the death of Nordic cooperation ran rampant, the region was in dire need of a demonstration that shared Nordic goals and institutions had a future. As Bratteli had announced to the Nordic Council the previous year, the oil crisis was a reminder of the dangers of rejecting regional cooperation for national isolation and self-interest.[81] Bratteli's support of Nordic solutions was critical given the anticipated surpluses of Norwegian oil exports, which provided fiscal grease to the wheels of a Nordic financial institution. Observing the rapid progress towards a new Nordic bank, the US embassy in Oslo could thus conclude: "Oil has changed the picture, and has lessened Norwegian fears of Swedish domination."[82] Finland too had continued need for funds to develop its industries and businesses. However, motivations may also have been more immediate, and political scientist Claes Wiklund, former secretary in the Nordic Council, suggests that investment bank support stemmed partially from optics and the need to leave the Oslo meeting with a plan for future cooperation.[83]

To lead the working group that would conduct the authorised study, the prime ministers again turned to Hermod Skånland. Skånland was instructed to complete the report by the 1st of June, an extremely ambitious schedule given the often-glacial pace of previous efforts. Yet the working group proved equal to the task, submitting their report in May. It helped that the committee had a wealth of previous material to build upon. Unsurprisingly, the new report borrowed much from Skånland's NORDEK subcommittee, albeit with a few minor changes like adding export credits to the bank's operations, raising its base capital, and converting the base capital to Special Drawing Rights (SDR). Special Drawing Rights had been introduced by the IMF as a special reserve asset based on a basket of major currencies and obtainable by IMF members and some special holding institutions. The Skånland commission, like many others, saw SDR as a potential global instrument of the future.[84]

NORSK TEKNISK MUSEUM



The discovery of oil in the Norwegian sector of the North Sea, particularly in the Ekofisk oil field in 1969, "changed the picture" by making a Nordic investment bank more appealing for Norway.

The approval of the investment bank report by the Nordic Council of Ministers was only the first step in a process of debate and ratification. While having declined greatly in importance in the previous half-decade, the Nordic Council remained an important venue where Nordic parliamentarians debated and made recommendations on regional projects, programs, and laws. However, when the NCM approved of the bank plan on June 19, 1975, the next Nordic Council meeting remained more than eight months away, scheduled for February 1976. As Hermod Skånland recalled in October 1976, the bank's proponents feared that, "if a time-consuming process was once more allowed to develop, the initiative might die from exhaustion."[85] Skånland and others had witnessed long delays and drawn-out investigations wipe out previous initiatives, and, indeed, exhaustion seemed a legitimate risk given this long track record of failure. Thus, the 1975 proposal not only disregarded the usual process of investigation into the bank's economic feasibility, but the Nordic governments helped to push through an extraordinary session of the Nordic Council, the first of its kind since the organization's founding in 1952. Anticipating dissent, the bank plan was combined with proposed revisions to labour market cooperation policies, bolstering claims that the extraordinary session was needed to address multiple outstanding issues.[86] Nonetheless, the expedited process would prove a vulnerable flank to attack the new proposal.

Prior to the Nordic Council meeting, the bank plan had to go through several more rounds of assessment and validation, again including organised economic interests like labour and business federations. For the most part, these organisations responded positively, noting various projects and areas where a Nordic bank could contribute while seeking to tailor it to their purposes, for example by placing labour or business representatives on the bank's board. However, not all groups were so keen to see a bank actualised. Resistance emerged mostly from Denmark and Norway, where industrial and banking federations described the bank as superfluous or even damaging to their business interests. One line of criticism was the lack of specificity around the term "Nordic interest", which the Danish merchants society speculated opened the door to favouritism between the countries. Others fretted about the removal of NORDEK provisions limiting bank activity to cases where other funding was not available or that an official Nordic bank would leave businesses dependent on national authorities for their capital requirements.[87]

Over three meetings in August and October 1975, the Economic Committee of the Nordic Council considered these opinions together with the Skånland report. Seventeen of the twenty-one-person committee approved the proposal with a few recommendations that gave greater control to the Nordic Council, namely that the bank's control committee should contain members of both NCM (3 representatives) and the Nordic Council (5 representatives) and that the annual reports should be presented to the Nordic Council upon request. Several interest group recommendations were also inscribed in the committee's report, including a recommendation by the Bank of Norway – which, in a sign of the integrated nature of Nordic economic systems, was penned by Hermod Skånland – that a Nordic bank work closely with the central banks to ensure that its activities did not disrupt national monetary policy. Moreover, the committee urged that the bank's loans should ensure equality between countries by supporting growth in poorer Nordic regions. The committee's report supported loan evaluations considering socio-economic impact, albeit noting that this could prove risky if attempts to lower interest rates undercut the business of existing commercial institutions.

Despite being generally positive, the Economic Committee's report criticized the NCM for failing to have submitted an economic evaluation demonstrating the need for such a bank. By not submitting such an evaluation, the Nordic governments seemed to have bypassed the Nordic Council, an opinion the majority who approved the bank proposal shared with the four members of the committee who voted against it.[88]

The Extraordinary Session

It was at last time for the Nordic Council to meet in Stockholm. On November 15, 1975, seventy-eight elected delegates and the representatives of five governments—amongst them Bratteli, Palme, Prime Minister Anker Jørgensen of Denmark, and caretaker Prime Minister Keijo Liinamaa of Finland—met in the main hall of Stockholm's old parliamentary building. The session began with statements explaining the bank pro-

The Nordic Council's first ever extraordinary session was held at the Old Parliament House in Stockholm.

posal and the justification for this extraordinary session. Speaking on behalf of the Nordic governments and the NCM, Ivar Nørgaard, Danish social democratic Minister for Foreign and Nordic Affairs, pointed to the necessity of greater capital import in the wake of the energy crisis. Investments made possible by this capital could not only improve industries and reduce dependency on foreign energy but would also encourage businesses to "think and trade Nordic." Nørgaard declared the NCM's hopes that this was the last time the Nordic Council would be debating a proposal for an investment bank and that, "the next time that one sees the investment bank on the Council's agenda, it will be in the shape of an annual report."[89]

Following Nørgaard's statement, Kåre Willoch rose to address the assembled delegates. An able and well-liked politician, Willoch's resistance to NORDEK had led to his resignation as Minister of Trade, before taking the reins as leader of the Conservative Party. An accomplished and ruthless debater who spoke in rapid, clipped tones, Willoch was a fierce opponent of state-driven institutions and initiatives, which he viewed as inefficient and redundant. While stepping down as head of the Conservative Party following a poor showing in the 1974 national election, he was sceptical of Nordic economic institutions that could endanger his preferred European solutions.

Willoch had penned one of the three reservations to the economic committee's decisions together with Danish Conservative Party member Ib Stetter, who had the previous year called upon his conservative colleagues in the Nordic Council to address the Nordic citizen's "dissatisfaction" by rejecting "the strong public use of capital."[90] Willoch objected to the superfluousness of a Nordic investment bank, noting its overlaps with and threats to commercial banks. In addition, Willoch pointed out gaps and incongruities in the investment bank plan. Echoing the report of the Economic Committee, Willoch criticised the proposal for a lack of provisions to mitigate existing regional inequalities by supporting underdeveloped areas. Rather, the bank might *increase* inequality on both a Nordic and global level. Willoch charged the Nordic governments with hypocrisy for contemplating forming an investment bank while also touting international solidarity in their foreign policy. The Nordic investment bank, Willoch declared, would shrink the pool of international capital accessible for developing countries. Ultimately, the wealthy Nordic states would be increasing their own resources at the expense of, "a better balance between the rich and poor countries in the world." Reiterating prior critique, Willoch cautioned his colleagues of a troubling desire to create institutions of a "Nordic nature" as an end in and of itself, rather than working to create pragmatic and productive cooperation.[91]

Willoch's criticism of the bank proposal neatly displayed the three major points of contention during the extraordinary session of the Nordic Council. As Gunnar Helén, a member of the economic committee, surmised, the question came down to whether such a joint financial institution would positively contribute to economic growth, international equality, and Nordic cooperation.[92] The economic impact of the bank was the most straightforward. Between the commercial uncertainties following the oil crisis and the need to finance long-term projects, the investment bank appeared a welcome institution for many delegates. The bank could ease Icelandic and Finnish difficulties in accessing foreign funds and help launch new projects, particularly those that reduced the region's dependency on foreign energy. To measure the proposed bank's economic impact, Eib along with national institutions like Sveriges Investeringsbank, created by Swedish Social Democrats to fund large-scale industrial projects, were invoked by both supporters and critics to describe what a Nordic investment bank might become — dreams or nightmares respectively.

A less obvious point of contention was the role of a proposed investment bank upon the Nordic countries' reputations for international solidarity with the Third World. Other opponents of the bank supported Willoch's statements about the bank's negative impact on developing countries, even if they questioned his sincerity. Carl-Henrik Harmansson, a Swedish communist, scoffed at the "crocodile tears" of the conservative delegates even as he similarly accused the Nordic countries of taking money away from developing countries in their scramble to secure a shrinking pool of "oil billions".[93] Even some reluctant supporters of the bank like Finn Gustavsen, a Norwegian socialist, were concerned that the Nordic investment bank would "strengthen the interests of rich Nordic multinational businesses" at the expense of applying "Nordic prosperity to further development in poor countries."[94] In response, proponents of the bank argued that aiding the Third World demanded the creation of a Nordic bank to expand capital and production and allow the Nordics to "live up to the demands that international solidarity places upon us and the responsibilities that we have."[95]

Such responsibility extended to the creation of a more unified and equal Nordic region. Willoch's criticisms of the absence of explicit programs for regional investment were repeated by delegates on left and right alike, including Jo Benkow, the erudite Norwegian conservative politician, who equated the Nordic investment bank with the disastrous Arctic expedition of Salomon August Andrée as described in Per Olof Sundman's *Ingenjör Andrées luftfärd*.[96] In the novel, Andrée had proved a prisoner of his own hype and financial backers, embarking on a poorly planned and ill-fated journey that resulted in the deaths of himself and two companions. The soaring rhetoric of idealistic Nordic unity, Benkow implied, may prove politically fatal if not balanced by realistic and

NORDISKA INVESTERINGSBANKEN OCH DESS VERKSAMHET 1976–1985

Four Nordic Prime Ministers in Stockholm for the 1976 extraordinary session to discuss the creation of a Nordic investment bank. From left: Keijo Liinamaa (Finland), Trygve Bratteli (Norway), Olof Palme (Sweden), and Anker Jørgensen (Denmark).

pragmatic aspirations. Such arguments, however, proved a tough sell in the Nordic Council, which still felt the sting of the NORDEK failure and laboured under a foreboding sense that Nordic cooperation itself had lost its vitality.[97] Per Kleppe, Norway's social democratic Minister of Finance, instead countered that a common Nordic institution was essential to regional development and energy politics, given that its purpose was to promote collaboration between member states and advance their socio-economic goals.[98]

While demonstrating the continued vitality of Nordic cooperation may have appealed to many in the Nordic Council, the track record of failed bank proposals was not easily dismissed. In particular, conservative delegates objected to the proposal as the flotsam of earlier abandoned projects, noting that both the world and the region had moved on. Drawing upon language from the 1964 proposal, these critics consistently portrayed the bank as a political decision rather than an economic tool, indicating that its proponents were trying to force through an institution that was at best impotent and at worst harmful to existing commercial interests. Kleppe, for his part, denied the accusations that previous economic cooperation had been "haunted" by misguided attempts to expand bureaucracy. Rather, he argued that the lack of an institutional apparatus capable of gaining international resources had stalled these previous efforts. The Nordic investment bank presented a chance to fill this gap.[99]

Kleppe's argument primarily addressed the conservative bloc of the bank's opponents, an uneasy alliance of the right and left ends of the political spectrum. Conservatives like Willoch and Ib Stetter opposed the bank's placement under state management and its potential investment in ever larger public projects, leading Stetter to paint the Nordic investment bank as a "socialist" initiative in both the Danish press and in the Nordic Council session.[100] Conversely, communist and left-leaning

socialist representatives opposed the bank for the very fact that it did little to compete with and decrease the influence of private banks and, in the case of some Finnish delegates, might hinder relations with the Soviet Union by placing more capital into western markets.[101]

While united by a distaste for the social democrats, who had been the driving force behind the latest bank proposal, there was little strategic collaboration within this "unholy alliance", as one social democrat described it.[102] Noting the tensions amongst the bank's opponents, Trygve Bratteli wryly observed:

> The critique has come from two groups. Almost every time, it has started as if they were sailing out in completely different directions. Then they discover, and the rest of us too – apparently sometimes to their surprise – that even though they sail out in these very different directions, they end up in the same place in relation to the matter being dealt with here. They don't seem happy about what they encounter in this common place. In reality, they have arrived at a desert island in relation to this matter, and on this desert island nothing will grow either on a Nordic or national basis.[103]

However, there was one issue upon which nearly all Nordic Council delegates could agree: the current session was mostly extraordinary for its lack of necessity. Even the bank's proponents complained that they had not received an economic analysis of the proposed bank nor sufficient time to review the proposal in committee. Indeed, Jo Benkow even chastised the NCM of rushing so much that there had not been time to translate the agreements into the various Nordic languages, as was mandated.[104] Such haste was pinned on the Nordic governments' sense of current crisis and their desire to start competing for international capital as soon as possible.[105] Given swirling doubts about the Nordic Council's role going forward, the rushed process only confirmed the sense that the organisation existed to rubber stamp NCM proposals. Perhaps for this reason, support gathered behind a motion to send the proposal back to the Economic Committee for further analysis and revision in anticipation of the next regular Nordic Council meeting, now only three months away.

Ultimately, this displeasure did not prove enough to stop the Nordic Council from approving the bank proposal. Even before the vote took place, it had become clear that it would pass. Kirsten Jacobsen, a representative of the newly established ultra-liberal Danish Progress Party, which had shocked the nation by becoming the second biggest Danish political party in 1973, accused the Nordic Council of Ministers of "smuggling in through the back door" a majority that would carry the bank proposal.[106] However, neither the conservative nor the socialist party groups in the Nordic Council were able to unify around opposition to the Nordic investment bank, whereas larger factions like the social democrats almost universally lent their support.[107]

In the end, the vote was not close. The request to send the proposal back to committee failed by a vote of 61 to 14. The vote on the bank was even more lopsided, with 59 in favour of establishing a Nordic investment bank and only 10 against, primarily from the political left and right.[108] The last major hurdle facing the Nordic investment bank had been cleared. On the 4th of December 1975, five ministers of Nordic cooperation met to sign a formal agreement at Christiansborg in Copenhagen. The bank still required approval from the respective national parliaments in order to confirm its funding, yet the support of the major institutions of Nordic cooperation made this approval a somewhat forgone conclusion. No unexpected and destructive national resistance to the bill sprang up in the final stretch, as had befallen the doomed NORDEK plan. Instead, the Nordic investment bank sailed through a series of parliamentary votes, as a committee made the final decisions on the practicalities and organisation of the Nordic investment bank.[109]

One last major question remained to be settled: where should the bank's headquarters be located? The Skånland committee had determined that this was a political question, and thus passed it on to the elected leaders. The decision had both operational and political consequences. On an operational level, the location of the headquarters would help determine the talent pool by which the bank could be staffed, as foreign talent would have to be recruited and convinced to relocate, as well as requiring arrangements with the host country around issues like taxation of the staff. On a political level, the presence of the bank would add weight to that country in the context of Nordic cooperation, requiring a careful consideration of regional balancing.

It was on the latter basis that Finland made its push to land the bank, arguing that the other four countries housed Nordic institutions – Norden's Hus in Reykjavík, the NCM's secretariat in Oslo, the NCM's cultural secretariat in Copenhagen, and the secretariat for the NC's leadership, the Presidium, in Stockholm – while Finland was left out. Initially, however, such arguments made little headway. Rather, it seemed the bank would be placed in Sweden or Norway, with Stockholm the most likely destination. The other Nordic negotiators perceived Helsinki as too peripheral to the rest of Norden, limiting the amount of high-level talent that could be drawn upon and, as one Nordic Council delegate sneered, "smells too much of Eastern Europe."[110]

It is unclear how and when momentum shifted towards a Helsinki headquarters. Newspapers from the time provide conflicting accounts about whether a decision had been made by the time of the Nordic Council's extraordinary session, with some claiming that Finland had already received the headquarters. Helsinki may have been unofficially chosen as early as late October, when Finnish President Urho Kekkonen

PEER PEDERSEN / RITZAU SCANPIX / LEHTIKUVA

The Nordic representatives toast the signing of NIB's treaty on December 4, 1975 in Copenhagen. From left: Kristian Gestrin (Finland), Kjell-Olof Feldt (Sweden), Ivar Nørgaard (Denmark), Bjartmar Gjerde (Norway), and Sigurður Bjarnason (Iceland).

made a four-day visit to Sweden where he discussed, amongst other issues, the Nordic investment bank with Palme.[111]

Other sources however claimed that no decision on the new institution's headquarters had been made by the conclusion of the Nordic Council session and anticipated a dramatic battle for control of the headquarters in its aftermath. Quoting notes from a meeting on November 11th, a few days before the session, Bengt Dennis moreover catalogues a series of bizarre proposals by the Nordic ministers of cooperation for shuffling the institutions of Nordic cooperation to ensure Helsinki received some kind of compensation while keeping the bank out of their grasp. It was not until December 4th that Dennis claims that the ministers finally settled on Helsinki.[112]

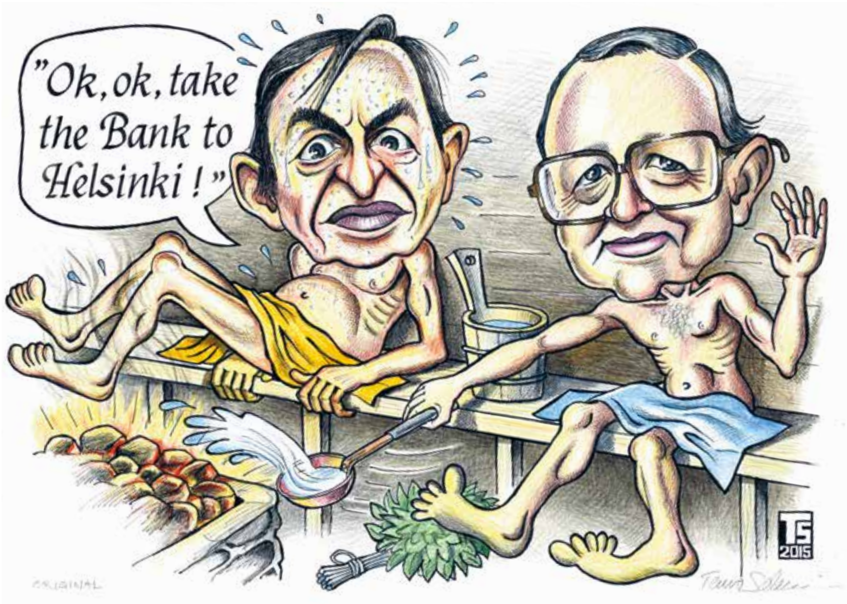
According to one well-circulated, but probably unlikely story, the matter had been resolved when Finnish Prime Minister Kalevi Sorsa convinced Olof Palme to place the bank in Helsinki during a visit to a

smoke sauna in Finnish Lapland. While making for a great visual, it is unlikely to have occurred, not least because Finland had since June been led by a new caretaker government under Keijo Liinamaa. The story is most likely an amalgamation with other major decisions taken in a sauna in NIB's early history.[113]. Indeed, Palme may have needed little convincing. In a later interview, Kjell-Olof Feldt, Palme's Minister of Nordic Cooperation, recalled the desire of the Swedish government to bind Finland closer to Norden and thus weaken Soviet influence in the country. A Nordic Investment Bank presented one more institution pulling Finnish interests westwards.[114]

A Long Prehistory

After decades of failure, retooling, negotiation, and further failure, the Nordic Investment Bank had become reality quicker than anyone reasonably could have expected. The rapid agreement presented a divergence from traditional Nordic cooperation, forgoing the protracted deliberation of potential ramifications, as the Nordic governments scrambled to act upon the prime ministers' support at the Oslo meeting.[115] If it is to be believed, as some historians have argued,[116] that Nordic cooperation exists within a tenuous equilibrium, pushed together by global crisis and pulled apart by international pressure, then the environment from which NIB emerged was ideal. The economic pressures of the oil crisis inspired an openness to Nordic solutions, the question of European integration had been momentarily resolved, and the Cold War existed in a post-Vietnam period of détente. In any case, the establishment of NIB was far less threatening to existing power structures than the Nordic Customs Union or NORDEK had been, limiting the international backlash that may have doomed previous ventures.

Additionally, the idea for a Nordic investment bank had existed for nearly a quarter century by the time it was established. Not only did the timing have to be right – promising both positive political and financial outcomes and lacking the risk to seriously upset the Nordic countries' economic, foreign policy, and security arrangements – but the bank had to be understood as a desirable form of Nordic cooperation. While some politicians on both left and right objected to the various implications of state-based cooperation in the financial sector, for the most part NIB was widely viewed as a positive, or at worst innocuous, method of ensuring ongoing Nordic cooperation despite external strains.



TEUVO SALMINEN, 2015

The amusing, although unlikely, story of Olof Palme and Kalevi Sorsa's smoke sauna meeting was captured in a cartoon commissioned for NIB's 40th anniversary.

NIB

National ratifications of the Nordic Investment Bank's Treaty from spring 1976.

The agreement for a Nordic investment bank came into effect on the 1st of June 1976. Two months later, on the 2nd of August, the new institution would receive the first payment of its subscribed shares. After being conceived in 1952, both the region and the bank proposal had undergone significant transformations. Now, it was time for the real work to start.

Chapter 2

Establishing the Nordic Investment Bank, 1976–1980

After more than two decades of discussion, dissent, and revision, the Nordic Investment Bank was a reality. The Bank opened its doors on 1 June 1976 to high expectations and extreme uncertainty. There were no assurances that the Bank would be a success or even what its role would be in a Nordic region rapidly shifting amidst global pressures and new ideas. Increasing social equality following the expansion of the welfare state, particularly for women, was paired with economic uncertainty and political instability. Even in countries like Norway and Sweden, where the worst of the 1970s recession was mitigated through large corporate subsidies and other counter-cyclical responses, a second energy crisis following the Iranian revolution of 1979 served as a reminder of their vulnerability in an increasingly interconnected global market.[117] Uncertainty shattered traditional axioms about how politics, society, and the economy should be structured.[118] In the end of this age of relative stability, the Nordic Investment Bank was born.

The Nordic Investment Bank found itself from the outset thrust into these broader discussions about how the Nordic region should adapt and address the challenges that were rapidly producing a more unstable world. In response to such challenges and their own inclinations, the designers of the Bank developed a unique interpretation of a international financial institution's duties and structures, decisions that reflected the idiosyncrasies of NIB's creation.[119] With these structures in place, it was left to the early management of the Bank to figure out how to put intention into practice. These decisions were made on the go, and NIB would experience the usual growing pains of a new institution, as a young but energetic team sought to define the Bank's operations and establish its international reputation, all while navigating the gales of early controversies expedited by NIB's political connections and resources. In this sea of uncertainty, there were inevitable missteps and an undercurrent of doubt. But more significantly, the first half-decade of NIB's existence witnessed consistent growth of both operations and ambition, as the Bank evolved from an intentionally vague vision to a respected partner for a range of regional and international organisations. The Bank's staff thus succeeded in their most important goal: laying a foundation for NIB's rise into an established financial institution.

A Product of its Environment

The Rise of the Multilateral Development Bank

One of the first tasks following agreement on the Bank was to establish NIB in accordance with the statutes that had been produced. For observers of international banking, the rules governing NIB would have seemed familiar. NIB was born into a world of multilateral financial institutions established for both practical and political ends: practically, as a means of state development and prosperity; politically, as a road towards international peace and stability. Although the Bank for International Settlements predated the Second World War,[120] for the most part international banks were an outgrowth of the postwar Bretton Woods system and the coalescence of western officials and intellectuals around development theory and policies. Development theory prioritised intervention in developing Third World countries to modernise their "backwards" structures and practices. Implementation took various forms of inter-state transfer, including financial aid, expert knowledge, and assistance in transforming political, social, and economic systems. Development thinking was naturally rooted in the geopolitics of the Cold War, leaving the two superpowers, along with their partners and other wealthy neutrals, to use these transfers with an eye towards strengthening their global strategic position. By directing sovereign capital flows into certain projects, multilateral banks would therefore aid stability and growth while simultaneously satisfying a broad spectrum of political and ideological agendas.[121]

The most prominent of these new multilateral banks was the International Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank.[122] The World Bank, along with the IMF, were the crowning achievements of the Bretton Woods conference and its primary ideologue, the British economist John Maynard Keynes. Following the seeming impotence of neoclassical economic ideas to prevent global economic collapse in the prior decade, broad support developed for Keynes' argument that increased state financial intervention could help combat economic vagaries and promote employment. Intended initially to help rebuild war-ravaged Europe by facilitating the influx of international capital, the introduction of the Marshall Plan led to a rapid revision of the World Bank's Eurocentric imagination, in which the "Development" in Reconstruction and Development had been "added almost as an afterthought."[123]

Instead, in the face of decolonisation processes unleashed by the end of World War II, the World Bank came to specialise in providing loans for development projects in the Third World. These countries struggled to obtain commercial loans due to low creditworthiness caused by the challenges of independence, including arbitrarily drawn borders, economies based on the export of raw materials, and investor scepticism in hastily adapted political systems. The World Bank offered investment and lines of credit to these countries, but nonetheless adhered to strict banking principles during its first three decades.

In its efforts to stabilise and strengthen the international financial system, the World Bank increasingly took a truly global perspective with an ever-growing membership list.[124] The member countries maintained varying levels of influence, with voting power weighted to members' respective financial contributions. The result was that, by 1975, the World Bank was dominated by a few large and wealthy nations like the United Kingdom, Japan, and, most of all, the United States, especially after the World Bank moved from emphasising profitability into poverty reduction, which required frequent replenishments of cash.[125] Thus, despite its self-described apolitical stance, the World Bank functioned in line with US interests and the broader promotion of a liberal-capitalist system.[126] Meanwhile, smaller countries, including the Nordics, sought to amplify their strength versus these major shareholders by forming voting constituencies.[127]

During the subsequent decades, the World Bank served as inspiration for a rapidly growing list of international "sister" banks, most notably the European Investment Bank (1958), the Inter-American Development Bank (1959), the African Development Bank (1964), and the Asian Development Bank (1966).[128] These international financial institutions (IFIs) were largely modelled after the World Bank's governance structures and rules, including the use of weighted voting equal to authorised capital. Indeed, such a system fit the logic of the postwar economic order, since, "If the rich and powerful were to make a relatively larger financial contribution to the newly created Bretton Woods institutions, they expected to have a larger say in the affairs of those organizations."[129]

Like the World Bank, the multilateral banks generally shared the ambition to provide loans to projects in areas where funding was tough to procure. Beyond structural and operational similarities, they were connected by a rapidly developing inter-institutional network that provided advice and technical support for each other and aided in coordination.[130]

By far, the most significant of the IFIs for the fledgling NIB was the European Investment Bank. In comparison with NIB's troubled birth, the founding of the European Investment Bank was straightforward. The idea of a common European financial institution had been circulating for years following the end of the Second World War, including amongst the Danish Social Democrats.[131] However, starting in 1951, the French government began pushing a European investment fund that, unlike the Danish proposal, did not depend on American financing. Momentum really took hold in June 1955 at the Messina Conference of the European Coal and Steel Community, where discussions of implementing a common market were connected to a fund or bank that could level the economic and social gap between different European regions. The European Investment Bank was formally founded less than two years later in Articles 129 and 130 of the Treaty of Rome, opening its doors in 1958.[132]

While this process may appear relatively frictionless, the function and governance of EIB provoked far more debate than any substantive discussion around NIB had done. Italy and Germany disagreed on whether to establish a tightly controlled investment fund or a more independent bank that could gain international creditworthiness by virtue of its autonomy from political decisionmakers. Moreover, while the two sides agreed that such an institution would aid in the conversion to a common market by funding laggard regions, new enterprises, and projects that could not otherwise receive financing, Germany and the Netherlands insisted that the bank should only fund projects of a

CREATIVE COMMONS, PALAUENC05

The European Investment Bank would prove an influential model for the early Nordic Investment Bank. Although originally based in Brussels in close proximity to other EEC institutions, EIB moved to new headquarters in Luxembourg in August 1980 following expansion.

"European character and interest", while France and Italy argued that such a provision only apply to certain projects. Ultimately, the decision was made to establish a largely independent bank, rather than a fund, without the condition that projects have a "European interest and character." Rather, EIB was to work in the "interest of the Community."[133]

A second controversy centred around the leadership of the bank's board of directors. Germany proposed a board of directors appointed by, but independent from, the member countries, with voting based on capital shares similar to the World Bank. A compromise was reached: the German position on the board's independence was accepted while the weighting was dropped. The board of directors would have 12 members – coming from France (3 members), Germany (3), Italy (3), the Benelux countries (2), and the European Commission (1) – who would take votes by simple majority.[134] The arrangement gave extensive control to the three largest member countries.

Over the next twenty years, EIB established itself as a powerful institution in European financial markets and, eventually, a regular collaborator for the young NIB. Despite the discussion around developing a European common interest, less than 20% of EIB loans went to projects relevant to multiple countries. Instead, most EIB loans targeted underdeveloped regions, especially in Italy, even after the European Investment Bank expanded its membership in 1973. Governance structures in the bank were adjusted to accommodate this expanded membership, although voting continued to favour countries with the highest subscribed capital, who also received the majority of the loans.[135]

The creation and establishment of the European Investment Bank took place within the context of western European integration processes, which, as seen in Chapter 1, were both motivated and constrained by Cold War strategy. The Six sought to solidify economic and political ties between them, enhancing economic growth but also stabilising these NATO members. The creation of the international development banks should be seen similarly. The Inter-American Development Bank and Asian Development Bank were backed by the United States largely due to geopolitical considerations. The African Development Bank, meanwhile, balanced an emphasis on decolonisation and African identity, with an eventual need to draw capital from non-African member states.[136] Indeed, each of these IFIS comprised a mix of Third World and First World members, while maintaining the structures initiated by the World Bank. In all from 1960 to 1977, eighteen multilateral development banks were established,[137] including between the Soviet Union and its Warsaw Pact allies.[138]

While the erection of a network of IFIS was the product of various economic and geopolitical pressures, they shared significant overlaps that can be traced back to their adherence to the World Bank governance model. Such institutions tended towards supporting sub-regional development projects and, in a larger perspective, wider regional integration around contested identities like "European", "Asian", or "African". Given this global isomorphism, it is worth asking to what degree the original NIB was primarily a Nordic reproduction of international trends and mechanisms versus something significantly different, even something specifically Nordic. The next section examines the establishment of the Nordic Investment Bank in this light.

Organising the Nordic Investment Bank

With the rise of multilateral development banks, the founders of the Nordic Investment Bank had ample models to emulate. EIB proved particularly influential by virtue of both timing and proximity. The members of the Nordic Economic Cooperation Council, in their effort to revive the Nordic customs union, had borrowed heavily from EIB in their 1957 draft of statutes, while making small changes such as adding the concept of a "Nordic interest" and including greater parity in its governing board. Most importantly, like EIB, the prospective Nordic bank would be run on banking principles, emphasising realistic and profitable loans over decisions based on nationality. According to the 1957 draft, Sweden would contribute two-fifths of the Bank's authorised capital but would have only four seats on the 16-person Board of Directors.[139] Ten votes were required for the board to pass proposals, security that one country could not hamstring the institution, nor two countries completely control it. The private banking sector would be entitled to appoint one member of the board in each country.[140]

The 1957 report highlighted plans for integration, similar to other IFIS, but the customs union's failure meant that NIB in 1976 bore a very different set of goals. Unlike EIB's focus on sub-regional development, NIB aimed to enhance the structure and connectivity of Nordic industries and thereby raise their international competitiveness. The "Nordic interest" included projects involving multiple Nordic countries or relating to transfers from one Nordic country to another. Reflecting its social democratic origins, NIB was also committed to considering socio-economic impact alongside traditional banking criteria.

The interpretation of "Nordic interest" underscored a fundamental difference in how the Bank's founders viewed the Nordic region compared to other regional banks. Svend Kræmer, NIB's first Head of Economic Studies, explained in a co-written article that "culturally, the Nordic countries have practically always been closely tied when it comes to ways of life, traditions, etc." Nonetheless, wrote Kræmer, Cold War tensions and global market demands were increasingly pushing these countries in different directions, threatening to snap these common ties.[141] The benefit of NIB was thus not the "regional interest" popular amongst other multilateral banks, where the integration of national economic processes supported a new and potentially controversial regional identity. Instead, NIB's aim was twofold: first, to allow businesses to benefit from the international creditworthiness attached to an already established "Nordic" reputation and, second, to protect an intrinsic Nordic cooperation and cultural identity from external pressures. In a speech in Aarhus, Denmark, in 1977, NIB's original Director of Finance, Annikki Saarela, described this fundamental difference:

> In a way the bank is not like any other existing multilateral institution, it is not devoted to global development like the World Bank, it is not concerned with strengthening the less developed regions of an economic community like EIB, it is rather aimed at strengthening sound industrial integration in a fairly homogenious [sic] area to the longer term benefit of all its member economies … its credit represents a fully secured composite Nordic industrial credit.[142]


KARI SANTALA / LEHTIKUVA

Annikki Saarela, head of NIB's borrowing, noted that NIB was intended to strengthen and utilize an existing Nordic community for the benefit of all its members.

NIB thus provided a reversal of a commonly held belief that "Nordic cooperation was a means of achieving non-Nordic goals" like gaining access to European international institutions.[143] Rather, the "Nordic interest" written into NIB's statutes was meant to maintain and maximise the benefits of an embedded Nordic identity in both regional and global markets.

A separate area where NIB contributed to the Nordic interest was the payment of capital dividends to its shareholders, namely the Nordic countries. Guided by banking principles, NIB's profits were intended to constitute a capital reserve but also provide "a reasonable return on the paid-in capital."[144] This return on investment distinguished NIB from other international financial institutions including EIB, where dividends generally translated into larger project shares for primary shareholders.[145]

NIB's Board together with the NCM would determine when the Bank's surplus allowed for the payment of dividends.[146] As NIB proved profitable from early on, substantial funds were sent back to the Nordic governments.

Just like goals, governance structures at NIB placed a Nordic spin on innovations adapted from the European Investment Bank.[147] Ultimate decision-making authority for NIB rested with a Board of Directors that would meet regularly throughout the year and have final say on loans, borrowing, financial transactions and administration issues.[148] Diverging from the World Bank's weighted system or EIB's preference for larger members, each member state would appoint two members to the board, resulting in ten directors serving terms of up to four years. While there was briefly debate over whether Iceland, the country with the lowest capital contribution to NIB, should have an equal voice, it was decided that the basis of the Bank must be equality between its members.[149] Seven votes were needed to pass a proposal, affirming the necessity of building broad consensuses.

Signalling that political integration was not NIB's goal, neither the Nordic Council nor NCM had direct representation on the Board of Directors. Instead, organisational oversight of NIB was managed by a Control Committee tasked with ensuring that the Bank operated according to its statutes and mandate. The Control Committee, which originally met twice a year, conducted annual audits and submitted yearly reports to the NCM, which were reviewed and discussed together with NIB's annual report in the Nordic Council. In supervising the administration and accounts of NIB, the Control Committee could thus evaluate whether NIB's Board of Directors and President had followed the Bank's statutes and sound banking principles. Unlike board members, who were expected to maintain nominal autonomy from their respective governments, the Control Committee members, consisting of five Nordic Council members and five NCM members, were effectively their country's watchdog for the Bank's operations.[150]

Following the Nordic Council's session in November, an organising committee led by Pentti Uusivirta, a member of the Bank of Finland's board of management,[151] settled the remaining practicalities. On May 20 and 21, 1976, the five ministers of Nordic cooperation gathered in Rovaniemi, far to the north of Finland, where they determined the Bank would officially come into existence on the 1st of June and publicly announced the members of its first Board of Directors.[152] Conveniently, most of these members had already served on the Organising Committee.

The new Board of Directors officially met for the first time in Helsinki on June 9, 1976, marking the commencement of the Nordic Investment Bank's operations. During these early years, board members were mostly high-ranking officials from ministries of foreign affairs, finance,

JARMO MATILAINEN / HS / LEHTIKUVA

Pentti Uusivirta chaired the committee that organised the Nordic Investment Bank and would subsequently be a long-standing NIB board member.

and commerce, alongside leading bankers and business owners. The preference towards public sector members, including from central banks and public-private industrial banks, was intended to reduce conflict between national administrations and NIB.[153] Previous familiarity and a lack of major ideological differences contributed to a generally congenial and productive atmosphere, in contrast to other multilateral banks like the African Development Bank, which became notorious for raucous debate and debilitating factionalism. On the other hand, some of this singularity of purpose perhaps contributed to the Bank's early controversies.

Hermod Skånland, whose support and investigations had done so much to realise the Nordic Investment Bank, was elected as the first chairman of its Board of Directors. Lars Blinkenberg, who represented Denmark in the preparatory meetings of January 1975, was elected vice chairman. Even in a career full of advancements and achievements, Skånland must have felt a measure of pride at seeing the Bank coalesce into reality around him. Reflecting back in 1994 on the highlights of Skånland's career, Norwegian financial advisor Eivind Erichsen would note that Skånland's leadership in two terms as chairman had ensured that the Nordic Investment Bank "had gotten a good start and was heading in the right direction."[154]

Compared to the harmony of the Board of Directors, the Control Committee consisted of Nordic parliamentarians from parties across the centre-left to the centre-right. One member, Håkon Kyllingmark, had even joined party member Kåre Willoch in voting against the bank proposal in 1975.[155] The Control Committee held its first meeting on September 22, 1976 at NIB's still mostly empty offices at Mannerheimintie [Mannerheimvägen] 16 A, in the same building as the Swedish-language newspaper *Hufvudstadsbladet*. Reflecting the more pronounced political purpose of the Control Committee, the chairmanship rotated

KARI HAKLI, CREATIVE COMMONS, HELSINKI CITY MUSEUM

The new bank originally rented offices at Mannerheimintie 16 from the newspaper *Hufvudstadsbladet*, at the far end of this picture from 1975. While located close to Helsinki's railway station, the Mannerheimintie headquarters quickly proved too small for the young bank.

annually based on the presidency of the Nordic Council of Ministers, with the previous year's chairman becoming vice chairman the next year. The Bank's opening halfway through 1976 left this Committee in an awkward position. Carl Olof Tallgren, the head of the Swedish People's Party of Finland, became the Control Committee's first chairman due to Finland's presidency the following year, before relinquishing the role in 1977.[156]

NIB's statutes defined other crucial elements of its status. Mirroring EIB, NIB had "full juridical personality", maintaining autonomy vis-à-vis the Nordic Council of Ministers and possessing the ability to conduct

business in each of its members states. Furthermore, NIB's profits and assets remained tax-exempt, while employees paid income tax in Finland. Consequently, NIB shared many exemptions with the multilateral financial institutions, but, at the same time, "enjoyed no explicit immunity and very few privileges in comparison with such institutions."[157]

Initial bank financing came from the capital stock agreed upon in the 1975 negotiations. NIB's conservative gearing ratio limited the Bank's loans and guarantees to no more than 250% of its capital shares, similar to EIB. Unusually, the Bank's share capital was denominated in Special Drawing Rights, which was introduced by the IMF in 1969. SDRs were international reserve assets with a daily evaluation based on a basket of currencies and convertible to IMF reserve currencies. For example, SDR rates in 1978 were determined by the conversion rates of 16 international currencies, including US dollars, Japanese yen, UK pound-sterling, Swedish krona, and Norwegian krona.[158] SDRs were distributed to IMF members based on their shares and could be held by certain approved international organisations.[159]

Using SDR reflected the founders' internationalism and concerns for an international investment bank in the Nordic region. Denominating authorised capital in Swedish krona, the most likely Nordic currency to be used, opened the bank to potential volatility in a small state's currency and the perception of favouritism. The use of SDRs conversely helped limit exchange risk for the Bank's underlying liquidity. Despite some initial problems in depositing SDRs given the limited number of institutions that were allowed to hold them, SDR would remain NIB's share capital denomination until April 1, 1993.[160]

One of the first tasks to be carried out was to transfer capital shares from state coffers into NIB's account.[161] On August 2, 1976, the first of the subscribed capital was paid by the Nordic countries,[162] including an initial payment of 250,000 Finnish marks from Finland for administrative expenses and procurement of inventory.[163] The Bank was becoming a reality.

The second major task was staffing the Bank, starting with a president.[164] NIB's statutes dictated that the president would handle the everyday management and report to the Board of Directors. As a new institution lacking both an international reputation and working ethos, it was paramount to choose a president that would grow NIB while ensuring its fundamental stability and soundness. An advertisement for the position drew significant interest prior to its deadline on the final day of April 1976. The "gilded position" would be determined with a "political measuring stick", speculated one Norwegian newspaper, implying that a mere banking background would not suffice.[165]

While the Danish representatives advanced their own candidate, the final choice came down to two men. The first option was Bert Lindström, a Swede based in New York City and Vice Director at the United Nations Development Programme (UNDP). Lindström's long resumé included managing director in Gothenburg Bank (1964-71) and newspapers *Dagens Nyheter* and *Expressen* (1971-1973). The second option was Harald Henriksen, Deputy Director of the Norwegian Industry Bank, a private-public venture providing long-term credits for industrial endeavours. Both men came with experience and expertise in areas vital to the new Nordic Investment Bank.[166] The final decision between the two candidates was taken during a meeting in a sauna.[167] Ultimately, the Board of Directors elected Lindström to lead the Bank at their first meeting, with Lindström in attendance. The choice may have been influenced by more than Lindström's record, as it provided a certain balance to the Bank, which, in Saarela's words, was "in accordance with well known Nordic democratic principles." Consequently, "Norway got the Chairman of the Board, Denmark the Vice Chairman, Sweden the Managing Director, Finland the headquarters and Iceland got the money."[168]

NIB ANNUAL REPORT 1984

Bert Lindström, NIB's first president/managing director, proved crucial for shaping the international identity of the early NIB.

Lindström proved a shockingly good choice as NIB's first president. Energetic and well-connected, the 58-year old would work tirelessly to expand the reputation of the Nordic Investment Bank and establish partnerships across the globe. Barbro Eriksson, one of NIB's earliest employees, recalled decades later how Lindström's dynamism and expansive network proved critical for his pioneering role: "If we had had an ordinary bureaucrat as CEO, I think the bank would have had a more modest start."[169] With the Board's permission, Lindström continued to work part-time for the UNDP through 1978, while still navigating the new and largely unknown bank through early challenges and towards a recognizable profile.[170] Henriksen, the other candidate for NIB's presidency, also maintained connections to NIB. In January 1977, the Board offered Henriksen the position of Director of Lending. Although he soon returned to the Norwegian Industrial Bank, he was later that year appointed as a Norwegian alternate to the NIB's Board of Directors.[171]

With Lindström assuming leadership, other key positions, and the Bank's small Mannerheimintie offices, were rapidly filled. Unlike Lindström, most of the Bank's management was relatively young, men and women in their 30's or 40's enticed by the chance to gain leadership positions in an emerging institution. The management group gave NIB both a relatively informal atmosphere and a sense of vigour during its early years, with a willingness to learn on the fly how to establish an institution without precedent in the Nordic countries. By the end of 1977, NIB had 18 employees, with seven bank officers from Sweden, Finland, Norway, and Denmark, satisfying a 1976 NCM agreement that Nordic institutions should strive for regional balance in hiring.[172] As Erik Rindal, NIB's first loan officer, argued, this range of nationalities meant that, "knowledge is spread and anchored in several Nordic countries."[173] The diversity of opinion derived from a multinational staff would continue to be a feature of the Nordic Investment Bank.

NIB

NIB's first management team reflected the youth and energy of the early Bank. From left: Peter Laurson, Svend Kræmer, Petter Skouen, Erik Rindal, Siv Hellén, Bert Lindström, and Annikki Saarela.

First Years of Operation

A Challenging Environment

With the statutes and leadership set, the mechanisms of the Nordic Investment Bank could begin to turn. The next few years would be defined by various, at times competing, interpretations of the Bank's purpose and agenda.

Rather than exploding onto the financial scene, NIB experienced a gradual ramping up of activities during this early period. Most critical was initiating NIB's lending and borrowing programmes, its two primary functions. The two were intimately intertwined and were dependent on expanding the Bank's international reputation and network. In this capacity, the Bank's management, exemplified by Lindström, were in perpetual motion during these first years. Their decisions proved both indicative of and influential for subsequent bank activity.

The latter half of the 1970s was hardly an ideal time for launching a new financial institution. After the currency stability and nearly five percent annual growth of Nordic GDP throughout the 1960s,[174] the subsequent decade was marked by sluggish growth, contributing to ongoing issues with stagflation. 1976 saw a GDP growth rate of about 3 percent amongst the Nordic countries, while in 1977 this dropped to only 0.3 percent. For individual countries like Finland and Sweden, the economic outlook in these years was even worse. Indeed, overall growth in the Nordic region trailed behind the European Community, contributing to a generally low level of investment activity through 1978. With both the demand for and availability of investments in short supply, the latter important since NIB could provide no more than 50% of a loan to avoid competition with commercial enterprises, the Bank faced significant hurdles in initiating its lending activities.[175]


NIB ANNUAL REPORT, 1980

An Nib delegation on a 1977 visit to Icelandic Alloys, one of the Bank's first borrowers. Nib's lending to Icelandic Alloys was significant both as a symbol of Nib's Nordic balancing and as a proving ground for the new institution.

With the challenges of staffing a new institution, raising its reputation, and finding lending opportunities in a problematic investment environment, Nib's staff reached out to financial partners and business interests throughout the Nordic countries, inviting companies to call the Bank directly for information about loans.[176] Upon receiving interest, loans still needed to be negotiated, a sometimes arduous process given that, for many Nib staffers, this would be the first time structuring international loans and guarantees. As Siv Hellén, the Bank's long-standing General Counsel, recalled:

> In the beginning, there were no routines and no procedures to follow. Nib's agreement and statutes gave few direct instructions on how its principles should be followed, so proposals for lending policies and guidelines had to be presented to the Board for their decision. The beginning was difficult, since we knew we had to follow sound banking principles but also take into account socio-economic considerations. Further, the Bank should require adequate security, unless sufficient security was considered to exist under the circumstances. Interpretation of the statutory requirements and their fulfilment in the actual projects financed were difficult but vital as they set a precedent for future projects. Similarly, it had to be determined whether the loan documentation should be governed by national law and if so, which national law to apply.[177]

NIB ANNUAL REPORT, 1976–1977


Nib's lending to Icelandic Alloys was significant both as a symbol of Nib's Nordic balancing and as a proving ground for the new institution.

Not only did the staff have to ensure that they followed proper legal and fiduciary procedure, but they would have to structure the loans and paperwork – for example, the kinds of collateral required – in ways foreign to traditional Nordic lending contracts. While providing a learning curve, such compliance with international standards was necessary to demonstrate NIB's creditworthiness and thereby secure better borrowing opportunities.

The challenges and vision of the early Nordic Investment Bank was evident in their investment agreement with Icelandic Alloys, registered on NIB's books as loan number 1. The first loan signed and disbursed actually went to Imatran Voima Oy for a power transmission line

NIB ANNUAL REPORT 1976–1977

Although Icelandic Alloys was marked as NIB's first loan, a loan to Imatran Voima for a power transmission line was in fact the first to close.

NIB ANNUAL REPORT 1985

Jón Sigurðsson, a well-known figure in Icelandic politics, was a crucial ally of NIB during the its early years and a long-serving board member.

between Finland and Sweden; however, Icelandic Alloys was the first company to approach and apply for a loan with NIB. More importantly, the loan ensured a symbolic regional balance in the Bank by making Iceland the first country to receive a loan, or "the money" as Saarela had described it. The loan of 31.8 million SDR, or roughly 40 million USD in 1976, would be used for the construction of a ferrosilicon plant in Grundartangi, 40 kilometres north of Reykjavík. Built on the shoreline of Hvalfjörður fjord and surrounded by imposing peaks, the factory had direct access to shipping vessels, vital given ferrosilicon's centrality in steel production. Consequently, the company would derive its value from trade with steel producing countries while taking advantage of Iceland's hydropower reserves to power the plant.[178]

In using hydropower, the project represented an important shift in Icelandic industrial development. In a 1977 speech, Jón Sigurðsson, Icelandic member of the NIB Board of Directors and future bank president, spoke of the country's reliance on fishing as the "backbone" of its economy. "But there are limits to the riches of the sea, limits of which we are at present highly conscious", Jón informed his audience. Instead, the Icelanders were realising the potential of "largely untapped" hydro- and geothermal power sources.[179] Despite this growing awareness, internal investments in Iceland continued to be channelled into traditional industries like fishing while efforts to harness Iceland's natural energy resources remained in their infancy.[180] Indeed, Iceland in the mid-1970s was the least industrialised and diversified of the Nordic economies.

The Icelandic Alloys project emerged from these visions of an industrial future for Iceland. As Hermod Skånland clarified in a speech at the loan signing, the deal was of a socioeconomic interest, given its contribution to diversifying the Icelandic economy, as well as a "distinctly Nordic interest", since 45% of Icelandic Alloys would be owned by a Norwegian company, Elkem AS, at that point Norden's largest exporter of iron alloys.[181] Originally, the Icelandic government had partnered with the American giant Union Carbide to create the plant. However, in 1976, Union Carbide dropped out as it began selling off its European interests, possibly as a result of an industrial explosion at a polyethylene plant in Antwerp, Belgium the year before.[182] Elkem bought Union Carbide's share of the factory, and eventually, in 1981, the entirety of their ferroalloy division, making Elkem the largest producer of ferroalloys in the world. Elkem would thus provide raw materials, expertise, and production equipment, including their pioneering furnaces for the production of ferrosilicon. The factory consequently brought together business interests in two Nordic countries, combining, as Skånland informed his audience, "Icelandic natural resources with Norwegian technology and marketing".[183]

These benefits appeared more straightforward than the actual task of negotiating the deal. The project's evolution had created complications in the conditions of the loan, as the NIB staff had to determine both the

loan's details and the wider financing of the project. Given that the Bank could not contribute to more than 50% of a project's financing, it was necessary to ensure that other investors could participate in a manner that supported NIB's lending. The Icelandic Alloys project was daunting in its large number of investors and huge amount of documentation, much of it written to conform to US legal requirements prior to Union Carbide's withdrawal. Rather than starting over, the Bank's management decided to incorporate the existing paperwork, adding in aspects to fit with Nordic legal and financial standards where necessary. As Peter Laurson, who had been chosen in 1975 by the Finnish Ministry of Finance to oversee the organisation of the Bank before being hired at NIB's first board meeting, recalled of the Icelandic Alloys project, "We had to learn how you manage genuine project risks, which were quite unfamiliar in those days in the Nordic countries and also unfamiliar for national investment banks … Then we heavily used advice from rating agencies, legal advice, and the investment banks." Here, Bert Lindström's international network came in handy, particularly his connections to the prestigious Wall Street law firm Cleary, Gottlieb, Steen & Hamilton. J. Speed Carroll, a lawyer at Cleary Gottlieb, proved so critical on the Icelandic Alloys loan that he thereafter became NIB's long-term legal advisor on a range of issues.[184]

Bert Lindström recounted the difficulty of negotiating the loan to Iceland Alloys shortly after its completion, including NIB's awareness of the "significant prejudicial effects" that the structure and outcomes of the loan would have for future loans. Consequently, it was essential that the loan be completed successfully, and the NIB staff and Board of Directors worked vigorously to ensure its underlying solidity.[185]

The Icelandic Alloys loan demonstrated NIB's willingness from the start to take on tricky projects, as well as their reliance on international connections and expertise. Ultimately, the loan to Icelandic Alloys would constitute a signature success for the early NIB. By 1981, the plant remained the largest investment made by the Bank and the centrepiece of an impressive Icelandic portfolio (12% of NIB's total lending) that was a source of pride for the Nordic countries, according to the *Financial Times*.[186] The plant also proved profitable, continuing to produce iron silicon alloys nearly fifty years later.

NIB in Action

Through these first crucial years, bank activities became routinised. Lending was naturally the major activity by which the Bank was judged. At the start, the loan process was more irregular and relied on the Bank being contacted by interested lenders.[187] High visibility was therefore essential to bring in new clients, and the NIB management team participated in an aggressive campaign of "road shows" that involved speechmaking, meetings, and other publicity raising events. The Bank advertised interest rates up to 1% better than potential borrowers could receive alone on international markets, an enticing prospect for companies contemplating extending its business into the other Nordic countries.[188] Once the loan applications were received by the Bank, they would be processed to determine their viability and profitability.

Due to its small size, the early NIB relied on cooperation with national investment banks and credit institutions in the countries concerning that application. In exchange for NIB approaching them with new investment opportunities – not to mention entrusting to them the Bank's liquidity in the form of deposits – these institutions performed the necessary project analyses and credit ratings that the small NIB team could not carry out by themselves.[189] Institutional partners included The Financial Institute for Industry and Handicrafts in Denmark, The Norwegian Industrial Bank, the Industrialization Fund of Finland, the Swedish Investment Bank, and Industry Credit Cooperation, also of Sweden.[190] Despite several institutions being involved, loan assessments varied little, as much of the credit evaluation system had been "Americanised" according to a report most likely written by NIB's head of lending, Erik Rindal. Thus, "there can hardly be said to be any difference theoretically between what banks and credit institutions in Finland do, and what one does in Denmark and Norway, etc.".[191] The lack of national differentiation suited NIB well, as the result was a standardisation in their portfolio that appealed to rating agencies.

One aspect not found in these evaluations was an assessment of the "Nordic interest." As Rindal explained in a meeting with other regional investment banks, the extra effort to determine a Nordic interest could lead NIB to different conclusions than their national partners: "As a Nordic institution, we are required to look at cases in a Nordic perspective. This means that we often will place emphasis on things that are not usually emphasized in the individual countries."[192] In lending based on the "Nordic interest", NIB reflected but also helped shape political agendas around regional issues. The Bank served as a "catalyst" in Rindal's estimation, steering development plans, "towards Nordic tracks and in the Nordic interest."[193]

Unsurprisingly, given the Bank's emergence during the oil crises of the 1970s, energy projects received 27% of the lending by NIB from 1976 to 1979 and 22.3% during the first ten years. These were significant, resource-intensive projects that satisfied goals of lowering dependency on foreign powers. Far less substantial but far more numerous were the nearly 30% of smaller loans that went to production and marketing. Addressing the bank's goals of promoting practical cooperation between Nordic businesses, the significant expansion of this kind of lending in the following decade took place amidst a wave of business acquisitions, as will be discussed in the next chapter.[194]

NIB ANNUAL REPORT 1976–1977

Raufoss Ammunisjonsfabrikker, along with Kongsberg Våpensfabrik, would receive NIB loans for making car parts for the Swedish automobile industry. The loan to Raufoss proved controversial amongst NIB's Board of Directors.

Other investments towards the Nordic interest included the expansion of communication and transportation infrastructure – in 1977, NIB staff enthusiastically received the plans for an ultimately unrealised Nordic satellite cooperation project, NORDSAT – as well as capital goods [*kapitalvaruleveranser*] and continuous delivery [*kontinuerliga leveranser*] (22.46% of loaned capital). These categories included expanding various manufacturing and engineering concerns, whose primary socio-economic contribution was the strengthening of Nordic economic influence and integration, as well as lending for the expansion of workshops and to inter-Nordic subcontractors.[195]

Ultimately, the staff's appraisals of Nordic interest would be included in the project reports submitted to the Board of Directors for final approval. Meetings of the Board of Directors took place several times a year and rotated throughout the Nordic capitals. Though theoretically acting autonomously from national affiliation, this ideal does not always seem to have been upheld. In one instance, a discussion on

reupping a loan to A/S Raufoss Ammunisjonsfabrikker, a Norwegian arms manufacturer, for producing steel and aluminium components to the Swedish car industry was tabled – and the two Norwegian board members registered their protest that a decision should have been taken.[196] This formal dissent may have indicated the trickiness of providing loans to a Norwegian weapons company, perhaps due to Finland's perilous neutrality. Despite the potential for conflicts of interest in a region bifurcated by the Cold War, the loan to Raufoss was eventually approved and, in general, disagreement was rare. Loans were either approved, tabled for further discussion, or denied on the basis of various factors, including failure to meet the requirements of a Nordic interest. The result was, as Peter Modeen, NIB's Senior Vice President and second Director of Borrowing and Accounting, recalls, that the meetings between management and the board were "very professional," in part due to the constructive approach of members like Skånland and Pentti Uusivirta.[197]

If lending represented NIB's most visible activity, borrowing, its other face, was no less critical. While loans during the first year were funded by the Bank's paid-in capital, further lending activity required new capital. This was in accordance with NIB's original directive to channel foreign capital into Nordic industry and markets. The intention to borrow money on international capital markets distinguished NIB from development banks and national investment banks. As the Bank of Norway informed readers of its journal in 1975:

> Even though the Nordic countries lately have not had significant difficulties in meeting their capital requirements for national borrowing, a Nordic institution based on a collective Nordic guarantee could, in certain situations, contribute to facilitating the supply of capital to Norden… When the Nordic countries as a whole no longer need capital injections from the outside, the investment

> bank will to a larger extent be based on borrowing within the Nordic countries. If so, the bank's importance will primarily lie in its contribution to channelling the available capital within the Nordic region.[198]

Like others in the banking industry, the Bank of Norway assumed that NIB would initially focus on international bonds before shifting to incorporate Nordic lending markets. However, the catalyst for this change was left vague in the Bank of Norway's description. The instructions were slightly clearer in the Nordic Council of Ministers recommendation to the Nordic Council in 1975: NIB would concentrate their borrowing in foreign markets as a response to the energy crisis but would shift their lending once economies had normalised and profits were realised from North Sea oil and gas extraction.[199] Still, the parameters for economic stability were left largely unspecified.

NIB quickly set about making themselves known on international capital markets. In May 1977, the Bank issued its first substantial bond for USD 40 million on European markets. As with its lending activities, NIB relied on international cooperation to ensure the bond's success. From at least early 1977, the Bank had been cooperating with Credit Suisse White Weld.[200] Credit Suisse White Weld would manage this initial issue, which was placed in Luxembourg.[201] This would be the prelude to a fruitful relationship between NIB and Credit Suisse White Weld's successor, Credit Suisse First Boston, that would continue throughout the next decade.[202]

Over the next couple years, the Bank would make five more international issues, including the first issue denominated in SDR in March 1979. Upon receiving liquid cash, the Bank had several options about where to place it: in the Nordic credit institutions mentioned above, in leading international institutions approved by the Nordic central banks,

NORDISKA INVESTERINGSBANKEN
OCH DESS VERKSAMHET 1976–1985

The five Nordic prime ministers visit NIB in March 1977 during the Nordic Council's session in Helsinki. From left: Odvar Nordli (Norway), Thorbjörn Fälldin (Sweden), Anker Jørgensen (Denmark), Bert Lindström, Geir Hallgrímsson (Iceland), and Martti Miettunen (Finland).

in credit instruments included in an agreement with the American investment bank Merrill Lynch, or back into bonds issued by the Nordic countries or other Nordic institutions.[203] The Bank's success in raising capital through these bonds helped finance NIB's mission to strengthen Nordic economic activity, as well as raise the new institution's profile. Indeed, while the English version of NIB's annual report talked about further establishing the Bank's position, the Norwegian text was probably more representative of the actual situation: "In its borrowing activities, the Bank continued to *introduce* itself on the most important international capital markets."[204]

NIB's first three years were spent setting in motion the Bank's primary activities – lending and borrowing – as well as raising its international profile amongst prospective clients and international partners, the latter of whom provided essential expertise and manpower. At the same time, the Bank's young management team proved willing to navigate uncharted waters and take on new challenges that would ultimately determine the Bank's future. Such uncertain ventures did not come without risk. As Lindström and his staff would learn, the directive to work for the "Nordic interest" would not only constitute NIB's underlying mission but also a vulnerable flank to be exploited by the Bank's opponents.

Disputing the Nordic Interest

The Gothenburg Harbour Loan

June 9, 1977 was a busy day for Bert Lindström and Harald Henriksen, then acting Director of Lending. It had begun meeting with Volvo president Pehr Gyllenhammar regarding financing subcontractors.[205] Later, the pair headed to Gothenburg harbour to discuss plans for expanding the harbour's capacity to load and unload transoceanic container ships.[206]

Today ubiquitous, shipping containers had revolutionised world trade in the preceding two decades, increasing speed and volume by easing transitions between different modes of transportation: sea, rail, and road. As historian Peter Cole surmises, "Perhaps no one could have predicted just how integral containers would become to globalisation, but, by helping increase global trade by several orders of magnitude, containerisation remade the world economy."[207] Gothenburg harbour officials recognised the necessity of accommodating these new building blocks of international trade.

As with other loans, NIB evaluated the project's feasibility and potential Nordic interest. However, assessing the impact of an expanded Gothenburg harbour on their Scandinavian neighbours proved tricky. In response, NIB hired the Norwegian firm Asplan to review the Norwegian impact and themselves conducted visits to harbours in Oslo, Copenhagen, and Aarhus. While Copenhagen authorities were unimpressed with NIB's interest rates, the Aarhus authorities proved themselves keener to secure a loan. However, limited traffic to Aarhus from other Nordic harbours – less than 1% compared to Gothenburg's 30% – meant that Lindström found little to satisfy a Nordic interest during his visit there.[208]

NIB ANNUAL REPORT 1976–1977

The expansion of Gothenburg Habour was necessary for handling the containerisation revolution, but would also prove an early controversy for NIB.

Gothenburg, conversely, satisfied a recent proposal from the Nordic Council for developing Nordic harbours to handle interoceanic container traffic, with the long-term goal of establishing a central Nordic harbour. In its evaluation, NIB cited this proposal as evidence of "Nordic interest" with a socio-economic impact, further noting that Finnish company Kone would likely supply cranes, the fundamental instrument of the containerisation revolution. Yet, reflecting a desire not to pre-empt political decisions in the Nordic Council, the project assessment sounded a note of caution: "The question of a Nordic interest however does not revolve around one central harbour for Norden, and it is certainly conceivable that NIB can also grant loans to another Nordic central harbour."[209]

In an internal document of the Norwegian Labour party government, most likely co-written by Hermod Skånland, a more complicated picture of the loan's motivations emerges. Prior to the loan's review by NIB's board, a meeting was arranged between the Norwegian board members and the Norwegian Ministries of Fishing and Transportation to gauge their reactions. At the meeting, the board members stressed the significance of providing a loan to Sweden:

> It would in that case be the first loan to Sweden. There was also some interest in having a loan within the transportation sector since it was named as an area [of focus] for NIB in the preparatory work. One [of the Board members] also pointed to the burden in relation to Sweden that could result if the Norwegian side opposed this first loan to Sweden at the same board meeting where loans were granted to Raufoss, Kongsberg [Våpenfabrikk, for producing car parts to Sweden], and ÅSV [Årdal and Sunndal Verk for a project producing cast aluminium products for use in Sweden].[210]

Given that regional balance remained critical to the early Bank, the Norwegian ministries signalled their approval, or at least lack of opposition, reaching an agreement with the NIB Board of Directors that, "there was sufficient 'Nordic interest' that NIB, to a limited extent, could participate in the financing".[211] Subsequently, the Bank offered to finance 10% of the harbour's expansion costs with a loan of SDR 6 million (USD 7.3 million in 1977) with an option to increase this to 30% in the coming years.[212]

As the agreement was concluded prior to year's end in 1977, it featured in the Bank's first yearly report as an "investment in communication," a term the Bank used interchangeably with "transportation".[213] Controversy swiftly ensued. On 12 January 1978, Kåre Willoch, head of the Norwegian Conservative Party, denounced the loan in a widely circulated interview with his party's press bureau, which described the Bank as "redundant."[214] Two weeks later, on 25 January 1978, Danish parliamentarian Mette Madsen of the Liberal-Agrarian Party demanded Minister of Foreign Affairs Knud Børge Andersen comment on the loan.

In response, Andersen, the Social Democratic minister who had led the 1964 attempt at establishing a bank, defended the Bank's actions, arguing that it fell within their mandate and the broad definition of a "Nordic interest".[215] Similar discussions occurred in the Norwegian Storting, where the Conservative Party warned of the repercussions for Oslo harbour.[216] The debates received significant coverage abroad, prompting the Finnish newspaper *Helsingin Sanomat* to bemoan these "Danish polemics".[217]

The scrutiny extended beyond the Gothenburg loan. In October 1977, Bert Lindström was approached by Nils G. Åsling, the Swedish Minister of Industry, to conduct a study on the future of the struggling Swedish car industry. After discussions with Swedish companies and unions, Lindström accepted the role while retaining his position at NIB. Previous arrangements had allowed him to divide his time between NIB and UNDP, but not everyone agreed. Norwegian newspaper *Norges Handels og Sjøfarts Tidende* criticised the "unfortunate dual position", suggesting that Lindström's role should preclude work for a single Nordic government.[218] The article referenced widespread Finnish criticism, but a separate memo from Hermod Skånland speculated this might be limited to dissatisfaction from Olli Bergman, the Secretary General of the Nordic Council of Ministers. Although Lindström's investigation ended inconclusively in May 1978, amidst negotiations around the Volvo Agreement (see Chapter 3), its timing likely contributed to controversy, coming amidst heightened scrutiny of NIB's objectivity and relationship to Sweden.[219]

The debate intensified at the 1978 Nordic Council session in Oslo, where NIB's annual report would be reviewed for the first time.[220] Disagreement had already crept into the Control Committee's report, as Norway's Håkon Kyllingmark and Denmark's Knud Enggaard rebuked the Gothenburg loan. Enggaard called the debate around the Gothenburg loan detrimental "to the calm around the Bank's work and ideas, which is desirable."[221]

Kyllingmark and Enggaard's remarks sparked a contested session of the Economic Committee, which continued discussions that began in the media during brief meetings from February 17 to 19. A statement from the committee's majority endorsed NIB's activities and the Gothenburg loan but cautioned that "the Nordic Council's assessment of the need for a Nordic central harbour should have been awaited before the Bank completed processing the loan application." Predictably, Willoch along with Danish conservative politician and future prime minister Poul Schlüter offered a dissenting opinion. Willoch and Schlüter argued that the loan did not advance a "Nordic interest" and instead diluted its "natural meaning," regretting that NIB had encouraged inter-Nordic competition, prioritised a large municipality over smaller companies, and contributed to environmental degradation through increased shipping traffic. A separate reservation lodged by Danish Progress Party member Leif Glensgård declared that "the container harbour in Gothenburg has only a purely Swedish interest" and called for the Nordic Council to declare the loan a breach of NIB's foundational agreement.[222]

The Economic Committee meetings prefaced discussions in the plenum, which formally began on February 18. Debate of NIB's annual report was scheduled for the 22nd, the final day, but bubbled forth already on the second day, centred, unsurprisingly, around Willoch. In a speech to the plenum, Willoch bemoaned the intentionally vague instructions that the Nordic Council had given the Bank, at the same time accusing the Bank's leadership of "going far outside of an acceptable interpretation of the concept 'Nordic interest.'"[223] He further placed blame on the Norwegian Fishing Ministry for not intervening in an issue detrimental to "Norwegian interests".[224] Schlüter supported Willoch, warning that the loan set a troubling precedent wherein each Nordic

country would receive investments commensurate to their overall investment in NIB, vaguely referring to the presence of this "unfortunate" tendency in other international lending institutions.[225] However, neither Willoch nor Schlüter would endorse Glensgård's reservation, which, Schlüter explained, would require legal action against the Bank for violating its mandate.

Defenders of the Bank countered that an expanded Gothenburg Harbour would not compete with the rest of the Nordic region but rather challenge the dominance of larger "continental" ports like Amsterdam, Hamburg, Rotterdam, and Bremerhaven. Kjell-Olof Feldt, a strong advocate for NIB in 1975, emphasised that, through the loan, "a municipality in Norden is now ready to take up the competition with the large European harbours for traffic that would otherwise pass Norden by."[226] Detractors, they asserted, were biased by disdain for NIB. Lindström echoed this sentiment in later media interviews.

Like the 1975 Nordic Council debate, the controversy surrounding the Gothenburg loan did not significantly hinder the Bank's development. Glensgård's reservation was dismissed by the Nordic Council's President, and the annual report approved by rising vote. However, this event placed the early Bank at the centre of a political maelstrom involving some of the most significant Nordic politicians of the late-20th century. Markedly, it was the Gothenburg loan that dominated discussion rather than other potential controversies like Lindström's work for the Swedish government or the loans to Norwegian weapons manufacturers.

Several factors underpinned the disagreement over the Gothenburg Harbour loan. For one, the Bank was still seen as a social democratic project, leading to accusations that NIB was being used to pave the way for socialism.[227] Secondly, the Bank's description of the loan's Nordic interest – enhancing the region's access to container shipping while rejecting the notion of making Gothenburg the primary port – was at times unclear and contradictory. Even some defenders acknowledged that NIB had "not been very fortunate" in referencing Nordic Council discussions on a central harbour in their argumentation.[228]

Lastly, Willoch cut a prominent figure in these debates. His scepticism towards not only NIB but to Nordic cooperation fuelled the uproar. Willoch would become well-known to the NIB staff, appearing on annual pilgrimages to the Bank's offices.[229] During the 1978 Nordic Council meeting, Willoch defended his right to participate in debates around the Bank despite his initial objections to its establishment, promising to the assembled Nordic parliamentarians, "I will certainly practice this right in the coming years."[230]

The IKEA Loan

It was a promise that Willoch seemed determined to keep. The following year, he was back at the Nordic Council, once again criticising NIB. This time, it was a loan made to Swedish furniture giant IKEA for constructing a fully automated central warehouse in Älmhult, Sweden that drew the ire of Willoch and other conservative politicians.[231] Since its founding in 1943, IKEA had become an international powerhouse, furnishing the Swedish housing boom of the 1950s and 1960s.[232] With its success in affordable, modern furniture, the company began expanding beyond Sweden's borders, first into Norway and Denmark in the 1960s, and later, as restrictions on foreign ownership eased, establishing franchises across central Europe, Asia, North America, and Australia.

It was with this expansion in mind that IKEA planned a new central warehouse that could quickly supply foreign franchises. The centralised warehouse presented NIB the opportunity to finance a Nordic institution with strong prospects through a modest loan of SDR 3.6 million (SEK 20 million in 1978), significantly less than the SDR 31.2 million loaned to the Isefjordværket power plant in Denmark. IKEA was indeed a "Nordic institution", having relocated its headquarters to Humlebæk, Denmark, in the mid-1970s for tax reasons while relying heavily on Nordic subcontractors for its itinerary.[233] As NIB noted in a report to the Nordic Council's Economic Committee, over 75% of IKEA's turnover came from furniture produced by Nordic businesses, especially from Denmark and Finland. Although there was a growing tendency to source from eastern Europe – 15.9% of total purchases by 1977/78 – IKEA promised it would reduce these purchases, allowing NIB to claim that IKEA's international expansion would have a clear Nordic interest by providing both contracts and employment to Nordic industry.[234]

As with Gothenburg Harbour, news of the IKEA loan drew immediate consternation in Norway and Denmark. On November 2, 1978, Willoch wrote to NIB to request details of the IKEA loan, which he attacked in an interview a few weeks later.[235] Willoch aired concerns that the loan would harm Norwegian industry by encouraging the purchase of products made artificially cheap by production in Eastern Europe. "It cannot be in the Norwegian interest", Willoch asserted, "that Norwegian businesses become dependent on being subcontractors for large Swedish enterprises, when the alternative could be a more independent position."[236] Another Norwegian headline blared, "Norway part of loan to Swedish furniture business!"[237] Within days, that same newspaper ran an editorial accusing NIB of contributing to job loss by promoting automation. "Luckily for the Nordic Investment Bank," wrote the columnist using the moniker Grynet, "the so-called social aspects will not be their business..."[238]

Criticism intensified as the 1979 Nordic Council session in Stockholm neared.[239] Again, Norwegian and Danish members of NIB's Control Committee – this time Håkon Kyllingmark was joined by new member Christian Christensen of the Danish Christian People's Party –

objected to the loan. In a joint statement recorded in the Committee's minutes, Kyllingmark and Christensen clarified that, while the loan itself was not against NIB's statutes, "doubts could be raised whether this kind of engagement – with the unfortunate effects that it also could have on the national furniture industry in Norden – is a recommendable lending policy".[240] However, unlike the previous year, the report of the Nordic Council's Economic Committee did not mention the IKEA loan, instead focusing on the Bank's strategies to combat exchange rates risks.

The lack of discussion on the loan in the Economic Committee did not stem from its popularity. In his comments at the plenum, Ilkka-Christian Björklund, one of the original eleven parliamentarians who had voted against the Nordic Investment Bank in 1975, gave another explanation: a lack of preparation.[241] As Björklund clarified, when the Economic Committee had assembled during a morning meeting to review the Bank's annual progress, neither the activities report, the Control Committee report with the Danish and Norwegian critique, nor the audit were available. When they were finally made available:

> The committee members had to content themselves with quickly flipping through the material. The [Economic Committee's] report was written together based on a draft by the secretary who thankfully was able to obtain advanced information on the matter over the weekend. The Nordic Investment Bank is certainly not unimportant in Nordic cooperation; on the contrary it is an institution that plays a key role in the economic area. It has from the beginning been a much-discussed major investment and now, exactly when this institution is in its construction phase, requires continued serious, critical attention on the part of this assembly.[242]

The main show took place during the plenary session of the Nordic Council on the 21st of February, the session's third day. Willoch reiterated his accusations regarding the loan's adverse effects on national furniture industries, alongside his long-standing belief that NIB should not finance large enterprises that could secure commercial loans. Shortly after the council meeting, NIB's Director of Lending Erik Rindal defended the loan strategy, emphasising the profitability of such loans for the Bank, which operated by regular banking principles including an attention to potential returns.[243] In addition, the Bank's minimum lending requirement of one million Danish kroner limited its ability to provide partial lending to small enterprises.[244] However, the IKEA loan prompted Leif Glensgård to caution that the Danish Folketing might reconsider its participation in NIB.

In response to Willoch's criticism and Glensgård's threat, NIB supporters downplayed the significance of the IKEA loan, arguing that it needed to be viewed within the context of NIB's broader contributions throughout the Nordic region. In fact, most discussions in 1979 emphasised the importance of ensuring that future oversight of NIB was not hindered by the late delivery of reports. This itself was not a critique of the Bank's leadership, who had not been responsible for the delay, but Lindström nonetheless pledged henceforth the delivery of a yearly interim report to assist the Economic Committee's work.[245]

Although discussion surrounding the IKEA loan at the 1979 Nordic Council was brief, the Bank remained under scrutiny. Still, the IKEA loan did not provoke the same degree of outrage as Gothenburg Harbour the previous year, potentially due to the smaller size of the loan, more tangible Nordic interest, and the fact that, by 1979, NIB had begun to solidify its credentials and reputation. At this point, all Nordic countries had benefitted from NIB loans, albeit somewhat unevenly, making it increasingly challenging to argue that the Bank lacked the capacity to aid Nordic economic development. Even Ib Stetter, despite his distaste for NIB, acknowledged by 1980 that the Bank was rapidly expanding and likely to continue doing so due to their lower interest rates. Still, Stetter offered a word of warning: the Bank must borrow money outside of the Nordic region to avoid squeezing Nordic capital markets and competing directly with commercial banks.[246]

The Finnish Bond

Stetter's comments reflected a final controversy during the Bank's early years. Instead of disputes around individual loans, the battle would be fought over NIB's borrowing policy. The original guidelines for NIB's capital borrowing were vague regarding when the Bank should begin issuing bonds on Nordic markets, stating broadly that it would occur once economic conditions in the Nordics had recovered from the oil crisis. By 1979, the Nordic economies had largely stabilised when a second oil crisis again raised energy concerns and sent markets plunging.[247]

In this environment, NIB commenced its borrowing on Nordic markets, making its inaugural bond issue in March 1979 with a bond of SEK 75 million Swedish kronor. This was followed in September by an issue on the Finnish market for FIM 50 million. The bond issues, Erik Rindal told a Norwegian newspaper that autumn, were crucial for NIB's operations: "Since NIB only grants loans in the currencies the bank has at its disposal or can borrow, it is of great value to NIB to be able to offer both Swedish kronor and Finnish markka for Nordic investment projects." Borrowing in local currencies would help businesses operating in these countries mitigate or avoid exchange rate risks.[248] Exchange risks could entail, for example, a devaluation in a local currency like the Finnish markka without a commiserate development in the currency of a loan, such as Swedish krona, SDR, or US dollars. As a result, the

NIB ANNUAL REPORT 1984

Peter Modeen, pictured centre, recalled the Finnish bond controversy as stemming from a misunderstanding amongst Finnish commercial bankers.

borrowers could end up being required to repay more on the loan than originally anticipated, a danger amplified by the Nordic countries' small status and the variability that entailed.

Commercial bankers in Sweden and Finland were sceptical. The bond in Sweden raised only a few eyebrows, given Sweden's continued status as the foremost economy in the region. According to Lars Wohlin, head of the Swedish Riksbank and NIB board member, the loan from a Swedish standpoint should be viewed as a "kind of capital export to the other Nordic countries." However, Wohlin was careful to point out that, due to Sweden's poor international lending capacity, NIB's borrowing on the Swedish market should be limited.[249]

Conversely, the bond in Finland met with consternation. On August 8, 1978, *Helsingin Sanomat* ran a column entitled "Unnecessary Competition" that castigated NIB's presumptive bond. The article described the Bank as exploiting a new Finnish law that allowed a multilateral bank to borrow in its member countries and suggested that the bond's timing was inappropriate given Finland's status as a net borrower of capital. NIB would be directly competing with Finnish banks and the Finnish state for limited funds. Worse still, NIB could not guarantee that these funds would stay in Finland, meaning that "a Swedish investor could for example exploit Finland's exceptionally liquid financial market […] This would not be sensible," the writer claimed, "even if it is a question of promoting Nordic cooperation."[250]

The reactions to NIB's entrance into Nordic capital markets drew the attention of the international finance magazine *Euromoney* and reporter Peter Field, a veteran observer of Nordic banking. In a six-page feature in October 1979, Field covered different perspectives on "a dynamic and controversial institution" – the Nordic Investment Bank. Interviews with Finnish and Swedish bankers revealed unease regarding NIB's bond issues and the necessity of the Bank. Field presented the Bank's "fresh controversy" as stemming from a perception that NIB had abandoned plans to borrow on foreign markets, utilising concessions that provided it "a little bit of an advantage over Swedish borrowers" and their Finnish counterparts.

To give the other side of the story, Field quoted Lindström and the new Director of Borrowing Peter Modeen, who had taken over from Annikki Saarela. Like Rindal, the two argued that NIB was not competing with commercial banks due to the present low demand for long-term funds. Instead, the Bank's acquisition of local currencies would aid recipients of NIB loans and serve the wider Nordic interest.[251] A month earlier, in the wake of the failed Volvo Agreement, Lindström had even suggested that the Finnish markka might be used to develop a Nordic car industry.[252] Reflecting on the events decades later, Modeen attributed the controversy to misunderstandings amongst commercial bankers about NIB and its purpose, which was soon rectified when they realised the utility of having NIB as a partner in financing large projects.[253]

The perception that the Bank was courting controversy seeps through to the 1979 annual report, which unusually sought to justify the Swedish and Finnish bonds, declaring, "The Bank, therefore, did not compete with domestic issuers."[254] A few months later, a lengthy debate over NIB again erupted in the Nordic Council, leading one Danish newspaper to dryly note that, since beginning its work in 1976, "there had been unrest about the Bank in nearly every single session of the Nordic Council."[255]

At the Nordic Council session, the Nordic bonds were mentioned but were hardly the focus. Instead, the battlelines were again drawn around questions of NIB's lending practices, as well as the trial regional loan system, discussed in Chapter 3. llkka-Christian Björklund, now chairing the Economic Committee, began the discussion of NIB's annual report with a lengthy description of the politics of the Bank's founding, calling for a review of whether the Bank had lived up to its initial expectations during the past five years. Willoch, resuming his role as NIB's primary antagonist, asserted that the annual report misrepresented the Bank's investments in small and medium enterprises. Instead, Willoch complained, almost all loans went to large companies or their subsidiaries. Glensgård thereafter reviewed a list of deals made by the "socialistic" Bank with companies like Danish Steelworks, SAAB, and SAS, demanding answers from the Danish government about whether such loans really constituted the "Nordic interest" and whether they could have been covered by commercial lenders. While Glensgård relied on polemical attacks against this "dangerous instrument", Willoch's arguments were largely definitional and provoked responses in kind, disputing what constituted a large enterprise. Indeed, several of the Bank's defenders, including Bjartmar Gjerde, remarked that the expansiveness of Willoch's criticism suggested that he had failed to find anything specific in the Bank's activities to criticise. While Gjerde believed that NIB's leadership "had earned our respect and honour" for their success in quickly turning the Bank into "an important and good instrument for the expansion of Nordic cooperation", he had no doubt that Willoch would find some new line of attack at the Nordic Council's next session. "It will come", he predicted.[256]

The Long Road to Legitimacy

Gjerde was wrong, at least partially. The Nordic Investment Bank was well on its way to becoming an established feature of Nordic cooperation, launching programmes that invited discussion and sometimes opposition, including from Willoch. Yet never again in its next forty-five years would NIB court the same amount of controversy as these first crucial years. The newness and malleability of the Bank during this period ensured that Nordic politicians, ultimately responsible for NIB, fiercely competed to shape the institution after their own visions and purposes.

In this aspect, no politician was more important than Kåre Willoch, who proved the most intransigent and outspoken critic of the early Nordic Investment Bank. The Bank embodied the kind of counter-productive institutional inflation that Willoch claimed to despise about Nordic cooperation. Even as NIB became established and embedded in the Nordic financial scene, Willoch's opinion of the Bank never changed. In a section entitled "Nordic polemics" in his 1990 memoir, Willoch used NIB as an illustration of the problem of Nordic cooperation, as the Bank was "supposed to act strictly in a business-like manner, and therefore to this day has not done anything that could not have been done equally well and reasonably by the institutions that already existed. Good leadership has turned the bank into a satisfactory institution, but its creation did not fulfil any need other than politicians' need to demonstrate their 'vigour' and interest in Nordic cooperation."[257] Willoch and others' critical gaze on NIB throughout the late 1970s would lead former Norwegian Prime Minister Lars Korvald to sardonically comment in 1980 that, "There has hardly been an institution in Norden as closely scrutinized as the Investment Bank."[258]

However, far more important for establishing the Bank's early identity was the vigour and innovativeness of NIB's early leadership. Lindström and his team worked tirelessly to build the Bank's reputation and legitimacy in both Nordic and international settings. NIB benefited from appearing not in the 1950s but in 1976, when the global financial landscape had become dense with multilateral banks. The existence of these well-known institutions aided the Nordic Investment Bank's campaign for recognition and provided models and partners for the early Bank. Still, NIB deviated in important ways from other multilateral banks, with a more democratic governance structure and a focus on international collaboration in the form of a "Nordic interest". Although the expansiveness of the Nordic interest requirement provided NIB's opponents with plenty of verbal ammunition, it also offered substantial leeway for the Bank to interpret its mission and influence major Nordic projects. This was no mean feat, given the significant scepticism about whether NIB would be able to carve a role for itself in Nordic lending. Yet, by the Bank's fifth anniversary in 1981, Nordic observers could celebrate "the Bank that is here to stay".[259]

Chapter 3

Expanding Ambitions, 1981–1990

Bert Lindström gazed out at the gathered conference from his seat at the long table, its forest-green cover buried under stacks of papers and scattered refreshment bottles. Two seats to his right sat Peter Modeen, Nib's head of borrowing, flanked by a large mural of bucolic gardens and sailing ships at harbour that ran the length of the room. In its shadow sat about twenty Saudi guests, primarily sheik businessmen but also government officials, and thirty representatives of Nordic governments and business communities. A significant press contingent had also gathered opposite from Lindström, their cameras, lights, and boom mics set to capture the international meeting.

The gathering marked the opening of the Saudi Arabian – Nordic Conference, hosted by the Nordic Investment Bank in June 1982. The conference had been arranged to bring together Saudi and Nordic experts to discuss experiences and ideas for industrial development, as well as present opportunities for Saudi Arabian investment in the Nordic countries. Following discussions and a reception at the historic Königstedt manor house close to Helsinki, the conference participants headed north to Finnish Lapland. There, they spent the night above the Arctic Circle, where the Saudi delegates were introduced to tent accommodations, the Sami sword dance, and, according to Peter Modeen, Finnish alcohol. In Modeen's recollection, the combination of the three resulted in a memorable rendition of the sword dance by several Saudi delegates. On the airplane ride back to Helsinki, one sheik confessed to Modeen that it had been the most fun he had had in ten years.[260]

NIB ANNUAL REPORT 1982

The 1982 Saudi Arabian – Nordic Conference spoke to the growing global vision and ambitions of the Nordic Investment Bank.

Although Modeen recalls few concrete projects arising out of the meeting with the Saudis, the conference spoke to the Bank's expanding global vision in the 1980s. After the challenges of the first years, NIB finally had the wind in its sails. The political resistance the Bank had met during the end of the 1970s had largely dissipated, and the young organisation threw itself into a myriad of activities, advancing projects to modernise the Nordic countries, address inequalities throughout the region, and slingshot Nordic interests into the world.

These activities underscored the Bank's continued efforts to strengthen Nordic interests in the face of regional and international transformations. The Nordic Investment Bank would be both witness to and progenitor of structural realignment in Norden through its projects and loans. In a period of consolidation and acquisition, NIB would assist in the production of an increasingly top-heavy economic landscape. As businesses expanded, so too did their ambitions and vision. During a new era of globalisation, NIB would finance Nordic businesses as they rushed to enter and integrate new foreign markets, allowing the Nordic sphere of economic influence to spread across increasingly distant parts of the globe.

NIB would firmly establish itself in this capacity as a reliable partner for other multilateral banks and a stable investment for commercial buyers. Yet, at the same time as its international reputation grew, its regional reputation remained more static, especially once it was dropped as a subject of conservative rebuke in the Nordic Council. The Bank thus concluded the 1980s with a raft of new functions and lending facilities, while still struggling to cement its place amongst its Nordic partners.

Financial Landscapes in Transformation

Acquisitions: A New Nordic Interest

At a London conference in late 1988, the vice chairman of Credit Suisse First Boston, the same bank that had helped NIB float its first bond in 1977, noted a broad change in European financial markets over the previous decade. Until recently, "Europeans thought mergers were brash, American and in bad taste, like stretch limousines or hamburgers."[261]

NIB ANNUAL REPORT 1987

In January 1987, NIB assembled a Nordic roundtable to discuss European integration, including the trend towards business acquisitions. From left: Gerhard Heiberg (Norway), Poul J. Svanholm (Denmark), Erik Årsbrink (Norway), Jón Sigurðsson (Iceland), and Kari Kairamo (Finland). Sitting with his back to the camera is Jannik Lindbæk, NIB's second president, who observed that the "strong trend toward cross-border corporate acquisitions can be seen in the Nordic countries".

Yet times had changed, and now, on the eve of the 1990s, mergers and acquisitions across European borders were becoming ever more prescient.

The new emphasis on transnational acquisitions came amidst lingering concerns about economic slowdown and a reprioritisation amongst western states towards austerity, privatisation, and deregulation of financial markets. Consequently, as capital became less hindered by prior regulations and agreements, it became more practical for major companies to expand their operations by acquiring other businesses in part or wholesale rather than developing their own industrial or technical infrastructure from scratch. Amongst the Nordic states, such market-oriented transformations were tempered with the maintenance of welfare state principles, taking the form of Third Way economies. However, similar to elsewhere in Europe, the Nordic countries were

increasingly dealing with major domestic companies, the crown jewels of national economies, being targeted for ownership by foreign companies and shareholders.[262]

The flurry of cross-border transactions likewise inspired unease amongst Nordic policymakers, who worried about foreign concerns buying up Nordic companies. While viewing structural realignment across borders as necessary to maintain the region's international competitiveness, old fears lingered that the small Nordic economies were to become subsidiaries of larger powers. These concerns were potent enough to inspire a 1974 Nordic Council study into utilising joint Nordic legislation to break the power of international corporations.[263]

The Nordic Investment Bank found in its lending facility the possibility to extend cross-border acquisitions while maintaining Nordic ownership, rather than more distant and potentially even non-European interests. As the Bank's 1984 Annual Report noted, lending rose dramatically in the early years of the decade thanks to a potent cocktail of an improving commercial climate, the Bank's successful promotional work, and "a rising number of Nordic projects involving acquisition of firms and the setting up of joint ventures".[264]

In February 1986, the Bank would make its most substantial loan to date towards company acquisition. In an agreement with the Swedish subsidiary of the Finnish state-owned Outokumpu Oy, NIB provided SEK 350 million for the spurchase of 70% of the capital stock of two Swedish metalworking companies, Gränges Metallverken AB and Wirsbo Bruks AB. Both were sold by the prominent Swedish appliance manufacturer Electrolux, who themselves had acquired Gränges following a wave of acquisitions in 1980.[265] As noted in an earlier loan to Outokumpu for purchasing equity in a Norwegian copper mining company, inter-Nordic expansion ensured Outokumpu's growth while bringing greater expertise and stability to the acquired companies.[266] The 1986 acquisitions made Outokumpu one of Europe's largest manufacturers of copper products and ensured the company "emerged with a more inter-Scandinavian and international image as a major metal producer". With the loan in hand, NIB could boast that, by year's end, around 40% of all Nordic loans made by NIB had been directed towards company acquisitions that strengthened the Nordic economy.[267]

The rapid growth of this new lending goal confirmed the Bank's flexibility to act upon new interpretations of the Nordic interest. It furthermore strengthened a popular catchphrase of the early 1980s by advancing private cross-border cooperation that would turn the entire Nordic region into a "home market". In this expanded home market, Nordic companies would find a wider consumer base for their products, while also attracting resources to penetrate even further with their exports.[268] The Nordic Investment Bank was well-placed to render these visions of a commercialised "Nordism" into concrete action.

Going Triple-A

Even as the purpose of NIB's lending was contested and transformed, it remained clear that borrowing on foreign capital markets would be a primary focus. Consequently, Lindström and the Bank's management considered a triple-A rating, the highest distinction of creditworthiness, as a significant means by which NIB would add value to its member countries. If NIB could obtain the highest rating by satisfying the requirements of the two major New York credit agencies, Moody's and Standard & Poor's (S&P), it would be able to borrow at lower interest rates as a safe investment.

Working in the Bank's favour was the fact that other multilateral institutions, most notably EIB, maintained a triple-A rating. This set the precedent that such institutions were greater than the sum of their parts, regardless of whether member states themselves were triple-A-rated. NIB hoped to benefit from such an arrangement, since the credit ratings of the individual Nordic countries, while high, were not universally AAA/Aaa. Yet precedent would only carry the Bank so far. NIB had to convince Moody's and S&P that it deserved similar treatment.

To ensure that NIB was checking all the necessary boxes, Lindström once again turned to his New York connections. The Bank's leadership worked closely with Wall Street investment banks like Goldman Sachs, Merrill Lynch, Lehman Brothers, and especially Salomon Brothers. The Wall Street banks assisted NIB with bond issues, locating and verifying potential buyers.

Between its successful bond issues, prestigious partners, firm commitment from its members, and the general trustworthiness of a "Nordic" identity on international financial markets, NIB gained momentum for its triple-A rating.[269] The first breakthrough came in August 1981, when NIB received the highest rating from Moody's and S&P for its issue of short-term commercial paper on the US market. The Bank took advantage of its connections and new rating in October with a "Master Note Facility" brokered by First Boston, who promised a top US purchaser for its bond. This commercial paper, evidently "the first of its type to be arranged for a non-American borrower", provided NIB with a low interest rate and important relationships with US institutions.[270]

The hunt for a triple-A rating culminated in 1982 with a transatlantic trip led by Lindström, Hermod Skånland, and Icelandic board member Jón Sigurðsson. The delegation departed for New York City carrying positive reports on NIB activities in their briefcases and bound for the offices of Moody's and S&P. Their trip was a success. NIB's subsequent long-term bonds would be awarded the highest rating. As Jón Sigurðsson would later recount, the triple-A rating proved to be the "backbone of the business" throughout NIB's subsequent years.[271]

NIB was quick "to take advantage of its status as an international financial institution holding top credit rating to gain access to capital sources which have not been available to the same extent to other Nordic borrowers".[272] Pursuing these new opportunities took NIB employees around the world. While originally borrowing primarily in the Euro-

NORDISKA INVESTERINGSBANKEN OCH DESS VERKSAMHET 1976–1985

NIB's triple-A rating proved essential for its successful bond issues. Some of the early bonds are pictured here.

market, the Bank also placed issues in Japan and the Middle East, including a loan in Kuwaiti Dinars in 1981. The Japanese market proved particularly influential in the Bank's early borrowing, and bank officials built significant contacts amongst the Japanese investment bankers.[273]

International bonds often resulted in NIB taking in US dollars, which accounted for roughly half of NIB's borrowing by 1984. In part, the strength of the US dollar during the early 1980s ensured a steady demand for dollars amongst NIB's customers. Partially in acknowledgement of this demand, NIB borrowed money on the New York Stock Exchange for the first time in 1984, participating in what had become possibly the most desirable market for highly rated borrowers since the elimination of restrictions on foreign security sales in the United States in the mid-1970s.[274] Although the USD 100 million bond itself was not extraordinary amongst the Bank's long-term lending, it marked NIB's first foray into the "Yankee-bond" market.[275]

With so many US dollars and other currencies on its books, NIB turned to a new derivative instrument: the currency swap. In agreement with another counterparty, primarily Nordic banks, NIB would exchange their cash for other currencies, especially Norwegian and Swedish kroner. Such swaps both obtained currencies desired by NIB customers and managed risk in the event of volatile exchange rates. NIB's first swap agreement in 1980, where USD 16.6 million were used to raise NOK 81 million, made the Bank one of the first international borrowers to make a currency swap. The swaps only expanded from there. By 1990, 12.3% of NIB's lending took place in Swedish kronor, but only 2.9% of that money came from NIB's direct borrowing. The rest was obtained through swaps.[276]

The strong liquidity of the Bank and its burgeoning reserves produced the first paid dividends in its history in 1985. These dividends, set at 6.0% of profits, amounted to 6 million SDR in 1985. The dividends were paid out based on authorised capital, meaning that Sweden received the highest payment while Iceland's return was much smaller. Importantly, the dividends indicated the strong position of NIB in the mid-1980s and the positive projections for its future stability. This financial security served the Bank well as it expanded its activities into new forms of lending.

Looking Local – The Regional Lending Programme

Funding the Peripheries

At NIB's founding, a significant distinction between the new bank and the European Investment Bank, its larger and older sister bank, was the latter's focus on projects in underdeveloped areas of the European Community, particularly southern Italy and Sicily. Conversely, NIB's founders directed the Bank's lending towards pan-Nordic projects that satisfied a malleable "Nordic interest." Yet the early NIB was not immune to calls that it should emulate EIB's sub-regional development lending, particularly when it came to the far north of the Nordic countries, the North Calotte [*Nordkalotten*].

By the 1970s, about a million people lived in the North Calotte, spread across three countries and home to minority groups like the indigenous Sami.[277] Increasingly, traditional economic activity, particularly the extraction and export of raw materials through mining and forestry, was being challenged by economic contraction, structural changes, and international competition from developing countries. Social unrest also loomed with the blossoming indigenous rights movement. Unrest gradually turned to conflict, with the most notable battle taking place over the construction of a hydroelectric dam in Alta, Norway

WIKIMEDIA COMMONS

A desire to industrially develop the North Calotte region would be the original impetus for NIB's regional lending programme.

during the late 1970s and early 1980s, as Sami activists protested the Norwegian state's infrastructure plans in the heartland of the Sami people.

Amidst this controversy, concern, and uncertainty, the North Calotte sat high amongst the priorities of Nordic common institutions. This included a conference in Alta in August 1978 to discuss Nordic cooperation in the North Calotte, where Pirkko Työläjärvi, Finland's minister of social affairs and health, acknowledged that:

> You can rightly say that the North Calotte area is the Nordic countries in miniature. Here we find all the problems that occupy the Nordic governments, the Nordic Council of Ministers, and the Nordic Council; the employment situation, industrialisation improved by the level of service, together with the rise of cultural cooperation. Compared with the rest of Nordic cooperation, cooperation in the North Calotte is also characterised by the local natural conditions and the living environment.[278]

The North Calotte was not alone in facing rising challenges. Despite a slowing process of urbanisation in the 1970s, undercurrents of emigration continued to sweep people from areas of lower living standards and limited outlooks to more industrialised and urbanised areas.[279] These common problems naturally invoked a search for collective solutions.

A potential solution emerged in 1974, when a dedicated regional fund was proposed at the Nordic Council. The fund would provide money for projects in the North Calotte, ensuring the employment and development of a region spanning three Nordic countries. However, as attention shifted towards plans for a Nordic Investment Bank in 1975, similar questions arose about whether this new institution would follow EIB's precedent by addressing the plight of these troubled regions.

As seen in Chapter 1, discussions around the proposed bank's involvement in regional development programmes proved a source of contention during the extraordinary session in 1975. While Kåre Willoch had railed against the proposal's lack of provisions for regional lending, the Bank's Finnish and Swedish backers had hoped that the new bank would help stem the tide of workers leaving Finland's western region for work in Sweden. It should be capital, the Finnish Centre Party would later claim, that moved between the Nordic countries, not people.[280] Denmark, meanwhile, was concerned with the status of Greenland and the Faroe Islands.[281] While the Faroe Islands had been self-governing in terms of their domestic affairs since 1948, Greenland was designated a Danish municipality, resulting in a campaign to rapidly modernise the island.

NIB and the Volvo Agreement

Regardless of interest throughout the Nordic countries in regional lending, NIB's original instructions appeared to circumscribe the Bank's ability to finance regional projects. Despite the flexibility of the "Nordic interest" concept, it was generally understood to mean that two or more Nordic countries benefited from an NIB-financed project. Developing local regions did not seem to qualify.

Nonetheless, the fate of peripheral regions remained a significant concern for Nordic politicians. Discussions of a regional fund were renewed in 1977, when the Nordic Council of Ministers assigned the Nordic Civil Service Committee for Regional Development to study the question. Instead of a new fund, the committee suggested using the newly established NIB. The main issue, the committee reasoned, was that ongoing structural changes were economically hollowing out areas previously defined by their primary industries, such as farming, leading to depopulation. Lacking employment or even the prospect of employment, residents were moving to other Nordic countries or even further abroad. The threat was therefore not just local but Nordic: emigration could unsettle national labour markets and eventually provoke a revision of the agreement that had allowed citizens to seek employment and residence throughout the region since 1954.[282]

Once again, the North Calotte remained the focal point. In the 1978 Nordic Council session, amidst debate about NIB's Gothenburg harbour loan, Kåre Willoch vaguely referred to broad disappointment that the Bank had not engaged in regional development activities, since its hastily written statutes did not allow it.[283] Other politicians shared Willoch's interest in regional loans, if not his vehemence to the Bank. This included local politicians, who reportedly expected NIB to play a direct role in funding their industries. Meanwhile, Martti Miettunen, a former

IMAGEBROKER / LEHTIKUVA

Pehr Gyllenhammar, the president of Volvo, would prove an early partner of NIB.

prime minister of Finland, framed the North Calotte as a special challenge for NIB.[284]

The problem ran even deeper for Norwegian Prime Minister Odvar Nordli. Nordli worried about the potential difficulties in extracting oil and gas resources from northern Norway, which risked concentrating profits in a single large business. Cooperation with other Nordic countries could help mitigate such risks while maintaining a commitment to Nordic balance.

Nordli took steps in this direction on the 8th of December 1978 when he met with Pehr G. Gyllenhammar, president of the Swedish car company Volvo, at the Hotel Scandinavia in Oslo to sign what would become known as "the Volvo Agreement". In exchange for 40% ownership of Volvo, the Norwegian government granted Volvo concessions in the oil-rich North Sea. The deal promised to rewrite the Nordic economic landscape: Volvo, a highly regarded international brand, would

become a joint-Nordic institution while oil extraction would herald in a new epoch of Nordic unity. Fronting the deal was Gyllenhammar, an eccentric businessman with a soft spot for Nordic cooperation and dreams of political office. The agreement would have proved a significant development for the Bank, making both Volvo and oil extraction pan-Nordic activities that the Bank could fund directly. Accordingly, Lindström lent his support to the agreement. However, the agreement lasted a mere month, as Volvo's Swedish shareholders rejected the arrangement at a meeting in January 1979. The collapse of the Volvo Agreement was a bitter pill for Gyllenhammar, but also for the Nordic Investment Bank's leadership, who were severely disappointed by the missed opportunity.[285]

HERBJØRN SKOGSTAD

With the Volvo Agreement lying torn up on the ground, Norwegian prime minister Odvar Nordli, leaning on a barrel of Norwegian oil, asks Swedish prime minister Thorbjörn Fälldin, "What do you want for half of ABBA?" Herbjørn Skogstad, published in *Dagningen* (Lillehammer), February 21, 1980

The Regional Lending Facility

Even with this failure of the Volvo Agreement, NIB's Board of Directors pushed for greater involvement in the north. The Bank had already started taking steps in that direction, financing the Nordkalott-Centre in Luleå, Sweden with the idea of driving "tourist traffic to the northernmost areas of Sweden, Finland and Norway".[286] As the Board saw it, the issues that faced the North Calotte were "largely the same ones that existed around the development of a regional policy programme, which puts other regions – for example parts of East Finland, the Faroe Islands, etc. – on the same footing with the North Calotte". In order to stop the drain, NIB proposed two options: to directly finance large projects or provide loans to certain national credit institutions – which institutions would receive such loans was considered a political question and left to the national governments – for financing and refinancing smaller businesses. From a technical standpoint, the Bank highlighted industry, mining, communication and tourism as sectors where increased investment might help slacken the population drain. However, for NIB to act, a redefinition of "Nordic interest" was required.[287]

Upon agreeing that NIB should intervene in regional development, the Board turned to the Nordic Council to see whether the proposal would find traction.[288] A proposed action plan for co-operation around regional politics had been placed on the docket in 1979 in hopes of "working towards a regionally balanced development in the Nordic countries". This new agenda included establishing joint services and pilot projects in high priority areas and border regions, while also ensuring that the Nordic peripheries – not least Greenland and Iceland – were better integrated into Nordic cooperation.[289]

The proposal turned out to be well-received by many Nordic Council parliamentarians. Ilkka-Christian Björklund, who had previously opposed the Bank's creation, described the satisfaction of having the troubles of Finland's eastern region finally recognised and addressed with pan-Nordic solutions.[290] Others spoke of the importance of the Bank's assistance to the North Calotte, and its possibility as an area for future cooperation.[291] More expansively, Gro Harlem Brundtland, Norwegian environmental minister and future prime minister, pointed out that the Nordic countries were seen internationally as leaders in regional politics, which justified the ongoing development of these policies.[292]

The programme eventually met resistance from Danish conservatives like Poul Schlüter, who argued that a regional loan facility would go against NIB's mission of inter-Nordic activities. His conservative comrade, Willoch, conversely gave the programme his blessing, albeit grudgingly. According to Willoch, a regional lending facility:

> … means in short that the Nordic states are invited to loan foreign money through the Investment Bank rather than loaning it directly on international capital markets. As a rule, the Investment Bank here will simply be a superfluous and expensive intermediary. But exceptions could be imagined, and a trial with government loans through the Investment Bank is unlikely to do any significant damage. We therefore do not find a need to vote against the arrangement as a trial.[293]

With Willoch's rather backhanded approval, the Nordic Council approved a Nordic regional political cooperation programme with a vote of 63 to 5.[294]

The proposal was subsequently endorsed by the Nordic Council of Ministers for a two-year trial beginning in April 1980. Accordingly, regional loans were not to occupy more than 5% of the Bank's total lending capacity and amounts were divided up by country: a maximum of USD 23 million to Finland, USD 13 million to Iceland, and USD 10 million each to Sweden, Denmark, and Norway. Besides the usual application of banking principles for assessing potential loans, decisions about what kind of projects could be funded would be made in connection with NCM-prescribed national credit institutions, who would receive and disburse the loans.

The approval of the trial coincided with a momentous decision taken by the Norwegian government to open the area north of the 62nd parallel, the upper limits of the North Sea, to oil and gas exploration and drilling. Discussions of petroleum operations had been ongoing in the Norwegian Storting for almost ten years, in part driven by social-political concerns about depopulation and economic challenges in the North Calotte.[295]

The new opportunities brought with them fresh dreams of Nordic economic unity. In the year after the regional loan programme was approved, Pehr Gyllenhammar fronted an effort to support industries in areas with natural energy resources, primarily oil and gas. Pipelines and other large infrastructure projects were needed in the North Calotte, Gyllenhammar reasoned, to ensure that discoveries benefited the entire region. Gyllenhammar therefore proposed a new fund, dubbed the Nordic Foundation for Industrial Development, to be headquartered in Trondheim with financing from the Nordic Investment Bank. Besides being valuable for the North Calotte and the Nordic region, Gyllenhammar argued that a fund would be in the interest of NIB, which "has both resources and ideas, but lacks enough concrete projects to invest in".[296]

Bert Lindström publicly endorsed Gyllenhammar's plan, calling for further efforts at economic and energy cooperation in the North Calotte.[297] Lindström brought the issue of the Nordic Foundation to the NIB Board of Directors, while independently cooperating with Gyllenhammar and the Norwegian and Finnish governments to arrange a proposal to the

Nordic Council.[298]

A commission with representatives from Norway, Sweden, Finland, Denmark, and the Nordic Investment Bank was eventually formed to investigate possibilities for industrial cooperation. The committee's report was submitted on November 26, 1981, about a month-and-a-half after Willoch was named Norwegian Prime Minister. Perhaps reflecting this new situation but citing issues with Norwegian law, the report rejected the creation of Gyllenhammar's Nordic Foundation and instead supported infrastructure projects like pipelines for moving gas from Norway to Sweden and Finland. Such projects, the committee believed, would lead to the creation of 11,000 new jobs in the North Calotte and usher in "a gas age in the north".[299]

For the next two years, NIB capitalised on this regional lending facility. The first loans in 1980 went to the North Calotte through the Norrland Regional Development Fund in Sweden and the state-owned Finnish Regional Development Fund (KERA). Both loans were intended to help fund small and medium businesses in the countries' northern regions, while three separate loans to Iceland targeted development and industrialisation on the island. Subsequent financing to institutions in Norway and the Faroe Islands, which received the full amount of Denmark's allotment, meant that the full limit of the regional lending facility was reached by 1982. A second trial period was approved for 1985-1986 and finally a permanent facility was established in 1988.[300]

Starting with the second trial, Greenland entered the Bank's operational horizons, following the country's departure from the European Community and, consequently, EIB coverage. The demand for regional loans to the areas outside the North Calotte – namely Iceland and the Faroe Islands – resulted in an even larger appropriation of loans to the "West Nordic region", equalling 40% of the total regional loan capacity.[301] On the Faroe Islands, these new loans targeted improvements to fishing and shipping technology, thereby reducing the country's burgeoning international debt.[302]

After February 1989, loans to the Faroe Islands and Greenland went through NIB's newly established Copenhagen offices, the first NIB hub outside of Helsinki. Located on Amaliegade 6 near the Danish royal palace and operated by a small staff, the Copenhagen offices were intended to diversify the Bank's investment activities in Denmark, where substantial funds had been placed in a few major energy projects, as well as popularise the Bank, which still struggled for recognition amongst the Danes compared to EIB.[303] The success of these regional loans was noted by the Nordic Council of Ministers when it recommended the lending facility be made permanent in 1988.

While NIB had been established to benefit from, rather than build, a "Nordic" identity, the foray into regional loans revealed concerns that all was not right within the region. The profitability of being "Nordic" did not extend into the vulnerable peripheries, which struggled with the same depopulation and economic contraction as other raw material exporting regions in Europe. Yet, despite its original focus, the regional lending facility never became the feeder tube for northern industry that was imagined in 1979. The North Calotte received relatively few regional loans outside of Finland, in large part due to the availability of cheap money after the expansion of oil and gas extraction that made NIB's long-term loans less important. Instead, NIB targeted tourism, communications/transportation, and energy projects in the North Calotte directly through its normal lending. With the North Calotte tightly connected by proximity and history, and other lending sources available, thereby allowing NIB to play a complementary financing role, it was relatively easy to justify the "Nordic interest" of such projects.

Conversely, the impact in the West Nordic region was far more significant. To ensure that loans would continue to be placed where they

were most impactful, the permanent facility did away with the regional quotas.[304] Iceland thereafter became the major recipient of regional loans throughout the 1990s, with Finland and Åland also receiving significant financing. The regional financing facility would continue into the new millennium, albeit with diminishing importance compared to other NIB lending.[305]

Exporting the Nordic Interest

At the same time as NIB focused on inward development with its regional lending facility, it also expanded outwards across the globe. Increasing prosperity amongst the developing countries was a potential boon to international companies, opening new markets to trade and investment. As Lise Østergaard, Anker Jørgensen's well-travelled minister responsible for development affairs, proclaimed to the Danish parliament in April 1978: "economic development in the Third World is a general incitement for economic growth worldwide, and it will also benefit our countries economically in the long term".[306] As a consequence, the Nordic states vigorously supported projects aimed at increasing growth and living standards amongst developing countries, with Sweden, together with the Netherlands, becoming the first country in the world to meet the UN's benchmark that developed countries devote 0.7% of their GNP to development assistance in 1975. Enthusiasm over mixed financing, employing both state-based aid programmes and private investment, carried into efforts to pool the Nordic countries' international aid.[307] Such discussions opened a window for the Nordic Investment Bank to facilitate projects in both private and public sectors.

A prominent target for Nordic aid was Tanzania. The East African country was selected in 1961 as an ideal beneficiary by a Nordic working group set up to explore development cooperation, which cited Tanzania's exceptional need for international support and its political stability under charismatic president Julius Nyerere.[308] Nyerere, whose socialist roots made him well-known amongst prominent Nordic politicians like Olof Palme, promised that his country would be a model of "African socialism", existing between the extremes of capitalism and communism. The promise of a "middle way", a popular phrase amongst newly independent countries emerging into a bifurcated Cold War landscape, recalled widespread images of Sweden, and Scandinavia more broadly, as pragmatic societies combining the ideals of East and West.[309]

Between Nyerere's favourable image and the rapid launch of state education and energy infrastructure projects, Nordic aid quickly proliferated, coming to account for twenty-five percent of all international aid to Tanzania by the early 1980s. The "special aid relationship" continued even as Nyerere's government moved in an increasingly authoritarian direction, exemplified in the forceable and sometimes violent relocation of the country's peasant population to collective villages.[310]

Given the special place of Tanzania for Nordic development cooperation, it is of little surprise that a project there was the first recipient of NIB export credits. That NIB should participate in such international activities had not been a given at the Bank's creation. During the Nordic Council meeting in early 1976 in Copenhagen, the Norwegian contingent had argued that the Bank's business, and thus money, should remain confined to the Nordic region and thereby contribute to its self-sufficiency. On the other hand, the Finnish members, led by now-Foreign Minister Kalevi Sorsa, argued for a wider purview, with the Bank funding joint-Nordic projects in so-called "third countries". Norwegian critics dismissed the idea as part of a 'Sorsa plan' for joint investment in the North Calotte with the Soviet Union in the hopes of making it an atomic-free zone. Such a focus would force the Bank to wade into


NIB

Peter Laurson, who assisted in organising the Nordic Investment Bank, would also be one of the Bank's first employees and prove essential in setting up NIB's international lending.

Eastern Europe's credit problems, these critics warned. In the end, Pentti Uusivirta's organising committee settled on a compromise: the Nordic Investment Bank would operate "with a view to the implementation of investment projects and export of a shared Nordic interest".[311]

The compromise was vague about what constituted an export that was of Nordic interest, and debates surfaced in NIB around the role of export credits. Eventually, the Bank was authorised to provide financing for third country projects involving deliveries from at least two Nordic countries, either in consortium or through subcontracting. While this third country could theoretically be within the Nordic region, in practice, it was recipients outside of the region who were serviced through lines of credit or the refinancing of credit institutions.[312]

However, not all of NIB's early leadership were convinced that such activities were worth the effort. In response to suggestions that NIB should limit its export credits so as not to harm its image as an "investment bank" – as opposed to a national export credit institution with a greater tolerance for risk – Peter Laurson, NIB's head of export credits, urged in a 1977 memorandum that the Bank's leadership should not treat export financing as an afterthought. While acknowledging that investment loans were closer to the original description of NIB's duties, Laurson argued that, given the slow lending environment in the region, export credits should be placed on equal footing with investment lending.[313]

An important step was taken in this direction in 1978, when Laurson met with officials from Sweden's development assistance agency, SIDA (*Styrelsen för internationellt utvecklingssamarbete*). Discussions had been held between government agencies in Finland and Sweden on improving the capacity of the Nordic states to offer mixed financing for major projects in the developing world. They agreed that Nordic companies' ability and capacity to supply such projects had to be improved, thereby providing an opening for NIB. The Bank would administer a new "competitive bidding" system, wherein a receiving country would set aside part of its project financing for deliveries from Nordic companies, which would bid on the contract. Interest rates and loan conditions depended on the terms set by the cooperating export institution in the winning bidder's country. NIB's presence would prove a vital lynchpin: rather than a potentially problematic arrangement of national bidding, NIB, as a new, international institution could offer a more desirable regional procurement. The system turned the Nordics into a single contracting region, in the process building Nordic companies' ability to compete for contracts in major international projects.[314]

To launch this "Nordic competitive bidding" arrangement, SIDA proposed NIB participate in a planned pulp and paper factory in Mufindi, Tanzania. Located in south-central Tanzania, the factory was to be built near suitable tree plantations and supply Tanzania's paper needs. In a report recommending the Mufindi project, World Bank president Robert McNamara noted that Tanzania's dependency on foreign paper imports left it vulnerable to cyclical fluctuations in the price of paper. The plan put together by the principal funders – amongst them the World Bank, SIDA, and the Tanzanian government – would produce ample paper to cover Tanzanian usage. Too much paper. Tanzania would have to rely on exports to surrounding African countries to ensure the Mufindi plant was profitable.

NIB's contribution to the project was set at USD 20 million and targeted at the procurement of a recovery boiler, one of the largest pieces of equipment in the factory. To do so, NIB administered its first competitive bidding process, which was won by Tampella Oy, a Finnish company, in a contract worth up to USD 17 million. The remaining sum was granted to Tanzania for purchase of additional equipment through Nordic competitive bidding.[315]

NIB ANNUAL REPORT 1978

The Mufindi Pulp and Paper would prove a high-profile but difficult introduction to export credits.

The project seemed to satisfy the requirements around a Nordic interest: the procurement boosted Nordic economic activity, while the project itself relied on Swedish and Finnish companies as forestry advisors and factory engineers respectively. Moreover, involvement in such a big project benefited the Bank. As one leading Finnish banker observed, "The Nordic countries as a group are very welcome as bidders for work abroad, especially, for political reasons, in the younger countries. So this should help the Nordic Investment Bank to acquire an image."[316] Even with the Bank cautious about unnecessary and unwanted overlaps with national export institutions, Svend Kræmer could boldly declare in 1978 that, "Generally speaking, it is part of the Nordic Investment Bank's role to participate in financing projects of Nordic interest in third countries."[317]

NIB followed up Mufindi with other commitments to export credits, but much of this financing was never paid out. Ultimately, the financing packages NIB was tasked with coordinating proved too large and complicated. The fate of the Mufindi project may also have served as a cautionary tale. A 1986 internal review of "problem loans" noted that, while the Mufindi factory had been operational since December 1984, it was plagued by technical problems like poor-quality coal and subpar transportation infrastructure that were undermining its profitability. Moreover, Tanzania's economic policy, even under the "less ideological" presidency of Ali Hassan Mwinyi, had brought it into conflict with the IMF and undermined the country's creditworthiness. NIB had been forced to freeze its payments to Tampella on September 1, 1984 when the Nordic export banks had halted credits to Tanzania. Tanzania's outstanding debt to NIB remained unpaid, despite Lindström's making a personal visit and appeal to the country, until it was finally settled by development assistance from Finland.[318]

As Peter Laurson later surmised, "Export credits were a good idea that never worked." Consequently, NIB's export credit lending never

came to rival its other loan activities, and a 1978 cap on export credit activities intended to keep them below 10% of NIB's authorised capital proved unnecessary and rather optimistic.[319]

NIB Goes International – Project Investment Loans

The export credit packages, despite their difficulties, were only the first foray into international lending. By the end of the decade, a new NIB lending facility was introduced: the Project Investment Loan (PIL). The PIL would prove to be far more enduring and significant than NIB's export credits, turning the Bank into an institution with a global purview.

On 31 March 1979, the NCM appointed an investigatory committee consisting of Nordic government representatives and business interests, "to further investigate the problems regarding financing and risk-taking that may arise in cooperation between Nordic companies in connection with project exports and to come up with proposals for solutions". Two sub-committees led the investigations, one of which was a finance committee chaired by Bert Lindström, with Laurson as secretary and Lars Ekengren, in charge of NIB's export loans, also involved.[320] Lindström, with his background in the United Nations Development Programme, was sympathetic to Laurson's goal of building NIB's capacity to finance projects in developing countries. Lindström viewed China as a particularly valuable opportunity for Nordic businesses to access a market very likely to grow in importance.[321]

The obstacle for such endeavours was that NIB's export credits were too complex while lacking other advantages. "Since NIB does not subsidise its own interest rate and does not have direct access to the member countries' export credit subsidies, NIB cannot provide a more favourable export credit than the national credit institution of the exporting country in question", a memorandum shared with the Board of Directors in June 1979 explained. While national export credit institutions were subsidised and therefore could afford to take risks by lending to developing countries at below market rates, NIB was desperate to avoid endangering its prospective triple-A rating by taking such risks.[322]

Yet there remained a need for long-term loans at fixed interest rates for projects in developing countries that could make use of Nordic suppliers, especially if it would grant the Nordic countries more control over project preparation than they could expect from multilateral institutions like the World Bank. As the memorandum surmised, "For this reason, there is a need for a complementary type of financing – here called project investment loans – which can, amongst other things, function as a support for Nordic companies' endeavours in international competition for the growing project export market."[323]

The brainchild of Laurson, the project investment loans would support projects where a "Nordic interest" was at stake, for example in cases where Nordic suppliers, ownership, or even development aid was involved. The memorandum fell back on an expansive interpretation of "Nordic interest" to ground such activities, which were otherwise absent in NIB's bylaws. Luckily for the PIL's proponents, EIB once again offered a model. While most of EIB's activities involved projects in their member countries, the bank had received additional responsibilities in the 1975 Lomé Convention and its subsequent amendment. Drafted upon the accession of Denmark, Ireland, and the United Kingdom, the last of which maintained an expansive global commonwealth, the Lóme Convention granted EIB the ability to offer loans to profitable projects like mining, agrifood, and tourism in African, Caribbean, or Pacific countries. This foreign lending, valuable for Europe's geopolitical goals, was backed

by special guarantees that preserved EIB's creditworthiness. Such guarantees would be "an important prerequisite" for a Nordic programme, according to the June 1979 memorandum, which suggested the creation of a "Nordic Guarantee Fund" that would guarantee loans to foreign investment projects of a "Nordic interest".[324]

These suggestions formed the basis of a Nordic Council of Ministers report on Nordic cooperation in project export, published in spring the following year. Distinguishing more expansive project exports from the traditional export of single components, the report argued that rising costs necessitated that Nordic companies work together if they hoped to compete for contracts on major international projects. The Project Investment Loan programme was a centrepiece of the report's recommendations. PIL loans would go to developing and state-trading countries, the latter referring to countries such as China where the government completely controlled imports and exports. The interest rate on these loans would be better than these countries could obtain on international borrowing markets and offer longer maturities than national export credit institutions. The companies or state actors receiving such loans would still have to qualify under NIB's normal lending requirements and projects would have to satisfy a Nordic interest, for example by promoting industrial cooperation between Nordic companies. Meanwhile, credit risks would be transferred to the Nordic states, rather than the Bank, through direct guarantees, which were deemed preferable and less costly than the proposed guarantee fund.

In addition, the NCM report recommended the creation of a Nordic Project Fund (NOPEF) that would help the international competitiveness of Nordic companies by financing feasibility and preparatory studies into projects of interest to two or more Nordic countries. The proposed fund would be based in Helsinki and associated with NIB, albeit with its own board of directors and leadership.[325]

Despite the PIL programme meeting some resistance during a consultation round with Nordic industrial interests, including from the national credit institutions who – in an apparent misunderstanding of the proposal – bemoaned that NIB would create competition by extending loans below market conditions,[326] the project export recommendations received enough support to be referred to the 1981 session of the Nordic Council for consideration.

Proceedings at the Nordic Council followed a familiar pattern. The PIL proved the most controversial part of the NCM's recommendations. NIB's proposed loan facility was targeted by a conservative opposition led by Ib Stetter and Kåre Willoch, who noted that foreign lending marked a radical shift for NIB from the Bank's original purpose. Other complaints were additionally lobbed at the PIL programme: the guarantees were too high, projects would compromise national foreign policy objectives by supporting eastern European communist governments, and the proposal was unfinished, meaning that Nordic Council members were expected to "vote yes without really knowing what it was that they were saying yes to". In response, Lise Østergaard, now chairman of the NCM, turned to a timeworn yet still effective counterattack: accusing Stetter of opposing the proposal due to his original dislike of the Bank. Ultimately, the NCM's recommendation passed 56 to 1, with Stetter, Willoch, Håkon Kyllingmark, and eight other conservative politicians choosing to abstain.[327]

Before the project investment loans could be granted, a required revision of NIB's statutes had to be approved by the respective Nordic parliaments, and the Norwegian Stortinget had to drop restrictions that forbade NIB to lend outside the Nordic region.[328] With these measures in place, the PIL programme formally began on July 1, 1982. Through PIL loans, NIB could directly invest in foreign projects or guarantee the loans of other financial institutions to projects abroad, with arrangements made through state intermediaries in the receiving country. The PIL loans were earmarked to finance deliveries of project components from Nordic companies, as well as promote other forms of a "Nordic interest" such as "long-term cooperation on raw material extraction, production and marketing, the development and application of technology, continuous deliveries to or from the Nordic countries, or joint-ventures in the borrower's country".[329]

The new programme originally had a cap of 350 million SDR, around 25% of NIB lending at the time. While still constituting a secondary aspect of the Bank's activities compared to its Nordic lending, this ratio was substantially higher than the 10% EIB dedicated to foreign lending.[330] On the other hand, NIB's PIL loans carried a 90% guarantee and the Bank a 10% deductible, reduced from the 100% proposed in the NCM report and based on EIB lending. These guarantees would help make up the shortfall if a PIL loan was not serviced.

While borrowers would have to meet certain criteria for national stability and project profitability, thus ruling out some of the lowest-income or more politically turbulent countries, the Nordic Council meeting had demonstrated concern about losses that Nordic governments might incur as a result of NIB's overseas investments. Such losses were most likely in the event of sovereign debt consolidations, in which case interest payments owed by national governments to investors were postponed and eventually repaid under the normal lending rate. It therefore became critical for NIB's operations to be recognised as an IFI on par with the World Bank or EIB. Recognition as an international institution would infer preferred creditor status upon the Bank, meaning that it would be excluded from debt consolidation and have its debt serviced first.

A major step in receiving preferential treatment was to demonstrate the Bank's compatibility and cooperation with other such institutions.

NORDISKA INVESTERINGSBANKEN OCH DESS VERKSAMHET 1976–1985

As part of its move into international lending, NIB signed a memorandum of understanding with the World Bank.

Consequently, upon the launch of the PIL programme in 1982, NIB signed a memorandum of understanding with the World Bank that established parameters for joint financing of foreign projects. Similar memoranda followed with other IFIs and, by 1985, five of its nine PIL loans were co-financed with multilateral and international institutions. As Jannik Lindbæk, NIB's second president, would later note, it was through the careful selection of cooperation partners and recipient countries that NIB's preferred creditor status was "given real meaning". By demonstrating that they were accepted as a legitimate collaborator and were responsible in their lending, NIB raised its legitimacy as a lender on par with larger regional and international development banks. The payoff came in 1985, when NIB was invited for the first time to an annual meeting of the heads of IFIs, "an acknowledgement of NIB's status and role in the financing of projects in developing countries".[331]

The PIL programme turned out to be immensely popular. By 1989, loan commitments, agreements, and outstanding loans reached 700 million SDR, the cap having been doubled in 1986 to meet demand. As anticipated in the formulative stages, energy and industry projects, large and costly endeavours that involved many contracted elements, received

most of the initial PIL loans. In this vein, the first PIL agreement was made with the Botswana Power Corporation for a coal-fired power station. The Botswana loan was co-financed with the European Investment Bank and World Bank, as well as a slate of commercial banks, and included delivery of boiler components from a Danish company and additional orders from a Swedish company. Subsequent loans included a telecommunications project in Botswana, co-financed with the African Development Bank, as well as a hydroelectric power station in Peru, co-financed with the Inter-American Development Bank. NIB had little trouble locating potential investment opportunities. Indeed, commitments vastly exceeded granted loans, since many projects were eventually implemented "without the requisite Nordic interest", and thus did not receive NIB financing.[332]

To handle its expanding portfolio, NIB altered its recruitment strategy, which had, to that point, focused on individuals working in industrial, financial, and political organisations in the Nordic countries. Instead, to help NIB penetrate foreign markets, the Bank recruited specialists from senior roles in the World Bank and regional development banks who came with preexisting political and economic contacts outside the Nordic region. Signalling an interest in China and Asia more generally, the first senior vice president with a special regional responsibility, Zia H. Noorzoy, was recruited from a directorship in the Asian Development Bank.[333]

NIB launched its lending to China in 1985 with a SDR 2 million loan to the Agricultural Bank of China for financing a dairy project. The following year, NIB arranged a seminar on development banking in Fuzhou, China, together with the newly established NOPEF. A few months after the seminar, Lindbæk told a reporter that PIL loans not only benefitted the Nordic companies who supplied the project, but also contributed to economic processes in China, seemingly referring to the liberalising reforms under Deng Xiaoping.[334]

Lending to China nonetheless remained limited until the 1990s, when blended finance – which included development aid and lending below market rate – became increasingly difficult to attain for the country in the wake of a global recession and the end of the Cold War.[335] Subsequently, seven separate lending programmes were agreed upon between NIB and China from 1990 to 2000, ultimately totalling USD 335 million. These programmes were administered by China's Ministry of Foreign Economic Relations and Trade and focused primarily on financing industrial and energy projects of a Nordic interest, usually meaning the involvement of Nordic exporters, but also including joint ventures with Nordic equity participation or license agreements with Nordic companies. Taken as a whole, these Chinese PIL loans were intended to "result in a reasonable distribution among the Nordic countries", a reminder that the Nordic interest consistently remained in

NIB ANNUAL REPORT 1984

China was a major target for NIB's international lending under Bert Lindström. NIB welcomes a Chinese delegation to Helsinki to discuss PIL loans in September 1984.

balance with a *national* interest.[336] The period between 1992 and 1994 proved particularly fertile, with twelve separate loans to China, constituting 40% of all of NIB's international loans by 1994. China would remain the single biggest recipient of PIL loans throughout the 1990s.

After China, India was the primary target of PIL lending. In June 1986, the Nordic Investment Bank applied to participate as observers at a major consortium on India arranged by the World Bank and attended by international organisations like the IMF, UNDP, Asian Development Programme, and the EEC. In return for an invitation to such a high-profile event, the World Bank required NIB to make a mandatory pledge of funding to Indian projects. The undertone of uncertainty that NIB would be able or willing to make such a commitment signalled that NIB's international profile was far from established. Yet NIB returned with a pledge of USD 100 million to projects in India's industrial sector. India was, after all, as Zia H. Noorzoy explained at the subsequent meeting, "a priority country for the Bank".[337]

The actual investments within India over the next couple of years was somewhat less than the pledge. In 1987, the Bank established a USD 30 million programme with the Industrial Development Bank of India to finance projects with Nordic deliveries like: "a cement factory with primarily Danish interests, a factory for the production of special fibre boards with deliveries of equipment from Sweden, as well as a fertiliser plant with deliveries from Finland". The following year, a second loan programme for USD 40 million was established for financing industrial projects with Nordic deliveries, which was utilised over the subsequent two years.[338]

The PIL programme had become NIB's international face by the end of the 1980s, but its effects were felt further than just its lending activities. Starting with NOPEF, the PIL facility served as a model for a collection of smaller institutions designed to finance foreign projects.[339] In

January 1988, a Nordic Council-commissioned series of studies on boosting inter-Nordic development aid culminated with the NCM proposing a Nordic Development Fund (NDF), which used the PIL as a starting point. NDF would provide interest-free credits to low- and low-middle income countries for financing projects of a "Nordic interest". Despite being an independent entity, NDF, which commenced operations in 1989, worked closely with NIB, sharing both an interest and a headquarters.[340] The two institutions would co-finance their first projects together in 1990: a reforestation campaign by the Indonesian government and an environmental investment programme in Mauritius.[341] The PIL facility's success thus ensured that its template was reproduced.

The End of the Pioneer Era

Stability and Turnover at NIB

Throughout its first fifteen years, the Nordic Investment Bank underwent significant structural changes in response to external impetuses and the Bank's own growth. Shuffling within the governance committees commenced almost immediately. Several Board Members, including vice-chairman Lars Blinkenberg, stepped down or were replaced during the first years. Nonetheless, the Bank had significant continuity at the top, as some stalwarts would remain with the Bank throughout its first decade, including Hermod Skånland, Jón Sigurðsson, Pentti Uusivirta, Arne Asper from Norway, Erling Kristiansen from Denmark, and Thorhallur Ásgeirsson from Iceland.[342]

Such stability belied controversy about representation in the Board. In 1980, for example, the Council of Nordic Trade Unions (NFS, *Nordens faglige samorganisasjon*) demanded greater representation in Nordic cooperation, citing the importance of replicating the neo-corporatism of national policymaking in regional industrial issues. NFS, which had called for labour representation when consulted on the 1975 proposal to establish the Bank, noted NIB as a particular institution where the increasingly hard-pressed labour unions should have a voice.[343] However, the NFS's demands had little effect on appointments to NIB's Board of Directors, which continued to go to government officials, bankers, and businessmen.

With its biennial election by the Nordic Council and Nordic Council of Ministers, turnover within the Control Committee was more frequent, yet many committee members participated over several years. In particular, the two Norwegian Control Committee members, Odd Sagør and Håkon Kyllingmark, would continue until 1991 and 1992 respectively, despite both retiring from national politics in the 1980s.[344]

Relatively few of the Bank's officers and staff stuck with the Bank as long, although some early employees were still with the institution in the 1990s and even into the new millennium. New faces were common. From 34 employees in 1980, by 1990 the NIB staff had expanded to 84 people arranged in 11 departments.[345] Reflecting NIB's priorities, the largest department focused on Nordic lending, followed by international lending, finance, and legal. Office life at NIB in the latter-1970s and the 1980s was dominated by the clack of the telex, which carried information about exchange rates, market shifts, and project developments – the lifeblood that supported all the Bank's functions – from around the world.[346]

To manage the Bank's expanding staff and responsibilities, the Bank instituted new governing bodies. In 1979, Bert Lindström received approval for the creation of a Management Committee, in 2012 renamed the Executive Committee, consisting of the Bank's President as chairman and other senior Bank officers as members.[347] This originally four-man committee met regularly to oversee and advise the President on both the Bank's management and questions of policy. The Management Committee was joined the following year by an administrative committee of five Board of Directors members, plus the president, to assist in the everyday internal functioning of the Bank, including promotions, hirings and firings, acquisitions, and special benefits to employees.[348] The necessity of such a committee spoke to the increasing weight of everyday issues as the Bank itself continued to expand.

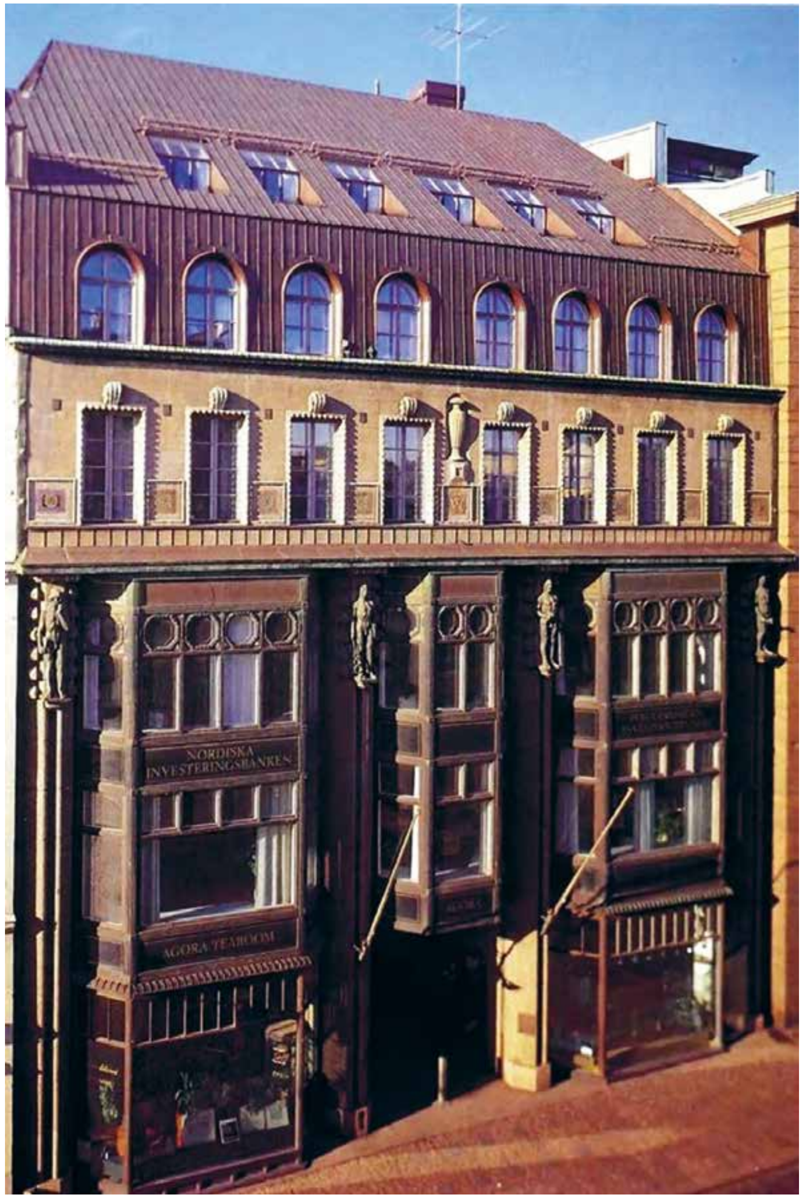
Despite personnel changes, growing responsibilities, and the varying political affiliations of its members, the NIB's governing boards found camaraderie in their work, as did the Bank's staff. Perhaps due to the hard-driving nature of their business, social interactions were important, free-flowing, and sometimes uninhibited. In one instance, a meeting of the Board of Directors on a ship in a Finnish lake resulted in a spontaneous swim by several board members and NIB employees. As Peter Modeen, NIB's Director of Borrowing, recalls, it was fortunate that no accidents occurred given that many of the swimmers had been drinking prior to that impromptu plunge.[349] Alcohol featured regularly in such events during the early years of NIB, often in connection to the extensive international and regional networking participated in by Bank members.

Part of this networking was the cultivation of partnerships with other international financial institutions, especially the larger and more seasoned EIB. Following a visit to Luxembourg in 1977, the Bank closed its first loan in cooperation with EIB in 1978: DKK 200 million for an extension of the Asnæs Power Station in Kalundborg, which, by virtue of being placed on the eastern Danish island of Zealand, was to be part of an energy exchange between Denmark and Sweden. In order to expand the capacity of the plant to burn coal – memories of the energy crisis remained crystal clear – EIB would loan DKK 300 million, bringing the combined contribution of the two multilateral banks to almost a third of the total financing for the power station's expansion.[350] The capacity of such joint ventures was immense.

For the first fifteen years, only a few projects inside the member countries involved collaboration with other IFIs. Aside from Denmark, the Nordic countries were all outside the European Community and hardly qualified as the "developing countries" that the World Bank was pledged to support. Instead, cooperation with these other institutions took place in multilateral consortiums as part of its PIL funding. Moreover, by 1979, NIB had obtained "official observer" status in the Joint Annual Meeting of the World Bank and the IMF – the only Nordic international institution with such a designation – as well as for the African Development Bank, Inter-American Development Bank, and the Asian Development Bank.[351] Observing these meetings not only gave NIB senior management greater clarity on trends in these other global and regional institutions, but laid the groundwork for useful formal and informal partnerships.

NIB's success nonetheless presented new challenges. With a burgeoning staff, increasing responsibilities, and a growing international reputation, the Bank threatened to burst its physical seams. To accommodate their expanding mandate, the early Bank needed more space. The *Hufvudstadsbladet* rooms quickly proved inadequate, and the Bank moved into leased offices at Eteläesplanadi 8 (Södra Esplanaden 8), near the cultural centre of downtown Helsinki. However, when news came that a nearby building was for sale, the Bank's management jumped at the opportunity and approached the Board in March 1977 with the idea of purchasing it.

Unioninkatu 30 (Unionsgatan 30) had been constructed in the 1830s and subsequently modernised by architect Herman Gesellius in 1909 in the Art Nouveau or Jugend style. The style, which had become



NIB

After a nomadic existence during its first half-decade, NIB settled into its new headquarters at Unioninkatu 30 in 1981. The Bank would remain there for over a decade.

influential during Helsinki's expansion at the turn of the century, emphasised mixed materials, varying depths and levels on the facade, and ornamental finishes. Unioninkatu 30 was a prime example of the style, with three columns of granite, glass, and metal supporting more solid granite and metal facades on the upper floors. Entering from Unioninkatu, prospective clients would arrive in a towering interior courtyard with light spilling in from three stories above. The building was owned by a trust established by painter Salomo Wuorio who had housed his wallpaper and carpet shop there and lent it the nickname "Wuorio House", but now it was being sold amidst the global financial recession.

With its prime location and space for subsequent growth, the building seemed an appropriately impressive headquarters for an international bank. However, the move was a big step for the young Bank, not to mention a massive expense. The building would require renovation and offer far too much space for NIB's current size. A deal was proposed with the Finnish government, who would rent the third and fourth floors – NIB would be located on the fifth and sixth – and hand over the offices once it became necessary for the Bank to expand. Moreover, a 1977 memorandum proposed that the Bank also rent out the street-level retail spaces to "Nordic interests" for exhibition and informational activities. This solution would give the building "a Nordic imprint".[352] Even so, the purchase was risky, and the staff had to win over the Board for its approval. They were successful in this, and NIB moved into its new headquarters in 1981.[353]

NIB Enters a New Era

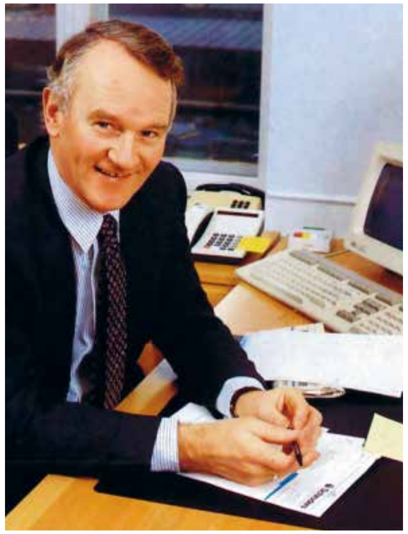
Five years after NIB moved into its headquarters, an even bigger transition took place. Bert Lindström had served as president for ten hectic years. Lindström's extended term was to ensure the Bank's stability

ORDISKA INVESTERINGSBANKEN OCH DESS VERKSAMHET 1976–1985

Jannik Lindbæk (right) brought with him extensive experience from private finance and business when he became NIB's second president.

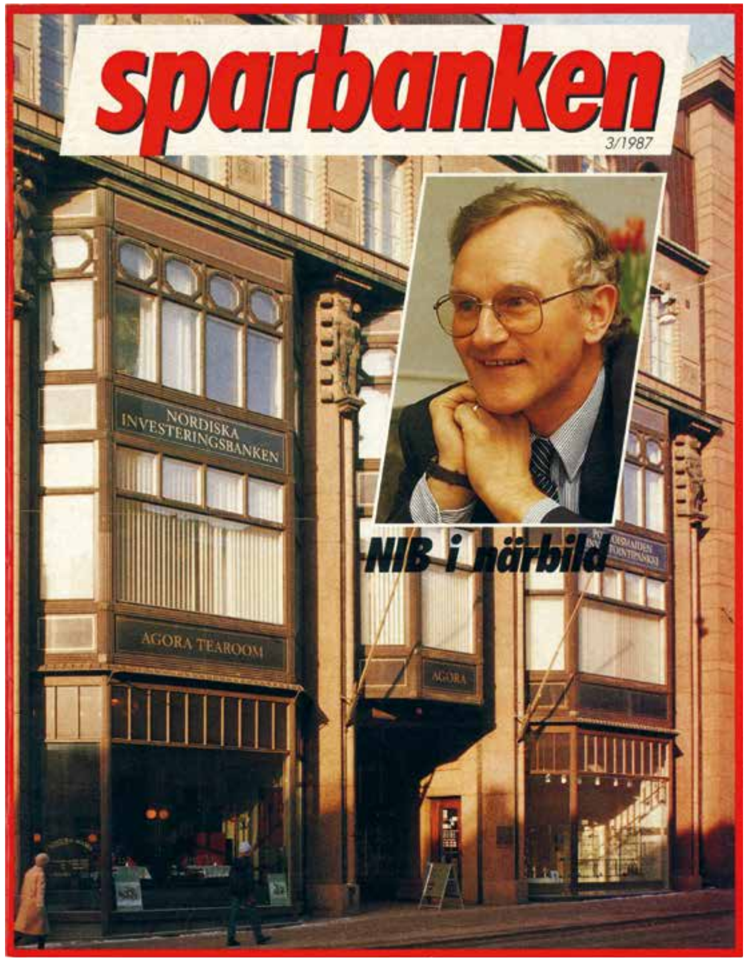
and oversee the transition of power to a new president. The man chosen to succeed the indefatigable Lindström was Jannik Lindbæk, a Norwegian. Compared to Lindström's eccentric resume, Lindbæk had a more conventional background for a Bank president, having spent the previous twenty-five years working in the financial and insurance sectors. Lindbæk was no stranger to running a large organisation, having helped found two major Norwegian financial institutions, Nevi and Custos Finans, and led Storebrand-Norden, Norway's largest insurance company.

Lindbæk inherited a Bank that was no longer a bright-eyed and malleable newcomer, but rather an increasingly established institution in finance and industry. As a cover story in the magazine *Sparbanken* opined on Lindbæk's ascension, Lindström had been "the pioneer who got to *struggle with* all the



NIB

Lindbæk promised to make NIB a "top league" institution.



COVER OF SPARBANKEN 3/1987, NIB ARCHIVE, C12

problems that the newly started bank stumbled upon".[354] However, Lindbæk definitively asserted in his first annual report as president, "NIB's pioneer stage is over."[355] In Lindbæk, the Board of Directors brought in a steady hand on the tiller, a president experienced in the sort of financialisation of international markets increasingly characterising Nordic industrial activity. As Lindbæk explained to the *Sparbanken* reporter using a football analogy, as manager of the Bank his goal was to help NIB move from division one to the top league by strengthening the competencies and size of its staff. Lindbæk thus foresaw a future of continued growth for NIB, if perhaps at a more measured pace.[356]

Even though NIB had left its pioneering stage, work remained to be done. Leading off their profile of NIB, *Sparbanken* noted that, "Despite its growing significance for the development of the Nordic countries' business sector, NIB has remained relatively unknown to most of us."[357] Indeed, a survey commissioned by the Bank in 1986 of Nordic bankers and companies found significant confusion about the Bank, its purpose, and even who owned it. Even in Finland, where the Bank was best known, concerns that the Swedes dominated NIB existed side by side with praise for its role in intensifying Nordic cooperation. A survey conducted amongst NIB's "customers" three years later showed a general satisfaction with the Bank's competency as long-term lenders, with the best-known aspect being the Bank's unique mandate of working for the "Nordic interest".[358] However, to gain greater traction, the Bank needed to grow bigger.

The Bank's expansion since the early 1980s necessitated alterations to its setup, starting with raising its authorised capital in 1987. It was the second time the authorised capital had been doubled, following an increase from SDR 400 million to SDR 800 million in 1984. Now, with SDR 1600 million, NIB could authorise loans up to SDR 4000 million, a substantial expansion from a decade ago and a sign of political trust in the Bank. Indeed, NIB's annual report in 1987 noted the speed by which a bill authorising the increase had passed in the Nordic parliaments, concluding that, "It is gratifying to note the support the Bank enjoys in all 5 Nordic countries."[359]

Much of this increased capacity went into loans in the energy sector. The energy sector had been a stalwart in NIB financing during its first decade and would remain significant throughout Lindbæk's tenure. Financing acquisitions continued to be an important part of the Bank's portfolio, although, in accordance with its nature as a state-owned, low-risk institution, it refused to finance projects of speculative character such as the purchase of shares for profit.[360] Alongside these developments, NIB expanded into funding environmental projects under transforming definitions of a "Nordic interest". These developments are further studied in Chapter 5.

A Decade of Growth and Stability

NIB was growing, internally as well as externally. During its first fifteen years, the Bank underwent significant changes to its leadership and organisation to accommodate an expanding business and international purview. Together with its regional and international activities, these transformations meant that the Nordic Investment Bank that entered 1990 looked and acted significantly different to its earlier iterations.

While NIB continued to fight for recognition, those who knew the Bank tended to speak highly of its work and significance. As Jón Sigurðsson, by that point Iceland's Minister for Industry, Commerce, and Nordic cooperation, announced to the Nordic Council in 1988, "NIB is – without exaggeration – a shining example of the progress of Nordic cooperation."[361]

Yet NIB's role in Nordic cooperation was set to expand further in the coming decade. As geopolitical and geoeconomic landscapes were redrawn in the early 1990s, the Bank would call upon the lessons it had learned and programmes it had launched over the previous decade. The eventual result would be the most profound restructuring of the Bank to date. ●

Chapter 4

New Neighbours, New Futures, 1990–2005

As the Nordic Investment Bank entered the 1990s, its trajectory appeared set. While the Bank continued to fulfil its original vision of financing cross-Nordic industrial projects, it increasingly launched itself into international projects that aimed to improve living conditions and build commercial connections with ever more distant parts of the globe. Uninhibited, the Bank may have continued down such a path for several decades to come. However, a series of shocks and crises closer to home would rock the Nordic Investment Bank and permanently reshape its priorities.

The most profound of these changes came from the east, where decades of limited contact across the Baltic Sea were rapidly upended as new states pried themselves free of Soviet Union control. It started with the convening of the newly elected Supreme Soviet of the Lithuanian Soviet Socialist Republic on March 10, 1990. Following the first free elections in the Lithuanian Soviet's history in February, candidates backed by the pro-democratic Sąjūdis movement were swept into power by a landslide vote, burying the Moscow-backed Communist Party of Lithuania in the process.

The Supreme Soviet worked quickly to realize Sąjūdis' call for immediate independence. By 6:08 p.m. on the following day, March 11, thick drapes were raised in the Soviet's Plenary Chamber to cover the coat of arms of the Lithuanian Soviet Socialist Republic, with a massive tri-colour

ANDRIUS PETRULEVIČIUS

Celebration and solidarity as the tri-colour flag is unfurled in the former Lithuanian Supreme Soviet.

flag unfurled in its place. Four-and-a-half hours later, the resounding results of a vote on Lithuanian independence completed the process. By an overwhelming majority, the representatives ratified the *Act on the Re-establishment of the Independent State of Lithuania*, which pronounced that "The execution of the sovereign powers of the State of Lithuania abolished by foreign forces in 1940, is re-established, and henceforth Lithuania is again an independent state." The Republic of Lithuania was birthed amongst cheers and chanting: "Lithuania is free! Latvia will be free! Estonia will be free!"[362]

Baltic independence and the end of the Cold War initiated a gradual yet fundamental transformation of NIB at a moment when the Bank's future, and the future of Nordic identity more generally, were in question. In the subsequent decade and a half, NIB would reorient itself to a world where geopolitical landscapes were suddenly fluid and barriers – to the European Union, to the Baltics, even across the Atlantic

and in Asia – irrevocably altered. These geopolitical tremors created new demand for NIB financing and expertise, most notably in the recently independent Baltic republics. The Bank's enthusiastic response would ultimately see those new neighbours become NIB's newest members.

NIB's Triple-A Troubles

Dark Days in a Banking Crisis

Before the Nordic Investment Bank could react to the extraordinary situation unfolding across the Baltic Sea, they would have to deal with an economic crisis at home. As seen in Chapter 3, the globalisation and liberalisation of the previous decades had reshaped the Nordic region, promoting corporate conglomeration and opening new international markets. The 1990s witnessed a range of Nordic companies acquire global prominence, including the technology companies Ericsson and Nokia, which became leaders in mobile phone production. As Kari Kairamo, CEO of Nokia, explained in a 1987 roundtable hosted by NIB, "Industry's integration measures make general economic integration and trade integration easier … Nokia's experiences [of corporate acquisitions] have only been positive."[363]

Trade liberalisation and financial market deregulation nonetheless came with risk. Kari Kairamo's aggressive expansion pushed Nokia to the brink of disaster before it finally found success in the 1990s under his successor.[364] More broadly, the high-tax, high-spend Nordic economies were increasingly pressured by easy money on international financial markets and aggressive corporate incursions.[365] According to historian Per Henning Hansen, this was a period of "globalisation, financial markets that never slept, and new as well as old financial actors perpetually hunting the next 'deal.'" It was, Hansen concludes, a "financial jungle".[366] This volatile and aggressive global environment provoked questions about the future of Nordic societies and welfare states, prompting Denmark and Iceland to dramatically slash public spending in the 1980s.[367]

A banking crisis in the early 1990s demonstrated just how vulnerable the new Nordic economies were to global volatility. On the back of deregulation, lending had boomed in the 1980s, both internationally and across the Nordics. However, as unrest grew on international financial markets in the late 1980s, especially after German unification, the Nordic commercial banks found themselves overstretched. In Norway, where the crisis first hit in 1988, a cocktail of surging lending, widespread risk-taking, previously low capitalisation, and the deregulation of the banking sector produced massive losses amongst commercial and savings banks.[368] As the Norwegian banks stuttered, the problems spread east, with Sweden and Finland facing even more severe crises in their banking sectors as investors "headed for the exit at the same time." In both countries, private investments and consumption abruptly fell, while unemployment soared, reaching over 9 percent in Sweden and nearly 17 percent in Finland in 1994.[369] Even in Denmark, where the banking crisis never reached the same nadir, the commercial banks carried out rounds of layoffs that were unprecedented since the end of the Second World War.[370] Despite efforts by Bengt Dennis, now Governor of the Swedish Riksbank, and other central bankers to stabilise the values of their currencies, the Nordic currencies continued to depreciate and fluctuate wildly.[371] Companies holding foreign-denominated loans suddenly found themselves unable to meet their obligations, prompting further bankruptcies. This "foundational generational shock" seemed to rewrite long-held narratives of Nordic economic success and stability.[372]

The international community took notice. In August 1990, Moody's placed Finland on a watchlist before eventually downgrading its sovereign credit rating from Aaa to Aa1 on the 20th of October. A week-and-a-half later, Moody's announced that it was adding Sweden to the watchlist. The announcement spelled trouble for NIB.

NIB Under Review

In its press release on October 31, 1990, Moody's announced that the Nordic Investment Bank's Aaa rating was also under review. The announcement set off alarm bells at NIB, which had met with the rating agency just a month before and believed the agency satisfied with NIB's stability.[373] Reacting quickly, the Bank filed a protest with Moody's.[374]

In response, Moody's explained their reasoning for the potential downgrade. At the heart of their argument was that NIB would likely soon have no triple-A members. The Bank would thus be rated higher than its individual sovereign owners, the majority of whom were experiencing moderate to severe banking crises. These crises could result in Nordic borrowers experiencing transfer risk, as difficulties in converting local currencies to foreign currencies hindered the servicing of loans. Similarly, potential shortages of foreign currencies could result in the member countries themselves having problems providing authorised capital if called upon. As Moody's clarified, "Our concern boils down to this: NIB loans are subject to the transfer risk of the same countries that provide its callable (or pledged) capital […] This is unlike the case of the multilateral development banks where the borrowing member-countries are segregated from the non-borrowing and highly rated capital-providing members." Given this overlap, Moody's speculated that NIB's authorised capital could be wiped out by the defaults of two of its members.[375]

The issues ran even deeper than sovereign ratings. The largest Nordic commercial banks were also experiencing substantial losses that depleted or entirely exhausted their authorised capital. NIB had significantly increased its exposure to these same large banks during the previous years, primarily in the form of currency swap agreements. Extraction was impossible, as a wave of bank mergers amidst the crisis had only increased NIB's exposure to the largest and increasingly vulnerable Nordic banks.[376]

The potential downgrades left NIB in a shaky and unprecedented position. As NIB's long-standing general counsel Siv Hellén noted, in placing NIB on a watchlist, Moody's was essentially denying the Bank the status of a multilateral financial institution. Such institutions were permitted to have a higher rating than the nation in which they operated, unlike commercial banks and businesses, which faced a "sovereign ceiling". Indeed, no multilateral lending institution had ever been downgraded. The transfer risk concerns furthermore ignored NIB's high liquidity, its ability to quickly access capital, and its various measures intended to counteract risk. The whole argument, Hellén protested, was "naïve", "completely out of touch and fumbling at straws", and could be applied to downgrade any similar institution. In response, as part of an "offensive strategy", Hellén recommended that NIB should emphasise to Moody's its underlying stability and its favourable comparison to other multilateral institutions like EIB.[377]

The Bank did not have to wait long to make such arguments. On the 9th of November, NIB President Jannik Lindbæk and Birgitta Kantola, head of NIB's Treasury department, travelled to New York City to meet with David Levey, the head of Moody's sovereign ratings unit. Levey reiterated arguments made in their letter, noting the transfer risk attached to both NIB's authorised capital and the access of Nordic companies to foreign capital. Despite acknowledging that NIB was a multilateral institution, Levey further insisted that NIB's member countries lacked the creditworthiness of EIB's significantly larger and stronger member

NIB ANNUAL REPORT 1983

Siv Hellén, NIB's General Counsel, would play a crucial role in helping NIB retain its triple-A rating. One of NIB's first employees, Hellén was involved in many of the Bank's activities during its first three-and-a-half decades.

states. Lindbæk, in response, highlighted the strong liquidity and loan portfolio of NIB, and painted the likelihood of defaults by two Nordic countries as highly unlikely. As Lindbæk reasoned, "A crisis caused by a world war or a globale [sic] crisis in the financial sector would be more realistic and would effect [sic] borrowers globally." Levey did not agree: "Moody's could see a crisis occurring isolated in two Nordic countries."[378]

A follow-up meeting was planned for December 11th in Helsinki, where NIB management would have another opportunity to make their case. In the intervening period, NIB dispatched a stream of reports to Moody's that asserted the resilience of NIB's cash flow, the solidity of its Nordic clients, and the superiority of its creditworthiness as compared to its member countries. In a strongly worded memorandum prepared for the meeting and formally signed by Jannik Lindbæk and Pentti Uusivirta, now chairman of the Board of Directors, NIB conducted a stress test based on the "catastrophic, unrealistic, and admittedly improbable" case that Sweden and Finland experienced isolated across-the-board defaults, as had been proposed by Levey. The stress test showed NIB's ability to survive such a crisis, in part because NIB's multinational borrowers such as IKEA and Fiskars had independent access to foreign exchange to service their debts. Moreover, the chance of Sweden or Finland abandoning NIB in such a situation was "close to infinitesimal". Instead, the memorandum urged Moody's to recognise the relative strength of NIB's reputation and portfolio compared to other multilateral institutions and the excellent record of the "conservative, profit-oriented management team". Consequently, Moody's "perverse transformation of strengths into weaknesses" in downgrading NIB would have far reaching consequences, since it "would call into question the reliability of the Aaa ratings for other multilateral lending institutions".[379]

At the meeting, the memorandum's warning was combined with incentives and promises intended to demonstrate NIB's broad support and stability. Most notably, NIB informed Moody's about a planned increase of 800 million SDR to its authorised capital. The increase was intended to demonstrate the trust of NIB's members, along with raising a rapidly approaching lending ceiling and increasing dividend payments.[380] NIB was also determined to avoid big payouts for the rest of 1990 in order to emphasise their liquidity. As Lindbæk explained to NIB's Management Committee according to meeting minutes, "As long as we have the chance to preserve our AAA, no risks should be taken."[381] With this plan in hand, NIB prepared to welcome the Moody's representatives to the Bank.

Lindbæk began the Helsinki meeting by reading aloud NIB's memorandum verbatim. If the NIB management had hoped that its contents would assuage the rating agencies, they were quickly disappointed, as David Levey and his colleague Guilermo Estebanez summarily dismissed the importance of the stress test. Rather, Levey returned to the problem that the major borrowers and capital providers in NIB were largely the same, which he viewed as a significant difference from EIB.

Estebanez took up this idea, indicating that Moody's had started investigating NIB following a series of calls from investors concerned about the impact of Finland's downgrade upon NIB. As Estebanez summarised, "we view NIB more as a Nordic institution, or if you prefer, as a national agency in the same way as i.e. [the American mortgage lender] Fannie Mae, but NIB has a lot of international operations and international assets, and we are now looking to see if they are enough to keep NIB independent of the Nordic region".

The conversation continued, covering NIB's access to foreign exchange and cash flow. NIB's leadership emphasised the Bank's dual profitability and liquidity, its relative strengths compared to other IFIs, and its "sophisticated corporate borrowers". The latter aspect led to a discussion about whether NIB should diversify its lending across its likely four AA member countries. This prompted Levey to comment that such diversification mattered little, since "Four AA's are equal to 4 x one AA", and thus not cumulatively a triple-A. Hellén and Lindbæk disagreed, countering, "we think that four AA's is actually stronger than one AAA, one A, and one AA put together." Levey conceded the point, noting that he had not considered that perspective.

The meeting came to an end shortly afterwards. Levey was blunt in summarising his main concern: "has NIB enough capital to support its operations in a [sic] unusual situation". To this, Estebanez added his own continued worry as to "whether an investor would feel safe that even in the worst case NIB would have enough money to pay back his bond after 15 years".[382]

Moody's Decision

Even though NIB had sought to display its financial strength and autonomy, the prospects of maintaining their Aaa rating seemed bleak. A few days after the Helsinki meeting, Mahesh Kotecha, a US-based counsel recently retained by NIB, informed Lindbæk that Moody's "still sees no clear rationale for maintaining the rating" and acknowledged that the chances of NIB staying Aaa were "less than [an] even bet". Kotecha had previously been head of analysis at Standard & Poors and thus knew the rating agencies' thought processes, which were "not particularly subtle", according to J. Speed Carroll, the lawyer from Cleary and Gottlieb that had been so instrumental in organising the original Icelandic Alloys loan.[383]

To maintain the "unparalleled competitive edge" afforded by a triple-A rating, Kotecha advised NIB to rethink its strategy. Rather than attempt to assuage Moody's concerns around transfer risk and potential sovereign defaults, NIB should aggressively demonstrate the Bank's strengths, including its success compared to commercial banks and its performance relative to other multilateral institutions. In the former case, Kotecha suggested that NIB commission a study of the Bank's standing compared to four prominent Aaa-rated commercial banks: Deutsche Bank, Credit Suisse, Industrial Bank of Japan, and Morgan Guaranty Trust. Not only would this highlight NIB's higher liquidity and profitability ratios, but it would force Moody's to bring in commercial bank raters who might be more favourably disposed to NIB. At the very least, bringing in the commercial department would delay Moody's decision, which at the moment seemed likely to go against NIB.[384]

The study, written by a former colleague of Kotecha, found that "NIB compares favourably with the world's preeminent commercial banks" in areas of liquidity and performance, as well as in the ratio of operating expenses to net interest income. Moreover, while acknowledging the political and economic risks that could negatively affect NIB's business, the report noted that even broader developments – including global competition, European integration, and German unification – had previously been described by Moody's as significant issues for the commercial banks. Thus, "While NIB certainly faces a challenging environment in the 1990s as well, the magnitude of those challenges pales against those to which Moody's believes commercial banks are exposed."[385]

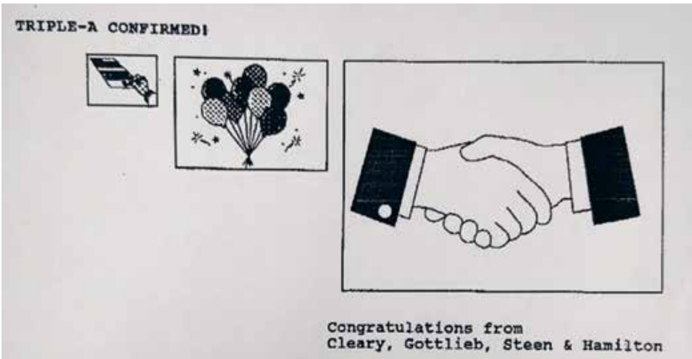
To sweeten the deal and give the rating agency something "on which they can hang their hat", Kotecha further suggested a recalibration of NIB's gearing ratio. Since its founding, the lending ceiling had been set at a ratio of 2.5-to-1 ordinary lending to authorised capital, an arrangement modelled on EIB. However, Moody's had clearly proved uncomfortable with having NIB's ratio match that of the European Investment Bank. Consequently, Kotecha suggested the Bank shift to a more conservative 2-to-1 ratio, closer to the standard multilateral development bank ratio of 1-to-1. Operationally, such a move would significantly decrease NIB's lending ceiling, SDR 4000 million in 1991 to SDR 3200 million.[386] It would furthermore mark a philosophical shift for NIB, which had modelled itself on EIB in its efforts to attract capital from foreign markets.[387]

Following a weekend strategy session with Kotecha and J. Speed Carroll, Lindbæk, Birgitta Kantola, and Johan Wallin, the corporate analyst at NIB, arrived at Moody's offices at 10am on January 8, 1991. As the meeting, which centred on a substantial package of documents delivered by NIB the previous week, wound down, Lindbæk made his final pitch: NIB would consider policy changes to their gearing ratio, restricting lending to 2 times its authorised capital, and to its liquidity ratio between Nordic and non-Nordic assets. Lindbæk's appeal and NIB's strategy seemed to have finally found paydirt. "NIB has done an impressive job", David Levey acknowledged to the Nordic delegation in his concluding remarks. "Moody's has learnt much of NIB during this process."[388]

It was Levey's positive response that Lindbæk presented to the Board of Directors at a meeting in Helsinki on the 17th of January 1991. A decision, Lindbæk told the Board, was expected in the coming days. As it turned out, it would come much more quickly than that.

As the Board of Directors meeting concluded, the telephone rang. It was Moody's: Levey and his department had come to a decision. Sweden had been downgraded to Aa1, as had its various Aaa-rated commercial banks and municipalities. NIB, conversely, would keep its Aaa status, along with its reputation and borrowing power. Given the "sovereign ceiling," NIB had become the sole institution in the Nordic region to boast a triple-A rating.[389]

Though it had safeguarded its triple-A rating, the banking crisis of the early 1990s was nonetheless strongly felt in NIB. As investments in the Nordic region dried up, NIB likewise curtailed its activities. Despite offering to be a "strong economic 'backbone'" and "a valuable complement to the private banking sector in the future", NIB's Nordic lending dropped annually, contracting by 30% from 1990 to 1993.[390] The nature of the loans NIB would give out also changed, as more companies began requesting loans in their own currencies in hopes of avoiding future fluctuations and uncertainty.[391] Like its clients, NIB was preparing for the future.



ATTRIBUTION: NIB ARCHIVE, RATINGS AGENCIES, MEETING WITH MOODYS

Congratulatory fax from J. Speed Carroll to Siv Hellén upon news that NIB would retain its triple-A rating.

Baltic Independence and the Future of NIB

The New Neighbours

With its triple-A troubles resolved, the Bank could turn its attention east, where geopolitical fault lines were rapidly shifting. Indeed, Moody's had initially cited NIB's exposure to a crumbling Soviet Union amongst their list of concerns. Such loans seemed increasingly doubtful during the crisis that followed Lithuania's declaration of independence. With a buildup of Soviet military forces on Lithuania's borders and the imposition of an economic blockade on April 13, 1990, it looked as though armed conflict was imminent. Even after the blockade was called off in July, following Lithuania's agreement to suspend unilateral independence, the situation remained fraught.[392]

Lithuania's declaration of independence, which was matched by similar declarations in Estonia on March 30th and Latvia on May 4th, was the culmination of unrest that had been rising in the Baltic states throughout the late-1980s. Baltic national sovereignty drew upon a popular movement centred upon ethno-national distinction, lingering bitterness from the USSR's annexation and invasion of the Baltic republics in 1940, and the manoeuvrability created by Soviet leader Mikhail Gorbachev's political and economic reforms, known as Perestroika. As described in the *Act on the Re-establishment of the Independent State of Lithuania*, Baltic independence was framed as a backwards-looking event, righting a wrong by rolling back the clock on the Soviet Union's illegal absorption of the Baltics. Consequently, as historians Mart Kuldkepp, Kaarel Piirimäe, and Juhana Aunesluoma note, the Baltics sought "to radically eradicate the present and to return to a fairly distant past" that included “an imagined return to Europe, where the Baltic nations had naturally belonged before World War II”.[393] This imaginary return was built upon the collective memory of the Baltics as western, even Nordic countries, who now returned home after an involuntary and ahistorical interregnum.[394]

The Baltic declarations of independence and the Soviet Union’s aggressive response left the West in a bind. Most western countries had refused to legitimise the Soviet Union’s claims on the Baltic states, developing the North Atlantic Treaty Organization (NATO) to become “the clearest challenge to Soviet expansionism since the end of World War II”.[395] However, recognising an independent Lithuania risked not only angering the Soviet Union but fanning the flames of political instability in Europe. NATO’s response therefore consisted of rather restrained calls for solidarity and warnings against violent responses from Moscow.

The independence of the Baltic countries from the Soviet Union was far from a sure thing. Here, part of the barricades in Riga erected against the Red Army. Photo: Apdency, July 27, 1991.

In contrast to the reluctance of larger countries like the United States and France to accept Baltic independence, the Nordic countries emerged as leading proponents of the new republics. Historian Una Bergmane explains that Nordic support, which became increasingly vocal in the second half of 1990, emanated from their particular perspective that “the Baltic question was not a remote problem of the Soviet periphery, but a regional issue”. This sense of proximity, together with their historical ties, were central to Sweden, Denmark, and Norway’s efforts to champion Baltic independence, while Iceland saw a largely risk-free opportunity to raise its own international profile by supporting a “just” cause.[396] While Finland took a more cautious approach in order to avoid straining relations with the USSR, it became increasingly vocal in supporting the Baltics after the Soviet Union attempted to violently suppress the Lithuanian and Latvian independence movements in January 1991.[397]

Ties between the Nordic countries and their Baltic neighbours intensified throughout 1991. In February, Iceland became the first country to formally recognise Lithuanian independence, although they delayed the establishment of diplomatic relations despite promises from their foreign minister to the Baltics to that effect. Like Iceland, Denmark actively supported the Baltic cause in meetings of NATO, the United Nations, and the NCM, drawing a Soviet rebuke when they concluded cooperation treaties with the three Baltic countries in March. The outspoken nature of this support prompted US Secretary of State James Baker to comment to West German Chancellor Helmut Kohl that “the smaller the NATO partner, the stronger the steps demanded against the Soviet Union – most by Iceland”.[398]

The sustained pressure for recognition from the Baltic governments and their international supporters finally broke through following a failed coup by Soviet hardliners in August 1991. In short order, the three

Baltic countries received international recognition of their independence, including an all-important approval by the United States and by the newly established Soviet State Council. Again, the Nordic countries were prime movers. Iceland and Denmark would sign the first official diplomatic accord with the Baltics, while Denmark dispatched the first accredited diplomat.

As 1991 concluded, the geopolitics of the Baltic Sea were transformed. For the first time in more than forty-five years, independent Baltic states would chart their own course. Where that route led remained unclear.

A Nordic Identity Crisis

If the breakup of the Soviet Union elicited broad optimism in the newly independent Baltic countries, the mood in Norden was decidedly more mixed. On the one hand, the end of the Cold War meant the end of threats of Soviet invasion or nuclear war. The Cold War had bifurcated the Nordic region, as it had the world, but now, with the apparent victory of liberal democracy, a potentially more peaceful future stretched out before them. In this spirit, American political scientist Francis Fukuyama famously proclaimed that liberal democracy's victory as the "universal principle of legitimacy" signalled the "end of history".[399]

On the other hand, the new security alignments drew questions about the future of the Nordic region and the "third way" identity it had embodied since the 1930s. What was the point of being a "third way" between two superpowers when one of them had just disintegrated? Other obstacles to a Nordic identity additionally loomed: the financial crisis raging throughout the region, the momentum towards European integration, and the accusations of overgrown welfare states and bureaucratic "sclerosis".[400] In a 1992 article, international relations scholar Ole Wæver noted an undercurrent of nostalgia amongst the Nordic countries. Instead of jubilation, the end of the Cold War had been met with "scepticism, frustration and attempts to limit the impact of change".[401]

The sun seemed to be setting on the attractiveness of a "Nordic" identity. The "prospects for a future revival of the Nordic bastion do not seem bright", mused political scientist Hans Mouritzen.[402] Instead, Nordic politicians, press, and scholars sought a "new regionalism",[403] one capable of addressing the challenges of an uncertain future. Mirroring the Baltics, Nordic commentators turned towards ever more distant historical analogies to chart a path forwards, captured in proposals to build a new Hanseatic region or remember Viking-era trade routes.[404] Nordic business representatives similarly turned to the Baltics as "historically part of their market area", which they were now determined to reclaim.[405] Regional realignment also took place on a formal scale, as Norway, Sweden, and Finland all held referendums on European membership, with the latter two voting to join the EU. The future of Nordic cooperation could not be taken for granted.

Economically, the collapse of the Soviet Union created problems for their economic partners, including NIB, which had made a series of PIL loans to the USSR. By the early 1990s, the Soviet Union constituted one of the three largest recipient countries of PIL loans together with India and Indonesia, with SDR 76 million in outstanding credits by the end of 1991.[406] Despite agreements to recognise NIB's status as a preferred creditor, it remained unclear when NIB would start to see returns on these loans. As Jannik Lindbæk noted at a Management Committee meeting in early 1991, if NIB was forced to draw upon its general reserves to cover the USSR's shortfalls, it might endanger the Bank's recently defended triple-A rating.[407]

While the Soviet loans threatened the Bank's bottom line, the new geopolitical landscape compromised NIB's raison d'être. What was the purpose of a Nordic Investment Bank in a Nordic region under transformation? NIB had, after all, been created in 1976 to strengthen Nordic industrial competitiveness and thereby serve a regional Nordic interest. But was a "Nordic interest" still of interest to the Nordic states? Or would NIB be dissolved in favour of new projects or cooperation within larger institutions like EIB?

"NIB may find itself at a crossroads", a 1991 memorandum surmised. Pointing at the uncertain future facing both the Bank and the global economic system, the memorandum suggested that NIB prepare itself for "a series of mini-crises". To help meet these challenges, the memorandum drafted a corporate philosophy in the form of an acrostic verse, with the first letters of each line corresponding to the Swedish alphabet. It identified NIB as a democratic and strategically flexible organisation that would focus more on addressing prospective challenges than reacting and "improvising" as they occurred.[408]

NIB's Management Committee took up the question of a corporate philosophy at a meeting on May 17, 1991, which centred on the Nordic Investment Bank's future in an increasingly integrated Europe. According to the meeting's recorded minutes, Lindbæk began by suggesting that NIB could play a role as the Nordic countries entered Europe, since it was vital for small states to work together "to have their voices heard. Therefore, Nordic cooperation is increasing in importance." Other members of the Management Committee were less sanguine. Harro Pitkänen, vice president of the newly formed Nordic Environment Finance Corporation (NEFCO), questioned whether Nordic cooperation would survive and where that might leave NIB in five or ten years. Peter Laurson countered that such questions about NIB's future were in the hands of its owners, the Nordic countries, not its management. Nonetheless, he saw radical changes potentially on the horizon for NIB, especially as European Union membership would mean increased funds to EIB and other European institutions. Nor was competition the only issue. The aims of NIB might need to change. As Eivind Dingstad, one of Laurson's deputies from international lending, pointed out, the very idea of a "Nordic interest" might be discriminatory in a world where the Nordic countries were just a small part of a greater Europe.

Perhaps sensing the gloomy atmosphere, Birgitta Kantola offered a more optimistic vision: "Couldn't you imagine a renaissance for NIB – in an entirely new economic era that offers new agendas for NIB?" NIB had adapted before, Pitkänen agreed, and come to influence the future by taking on new initiatives and challenges, including environmental issues.[409] Even so, it was best NIB not overstretch its mandate by independently interpreting Nordic need, a lesson that had been learned as early as the Gothenburg harbour loan in 1977. In a Management Committee meeting about a month later, Lindbæk suggested the Bank take a cautious lending strategy in the coming period. "NIB is a purely marginal actor and therefore has no responsibility for keeping Nordic industry going", Lindbæk told his management team. "NIB is not a lending factory and the staff should be able to survive a period with relatively little lending despite the risk of feeling 'amputated'." Given the surrounding uncertainty, Lindbæk's caution was understandable; still, it represented a departure for an institution created for the purpose of supporting Nordic industry following the OPEC oil crisis.[410]

Questions of NIB's new direction were still unsettled when the Bank organised a day-long seminar for the 24th of June 1992 in Espoo, Finland under the theme, "An open discussion of NIB's future role in a changed Nordic region".[411] The seminar was the outcome of a debate about the Bank's future strategy at a Board of Directors meeting on the 18th of December 1991.[412] Prior to the seminar, the Management Committee proposed several topics for discussion, including the "inevitable" redefinition of "Nordic interest", whether NIB should act as a complement to

EIB rather than a regional bank, and whether "the Nordic countries wish to maintain an institution like NIB". On the last point, Lindbæk suggested that NIB expand its focus from the Nordic region to include the "surrounding area – e.g. the Baltics".[413]

A memorandum intended to guide discussion at the seminar expanded on many of these points. While predicting that NIB would not be directly dismantled by the Nordic Council of Ministers, who still viewed the Bank favourably, the memorandum's author was clearly anxious about the effects of European Union membership. Taking up Dingstad's argument that the Nordic interest may prove discriminatory and run afoul of European antitrust rules, the memorandum posited that the Nordic interest be redefined to allow for projects that more generally benefited the Nordic region, rather than two or more Nordic countries. This could include loans to foreign businesses establishing operations in the region. The distinction was about "Nordic interest versus European interest".

In turning towards Europe, the memorandum argued that NIB could use its resources to help prepare Nordic industries, still amidst an economic crisis, for the tougher competition of Europe. While this would place NIB in competition with commercial banks, and indeed the European Investment Bank, such competition was "healthy" and a means towards promoting the efficient restructuring of Nordic businesses. However, could such activities be even better supported if NIB was absorbed into EIB? Foreseeing the Nordic countries prioritising their European over their Nordic identity, the memorandum pondered a fusion with the older European bank, before eventually concluding that EIB was not interested in monopolising international investment activity amongst EU members.

Instead, NIB would have to make its own contributions as a "specialist in environmental financing" and by supporting economic cooperation

and the "broader Nordic presence in Europe and in the Baltics". This latter activity was already picking up steam.[414]

Surveying the Unknown

As had been made clear in the triple-A discussions, NIB's autonomy from its state owners was important for demonstrating its creditworthiness and value. Throughout its first fifteen years, NIB had balanced the requirements of interpreting political will and economic need in its pursuit of a "Nordic interest" with maintaining the freedom of action to pursue new lending and borrowing opportunities. This had made NIB receptive to changing political priorities, but also wary of being seen as a tool used at the discretion of politicians.

Despite their display of autonomy to Moody's, NIB would come to play a central role in the Nordic states' eastern strategy as the de facto Baltic experts. Drawing on NIB's international network and experience lending to the USSR, along with its more recent work on a Baltic Sea programme (see chapter 5), the Bank became trusted with developing knowledge of a Baltic region whose markets and prospects were a mystery due to economic and travel restrictions.

There was both opportunity and need for the Nordic involvement in Baltic projects. As Mart Laar, Estonia's prime minister from 1992 to 1994, later acknowledged, while independence had been exciting, the challenges facing the Baltics quickly became apparent. Although relatively rich in the context of the Soviet Union, the Baltic economies lagged far behind much of the western world in GDP. Independence initiated a transitional period, moving from planned economies reliant on large, state-owned enterprises towards greater privatisation and competition. In Estonia and Latvia, the governments chose to rapidly liberalise economic structures and aggressively pursue foreign investment. This quick

AP / LEHTIKUVA

Mart Laar oversaw the initial years of Estonia's shock therapy as prime minister between 1992 and 1994.

transition, which largely adhered to IMF advice, immediately produced harsh economic effects: soaring interest rates, sharp drops in production, spiking unemployment, and a proliferation of boom-or-bust enterprises. Even in Lithuania, which chose a more gradual transition compared to the "shock therapy" of Estonia and Latvia, including greater restrictions on foreign capital, economic volatility rocked the country for years after independence.[415]

Nordic governments and businesses saw opportunity in these Baltic transition economies. For private Nordic investors, the Baltic represented a fresh "business frontier", a nearby "Klondike" style market with the potential for huge profits but also catastrophic failure.[416] Several public institutions also became involved in channelling venture capital

into the Baltic markets, including Nordic development agencies originally intended to support decolonising processes in Asia and Africa.[417] Baltic independence and the reorientation towards greater financialisation in aid activities thus proved as transformative for the operations of existing institutions as it did for "the geopolitical positioning of the Nordics, meaning a new involvement and diffusion of market processes both to and from Eastern Europe and to the Baltics".[418]

It was in this speculative atmosphere that in February 1991 the Nordic Ministers for Finance and Economy commissioned a report from the Nordic Investment Bank about the possibilities for investments in the Baltic region. After months of visits to the Baltic region and cooperation with the Baltic countries, NIB's management published "Investment Needs and Financing Mechanisms in the Baltic Countries" on September 10, 1991. The report insisted on the necessity of combining financial investments and technical assistance to meet "the rapidly changing political situation in the Soviet Union, the newly re-established independence of the Baltic countries, the increasing desire of the Nordic governments to support the independence process, and the urgency for providing the Baltic countries with rapid and effective assistance in the crucial period following independence". Funds were necessary to "rehabilitate or replace" the Baltic economies and infrastructure, with the report specifically mentioning energy, environmental protection, intercountry highways, and small to medium enterprises amongst the priority areas for state cooperation or private investment. While the report acknowledged that not all proposed projects were currently "bankable", they were important steps "for Baltic nationals to learn about market economy requirements for project preparation and proposals". Here, technical assistance from knowledgeable Nordic experts would help to educate their Baltic counterparts in the methods and expectations of market economies.

However, no matter the willingness of the Baltic countries to reform their economies or of foreign investors to seek out new investment opportunities, major obstacles would have to be overcome, including convertible currency shortages, lack of trained banking personnel, and an absence of financial institutions that could channel foreign investments to small and medium businesses. In response, the Nordic Investment Bank proposed what would become the most controversial part of their report: a new Baltic Investment Bank.

The Baltic Investment Bank, or BIB, was the second half of a two-part financial mechanism outlined in the report. The first part called on the Baltic countries to each establish and support their own national investment banks, which would provide expertise at the ground level, helping companies develop projects and taking care of the everyday administration of loans. These national investment banks would then be organised under the "umbrella" of a common institution, the Baltic Investment Bank, which would work as a middleman between foreign investors and national institutions, as well as perform project evaluations and train Baltic nationals in banking principles.

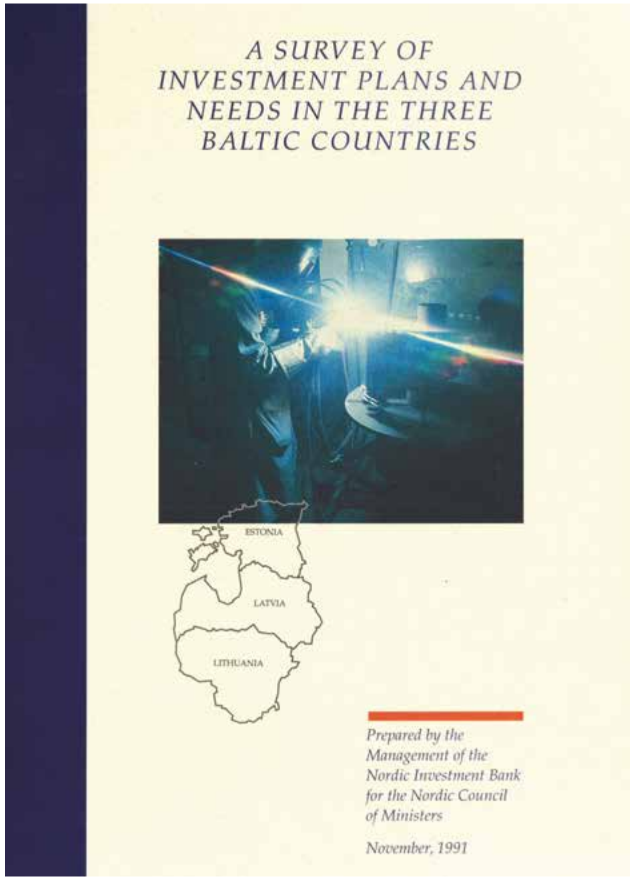
The report's proposed ownership for BIB included 20% callable capital from the Baltic countries, 70% from the Nordic countries or other foreign states, and 10% from individuals. Initially, the bank would have access to ECU 600 million of "untied investment funds" that would give "the Baltic countries a direct say in proposed foreign investments and provide a practical instrument for cooperation among the Baltic nations as they gradually develop their own national banking institutions". Over time, the Baltic Investment Bank would support the national investment banks, provide direct or co-financed loans to private sector and environmental projects, and take advantage of its creditworthiness "for advantageous borrowing in international capital and bank markets".

In essence, the Baltic Investment Bank was modelled on the Nordic Investment Bank, but rather than taking advantage of the high reputation of a "Nordic" identity, as NIB had done in 1976, the new institution would be building up a "Baltic" reputation and competencies. Despite a smaller share of the ownership, a democratic governance structure would allow the Baltics to have an outsized say in the bank's administration and foster a renewal of Nordic-Baltic cooperation. The report was careful to note that such cooperation was not an alternative to European integration; rather, it formed "a first and natural step for Baltic enterprises and exports attempting to achieve closer involvement in the western market economies".[419]

The proposal for a Baltic Investment Bank found immediate and enthusiastic support amongst the Baltic states, which were dealing with public concerns that the transition amounted to "selling off" their countries.[420] Two weeks after the report's release, the Baltic prime ministers jointly declared their approval of authorised capital to the proposed BIB and called upon the Nordic countries to do the same. The declaration suggested that NIB be the implementing agent for the new institution and therefore should "prepare drafts for the articles of agreement and statutes of BIB as soon as possible, and to act as coordinator in preparing the establishment of BIB".[421] On the other hand, NIB's Board of Directors sought to disassociate themselves from the report. In a meeting on September 18, 1991, the Board informed the management that the report should have made clear that its contents had not been processed or approved by the board members.[422]

While the September report took up major initiatives for the Baltic countries, a report published a couple of months later provided more practical information for Nordic investors. The report, "A Survey of Investment Plans and Needs in the Three Baltic Countries", was submitted on November 25th at the request of the Nordic Council of Ministers

NIB ARCHIVE, COMMUNICATIONS, F4



The cover page of NIB's report to the Nordic Council of Ministers for Trade.

for Trade. As Ib Katznelson, who had recently joined the Danish Ministry of Economic Affairs as Deputy Permanent Secretary, surmised, the overlapping requests displayed not only that "the internal Nordic coordination was not excellent", but also "the eagerness of the Nordic countries to assist the Baltic countries in their endeavour to develop fast".[423] This time, the report made clear that it had been written without the discussion or approval of the Board of Directors.

The report assembled information on the investment climate and projects "of interest to Nordic enterprises", particularly investors that "still have concerns about the investment climate in the Baltic countries". Much of the report was dedicated to profiling almost 300 potential projects across a variety of sectors such as forestry, transportation, and small and medium-sized enterprises (SMEs). To assemble the extensive list, NIB drew upon in-house and outside expertise while also falling back on historical knowledge. For instance, its evaluation of the tourism sector began by noting the Baltics' "relatively well-developed tourist industry" prior to the Second World War "based on their long coast lines and spas." The industry could be resurrected, the report stated, if investments were obtained to combat Soviet-era pollution and thereby "restore the environment and attractiveness of the Baltic countries for tourism".[424] The future of Nordic-Baltic economic connections rested on reviving broken connections and renewing atrophied industries.

The Baltic Investment Programme

A New Programme Creates Friction

The studies set the stage for Nordic participation in the Baltic countries' economic transition, an engagement that would only deepen in 1992 thanks to a new strategy to guide regional financing over the next decade: the Baltic Investment Programme.

On November 12, 1991, with NIB's September report in hand, the Nordic Ministers for Finance and Economy met in Mariehamn, capital of the Åland Islands. On the suggestion of the Danish economic minister Anders Fogh Rasmussen, the ministers established a Nordic Baltic Investment Committee (NBIC) to prepare plans for Nordic financial and economic assistance to the Baltic republics. Ib Katznelson was selected as its chairman. The proposed Baltic Investment Bank emerged as a contentious topic at the meeting, attracting support from Finland, Denmark, and Iceland and scepticism from Norway and Sweden.[425] A subsequent press release declared that "the means and methods for assisting the Baltic countries in their effort to establish financial mechanisms need to be explored further. It is the position of the Ministers that it is most effective to seek solutions to these problems within the existing institutions". Although the statement did not outright reject a Bib, the intoned preference for "existing institutions" derailed what had been viewed as its likely establishment.[426]

The Baltic ministers certainly viewed the statement as a retreat from cooperation on the Bib. On November 15th, three Baltic representatives responded with a letter to the Nordic Council of Ministers "to express our concern at the outcome of the meeting […] We are especially disappointed at the decision not to approve the establishment of the Baltic Investment Bank immediately, but to delay the matter pending a further review by a working group of Nordic Finance Ministers. We find the decision somewhat surprising in light of the support the Bib proposal had received from the Nordic Governments and international financial organizations".[427]

In a later report, Katznelson chalked up this response to the intervention of "some members of Nordic institutions [who] had gone very far indeed in promoting the idea to the Baltic governments without any contacts with the Nordic governments which were not aware of the scheme for the establishment of a new institution".[428] Parts of the management of Nib, the institution that first formulated the Bib idea, were amongst these "members of Nordic institutions" in contact with the Baltic governments.[429]

Indeed, Nib's management team seemed as disappointed with the decision as the Baltic governments. In a draft report to the NBIC in early January 1992, Nib's management maintained their support of a Bib, bringing it to loggerheads with members of the Board of Directors. The report, entitled "Financing of Investments in the Baltics" [*Finansiering av Investeringar i Baltikum*], reviewed the activities and limitations of different national, multinational, and inter-Nordic funding sources, including Nib and NEFCO. For the former, the report found that the Baltic countries did not qualify for the PIL lending scheme due to their low creditworthiness, which would in any case have only marginal impact on elevating private industry, since PIL agreements were usually granted as sovereign loans.

The report drew a sharp rebuke from Sven-Olof Johansson, Assistant Under-Secretary in the Swedish Ministry of Finance and alternate member of Nib's Board of Directors. While acknowledging that such studies lay within the mandate of Nib's management, Johansson wrote to Jannik Lindbæk urging board involvement given that "Financing of Investments in the Baltics" was shaping up to be a defence of the September report with "the character of an implicit polemic against the perspectives that have arisen in the Nordic discussion as an alternative to Bib". Contending that the study's results overplayed the limitations of other international funding sources, Johansson and Bo Marking, the other alternative board member from Sweden, declared that "the current report is of such great importance that the board should have a proper discussion about how it should be handled". After all, the future of "Nib's trustworthiness as an investigative body in Nordic cooperation" was at stake.[430]

Following Johansson's critique, a "more nuanced" report was submitted to the NBIC prior to their meeting on the 17th of January 1992. The meeting's participants evaluated the Bib both as a practical resource for financing projects in the Baltic republics and as "a well-placed model for demonstrating to the Baltic countries that intergovernmental cooperation can have a financial benefit". However, criticism also abounded, including the superfluousness of creating a new international institution to develop the private financial sector, the lack of financing for technical assistance in the BIB plan, and concerns that BIB would bottleneck financing and "overburden the recipient countries with competing offers".[431]

To the disappointment of parts of NIB's management, the returned decision was negative. The Nordic states would not support a BIB. Despite discussion that "NIB should not bend so easy against the background of the strong profiling of the BIB last autumn", NIB ultimately supported the NBIC's programme during hearings held in mid-February 1992. The Baltic governments were less mollified and initially rejected the proposed programme, in large part due to the absence of the BIB.[432] As Peter Laurson explained to his colleagues, "the Balts expected cooperation, not 'donor systems'".[433] The proposal appeared dead in the water; however, following a whirlwind tour in late-February led by Katznelson, which involved visiting all three Baltic capitals in a single day, February 27th, the Baltic governments agreed to a proposed Baltic Investment Programme (BIP). The support came just in time to raise the issue at the Nordic Council's session in Helsinki on March 4, 1992, which, in a sign of the rapid and shifting planning phase, was still entitled a "member proposal for the establishment of a Baltic Investment Bank". In its place, the BIP economic committee and plenary session supported a new plan for "Nordic-Baltic cooperation, even if the Baltic influence on the programme seems somewhat reduced".[434] Earlier the same day, the Nordic and Baltic ministers of finance and economy signed the agreement in Helsinki.[435]

As a subsequent press release stated, the BIP ensured that millions of euros would be made available by the Nordic countries over the next three years for "developing a private sector consisting of small and medium sized enterprises by making know-how and hard currency available to Estonia, Latvia and Lithuania".[436] In the BIP, the Nordic Investment Bank formed part of a trifecta of international institutions charged with erecting the private sector in the Baltics, together with NOPEF and the European Bank for Reconstruction and Development (EBRD). As indicated in its name, the EBRD was created by European countries in conscious imitation of the World Bank to assist Central and Eastern Europe in transitioning from planned economies. As mandated in Article 1 of its charter, the new bank would aid "countries committed to and applying the principles of multi-party democracy, pluralism, and market economies".[437] After a speedy creation, the EBRD opened its doors in March 1991, just in time for Baltic independence.

The Baltic Investment Programme split 70 million euros between NIB and EBRD. Despite expressions of disappointment that NIB did not have an even greater role in the BIP,[438] the arrangement still placed NIB in a critical and central position. EUR 5 million were earmarked for technical assistance to establish the Baltic countries' new national investment banks. Modelled after the mid-century industrial banks that combined long-term credits with governmental ownership,[439] these national investment banks – the Estonian Investment Bank, the Investment Bank of Latvia, and the Lithuanian Investment Bank – had been planned either in anticipation of or as an alternative to a BIB. Given the nascent state of the Baltic banking sector, the national investment banks aimed to attract foreign capital to finance long-term loans, a function that echoed the intention of the early NIB.

The second and larger aspect was 30 million euros to a new Baltic Investment Loan (BIL) facility. Modelled on the Project Investment Loan programme, the BIL would provide loans and guarantees to small and medium enterprises, many of which ranged between 0.1 and 1 million euros, as well as loans to the Baltic national investment banks to support "specific projects of Nordic interest". The Nordic interest was interpreted flexibly as some kind of Nordic participation, whether subcontractors or expertise, that should contribute to integrating Nordic and Baltic economic activity. The BIL thus circumvented the PIL's roadblocks to lending to private industry, and included a 100 percent guarantee from the Nordic states, compared to the PIL's 90 percent guarantee. The BIL consequently marked a significant departure from NIB's traditional approach. In channelling money into low-credit, higher-risk Baltic enterprises, even on commercial banking terms, NIB was taking on a role closer to that of a regional development bank.[440]

With this programme in hand, Ib Katznelson expressed his belief that "it was high time that a calmer cooperative relationship was established" between NIB and the NBIC.[441] Despite continued internal dissatisfaction with the fate of the Baltic Investment Bank, Lindbæk downplayed its absence in public, and NIB's leadership decided to accept the NBIC changes on the premise that the committee represented the Bank's owners and their will.[442] NIB threw itself into carrying out that will.

The First Baltic Investment Programme

The original Baltic Investment Programme was set to run until July 1, 1995, a period of three years during which the Nordic Investment Bank would assist the transitioning Baltic countries. Negotiations with the Baltic governments began immediately to ensure their recognition of NIB's status as a multilateral institution with an independent legal persona, which would help the Bank avoid red tape while providing technical assistance. The first agreement was struck with Estonia in late-1992, and thereafter with Lithuania and Latvia.[443] Reflecting the BIP's significant changes to NIB's usual practice, the Bank's statutes were amended to include an additional subsection recognising NIB's right to provide loans and guarantees in the Baltics.[444]

Even before the agreements were struck, NIB was assisting the national investment banks in drafting their statutes, purchasing their offices and data processing equipment, and providing training. All the banks were founded by mid-1992, although operations were slower in starting. Through a wide-ranging application process that included cooperation with EBRD, who was responsible for capitalising the banks,[445] three senior resident advisors were dispatched in 1993 to coordinate the external assistance and provide advice on bank management. NIB consultant Sven Öhlund and thereafter Gunnar Ljungdahl, a Swedish banking consultant with expertise in eastern Europe, were stationed in Latvia, while German expert Hanko von Knobelsdorff became resident advisor in Lithuania, a position NIB co-financed with the German development agency Gesellschaft für Technische Zusammenarbeit.[446] In Estonia, NIB's own General Counsel Siv Hellén took up residence.

During her time at the Estonian Investment Bank, Hellén recalled the challenges of providing advice in a country where private banking had not existed for decades. As resident advisor, Hellén provided expertise on lending policies, personnel policies, placement of capital, liquidity issues, legal issues, and loan agreements. Hellén, an early employee of NIB, could draw upon her experiences establishing a new public financial institution, for example consulting on how to conduct "road shows" to raise the bank's profile. Over nearly three years as resident advisor, Hellén witnessed significant strides made by the Estonian Investment Bank. This included changes to the originally male-dominated personnel, which in time was joined by a growing group of female analysts. By the end of 1995, the Estonian bank had made more than 60 financing decisions and disbursed more than ECU 25 million in loans.[447]

The other two banks had a more troubled start. The Investment Bank of Latvia was immediately rocked by a fraudulent loan application that, when discovered in early 1993 by NIB and EBRD advisors, harmed the new bank's reputation and resulted in the resignation of the bank's president. Meanwhile, problems with the Lithuanian Investment Bank's statutes, and subsequent political resistance to making the bank more autonomous and thereby creditworthy, led to its dissolution and the creation of a new Lithuanian Development Bank in December 1993. By 1995, the establishment of the Latvian and Lithuanian banks was lagging, leaving the institutions tenuously perched "at a critical stage in the institution building phase" according to a 1995 NCM assessment.[448]

The progress of the Baltic Investment Loans took on similar contours to the technical assistance. The first loan went to the Estonian Investment Bank, which received ECU 4.5 million in credits to finance small and medium projects in the private sector that included Nordic involvement. This was followed up with an additional ECU 5.5 million, while the Investment Bank of Latvia and Lithuanian Development Bank received credit lines of about ECU 7.5 million each. The focus on utilising the national investment banks was an extension of efforts to teach financial operations to the Baltic countries, since, "by involving these banks in the project appraisal, it is possible to add an element of technical assistance to the financing activities".[449] It would take a while to see results, however. While the first round of the Estonian programme was quickly loaned out, by October 1995, the Latvian and Lithuanian funds remained undisbursed.

Similar slow progress marked direct investments. As NIB's 1993 Annual Report explained, this cautious, halting pace was necessary, "because project ideas have to be developed into feasible, financible [sic] projects in circumstances where, for example, the legal infrastructure remains deficient and, consequently, project cash flow provides the principal collateral".[450] Such challenges would have been recognisable to the staff at any regional development bank.

NIB also directly financed a range of smaller projects, mostly in Estonia and totalling about ECU 5 million. Such investments represented the wider environment of international lending, with its focus on modest loans to SMEs. An ECU 0.6 million loan to AS Kemivesi for water purification, for example, was co-financed with NEFCO, Finnfund, and a Finnish grant. A larger loan to the Kunda cement factory with 79% Nordic ownership was part of ECU 35.4 million project, which included co-financing from Finnfund and the International Finance Corporation, the private-sector affiliate of the World Bank.[451] With most of the projects boasting majority Nordic ownership, BIL thus contributed to the wave of Nordic acquisition of companies and interests in the Baltic "Klondike". In addition, from 1992 to 1995, NIB committed more than ECU 60 million of its normal lending facility to finance Nordic investments in the Baltics, primarily new factories and telecommunications structures.[452]

The three-year trial period of the BIP concluded in March 1995, prompting assessments from the NBIC that the BIP had successfully combined technical assistance and investment opportunities, although the full effects remained uncertain. The assessment was echoed by NIB's president in a November 1995 presentation to the Nordic Council of Ministers, where he noted that Estonia had surpassed the other Baltic countries in receiving "the lion's share of this capital transfer", in part due to Estonia's quicker development of a private sector and "its long-standing relations with Finland and Sweden". However, assistance was still needed, he insisted, to ensure that the national investment banks, especially the Latvian and Lithuanian institutions, did not collapse and to continue to "support the transition to market economy and democracy in these countries which had been cut off from normal relations with their Nordic neighbours for half a century".[453]

The NIB president who addressed the NCM in 1995 was not Jannik Lindbæk, who had resigned at the end of 1993 to become the head of the International Finance Corporation, the first Scandinavian to lead the organisation. In his tenure as president, Lindbæk had fulfilled his pledge to grow NIB's size and reputation, ensuring its future amidst major institutional and geopolitical crises at the beginning of the 1990s. NIB had joined the "top league".

In his stead, the Board of Directors appointed Jón Sigurðsson. In a long and varied career, Jón Sigurðsson had headed the Nordic department of the IMF, served in various ministerial posts in Iceland from 1987 to 1993, and subsequently been Governor of Iceland's Central Bank.[454] Jón was a familiar face at NIB as a founding member of its Board of Directors and part of the three-member delegation that had secured a triple-A rating in 1982. When Jón Sigurðsson joined the Bank in mid-1994, NIB secured a president knowledgeable about the Bank and committed to its development.

Lindbæk's resignation was not the only important change in 1993. On March 1, 1993, NIB's currency accounts shifted from Special Drawing Rights to European Currency Unit (ECU), the European Community's currency index and precursor to the Euro (EUR).[455] Calculated from a basket of European currencies, NIB's adaption of the ECU captured in microcosm a shift amongst Nordic decisionmakers from a broader internationalist worldview, as represented by the IMF's SDR, to a growing enthusiasm about the region's European future. As a member of the management committee remarked when discussing a move to ECU in April 1989, the switch would "in terms of image mark our belonging to Europe".[456]

Other changes to NIB's treasury department signalled a recovery

NIB

Following decades of involvement with NIB, Jón Sigurðsson became NIB's third president.

from the Nordic banking crisis. The increase in authorised capital that had been promised to Moody's was carried out in April, expanding to ECU 2.8 billion. The same year, NIB requested a rise in the loan ceiling for PIL lending, which was approaching its upper limit. Given the programme's rapid expansion and the sound investments made by the Bank – NIB had still not taken a loss on a PIL loan by the turn of the millennium – the higher ceiling was subsequently approved by the NCM, nearly doubling the available resources. This would be doubled again in 2003 to ECU 4.0 billion, as the Bank continued to expand its international activities. Projects in Asia initially dominated PIL loans in the 1990s, which culminated in the opening of a representative office in Singapore to meet "companies' great interest in Asia".[457]

The heavy focus on international and particularly Baltic activity did not translate to a decline in NIB's ordinary lending in its member states, which still dominated the Bank's operations. By the mid-to-late 1990s, NIB was disbursing around EUR 1 billion annually in ordinary lending, equivalent to about 75% of total lending. Loans to major commercial and industrial projects, including new loans to IKEA (1992) and Icelandic Alloys (1998), were frequent, in part due to efforts by companies to take advantage of the extended Baltic Sea market.[458]

NIB's financing also promoted plans to transform contacts and integration in the Nordic region through infrastructural improvements that enabled Nordic citizens to communicate and traverse their region in new ways. For instance, in 1995, NIB agreed on two loans of a combined EUR 72 million for expanding telecommunications networks in Sweden and Norway to support the rapid growth of mobile phone usage, as well as financing a joint venture by Swedish Telia AB and Finnish Telecom Finland Oy to modernise Estonia's telecommunication network. The same year, NIB entered several loan agreements for transportation, including EUR 31.4 million to build a railway connection between Stockholm central station and Arlanda airport, helping meet increased demand with the advent of low-fare air travel, and a total of EUR 205.1 million for building the new Öresund Bridge and tunnel that would refashion Copenhagen and southern Sweden as an interconnected urban region.[459] The Öresund Bridge seemed the culmination of long-held dreams, as Lindbæk back in 1987 had discussed the idea of a bridge as promising "a permanent connection from Norway, Sweden, Finland, and Denmark to the European continent", yet the loan itself was never

The new headquarters at Fabianinkatu 34 finally gave NIB space to grow.

disbursed.[460] Investments in material infrastructure – harbours, railways, highways, telecommunications, and power generation – would continue to play a significant role in NIB's business through the end of the millennium.[461]

Other material investments struck closer to home. Over its first 17 years, NIB had lived a nomadic life, switching headquarters frequently. The expanding institution had outgrown its offices at Unioninkatu 30 by the late-1980s and begun to search for a headquarters that could house a staff projected to reach 200 people in the subsequent years.[462] Originally, NIB planned to move out of central Helsinki and construct a new building in Keilaniemi, Espoo, but these plans were put on hold in 1989 in favour of exploring long-term rentals.[463] As NIB considered different options, the international lending department, which had grown to a size that would have forced it to occupy two separate floors in Unioninkatu 30, moved to separate offices in the Grönqvist building at Pohjoisesplanadi 25, where it was joined by the newly created Nordic Development Fund.[464]

NIB's gaze eventually settled on the offices at Fabianinkatu 34. Built in 1985 in downtown Helsinki and facing both Fabianinkatu and Kaisaniemenkatu, then a popular shopping destination, the building had been built as the headquarters for the Industrialization Fund of Finland (*Teollistamisrahasto*), a partner for NIB during its early years.[465] With seven floors of office space contained in a façade of red bricks to match the rest of Kaisaniemenkatu, NIB had plenty of room to grow.[466] In 1986, Teollistamisrahasto was acquired by Säästöpankkien Keskus-Osake-Pankki (SKOP, Sparbankernas Central-Aktie-Bank), a commercial bank whose speculative lending in the 1980s produced major losses that helped ignite the banking crisis.[467] When the Bank of Finland seized SKOP in late-1991 and began to distribute its assets, the building suddenly became available. Following renovations, NIB moved into Fabianinkatu

34 in 1993, together with the Nordic Development Fund and NEFCO, eventually purchasing the building outright from the Bank of Finland in 1996. NIB had finally settled down.

The Second Baltic Investment Programme

On the recommendation of NIB, the NBIC, and others, the Nordic Council of Ministers voted in 1995 to extend the BIP for an additional three years, initiating what became known as BIP II. As Ib Katznelson later surmised, despite progress during the first BIP, "project investments in the countries were still constrained by a number of factors. The institutional framework was inadequate, the economic environment unstable, know-how for developing bankable investment projects was lacking and the financial mechanisms for medium and long term financing were insufficient."[468] BIP II would attempt to alleviate these issues with a greater focus on stabilising the national investment banks.

In connection with NIB's expanding horizons, the Board of Directors requested in 1995 that the Nordic Council of Ministers approve a revised interpretation of "the Nordic interest" that would institutionalise this "new delineation of Nordic cooperation. This cooperation is based on three foundations: the inter-Nordic dimension, active support for the Nordic region's neighbouring areas and European integration."[469] The new definition essentially did away with requirements for the involvement of more than one Nordic country in loans to sectors like energy, infrastructure, and environment, and reflected a more fluid and porous understanding of the Nordic region. Although not going as far as suggestions in the late-1980s that any Nordic investment in EU member states be treated as a Nordic interest,[470] the new definition allowed NIB to finance certain foreign investments, especially from European companies, in the Nordic region, as well as investments in the neighbouring Baltics.

The Baltic countries clearly valued the involvement of NIB. It was by their request during the BIP II negotiations that NIB received administration of an ECU 7.5 million equity fund, intended to allow NIB to take equity in and serve upon the board of the national investment banks. Combined with an additional technical assistance grant of ECU 3.3 million, this gave NIB significant, continued involvement in the three banks and represented a new outlook for NIB given that equity investment stood outside of NIB's formal mandate.

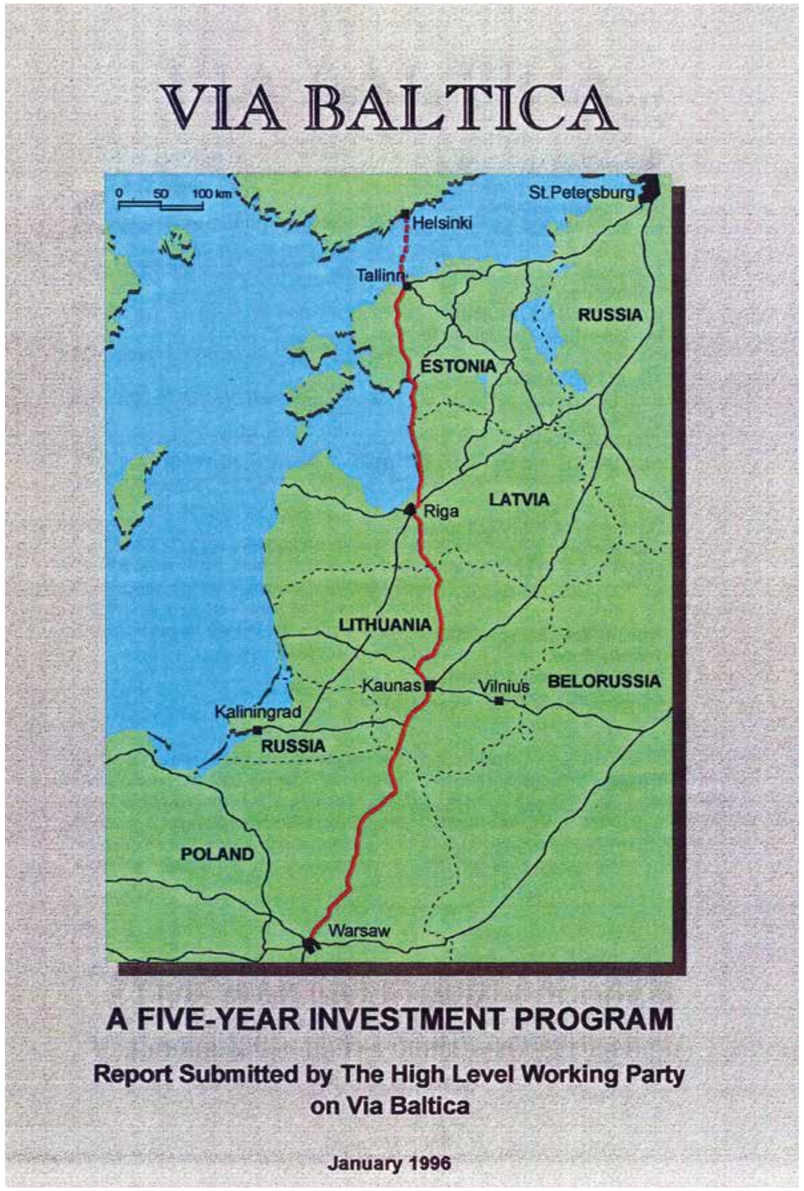
While the three banks had been treated as substitutes for the abandoned BIB, the mood had shifted by the time of the BIP II. The national investment banks' products were deemed "too specialized" to "remain competitive" in a privatised financial system, even as a series of bank failures racked Latvia in 1995.[471] The equity fund allowed NIB to oversee the transition of the three national investment banks from public institutions to commercial enterprises. The Estonian Investment Bank, whose initial success meant that NIB had not taken equity in it, was sold by the Central Bank of Estonia to the Finnish Sampo group in 2000. The Latvian Investment Bank, meanwhile, was purchased by a consortium organised by NIB in 1997. NIB sold its equity in 1999 for a small profit, leaving Merita-Nordbanken, which later became Nordea, as the sole owner. The sale of the Lithuanian Development Bank proved tricker, and NIB became integral to ensuring the bank's legal structure was suitably reformed to attract an investor. With the fate of the bank in the balance, NIB and the Lithuanian government eventually arranged the transfer of shares to Sampo, the same concern that had bought the Estonian bank, in 2000.[472]

By the end of the 1990s, the Baltic investment banks faced a tough challenge, threatened by the very economic privatisation that they had been created to promote. Their successful and profitable sale was in no small part thanks to NIB's significant time and effort to broker deals and ensure their attractiveness.

Even with BIP II's greater weight on technical assistance, the BIL facility remained central with an additional ECU 30 million for investment in Baltic projects. While the first version of the BIL focused on loans to national investment banks for on-lending to SMEs, the second version of the BIL was more diverse, including projects in manufacturing, telecommunications, and infrastructure, the latter headlined by the Via Baltica.

In line with efforts to integrate Western and Eastern Europe, the Via Baltica was designated an official pan-European "corridor", connecting Helsinki in the north with Warsaw in the south. While it was possible to travel "Corridor 1" using existing roads – and ferries for the Tallinn-Helsinki portion – transportation was slow and unattractive due to a lack of international coordination that produced uneven conditions: substandard surfacing, narrow bridges, etc. By improving the route, Western European states hoped to break Poland and the Baltics of their previous eastward orientation and inspire "socio-economic development" through incorporation into western markets and supply routes. The vision included Finland, which would gain increased access to continental goods moving across the Gulf of Finland.[473] A feasibility study on the Via Baltica was commissioned shortly after Baltic independence, with NIB as the executing agent and NOPEF, EBRD, and the Ministry of Transport of Finland as sponsors.[474]

Even though the study found the Via Baltica feasible and necessary, coordinated financing for the various elements proved difficult to secure, creating concerns that the link would "not become a reality in the foreseeable future".[475] Consequently, NIB received a request following the G-24 Transportation Group's meeting in May 1993 to establish a high-level working group that would organise financing for improvements along the Via Baltica. Under the chairmanship of former NIB board member Bengt Dennis, the working group completed its report in January 1996 with a five-year investment programme. The programme suggested



NIB ARCHIVE, COMMUNICATIONS, F7

NIB acted as executing agency for a feasibility study of upgrades for the roadway "Via Baltica" before contributing to a subsequent funding package.

infrastructural upgrades to standardise and improve the roads between Warsaw and Tallinn, as well as address environmental issues like noise, dust, and emissions. Attached with the working group's report was a memorandum of understanding signed by the respective governments, meaning that the program was ready to implement as soon as proper financing was found.[476]

Nib could contribute to the proposed usd 215 million budget with a usd 6.7 million loan to the Republic of Lithuania for road construction in 1996. The loan, drawn from the bil, signalled the opening phases of the Via Baltica's first investment programme, which included co-financing from Eib, Ebrd, and the World Bank.[477] Following transportation and safety upgrades, as well as quality upgrades like a new tourist information sign system, the initial programme was completed in 2000. Such progress was indicative of the great need for infrastructural renewal in the Baltics, which led Nib to channel more than 70% of its total financing for Eastern Europe into infrastructure. Nonetheless, Jón Sigurðsson noted in 1999 the continuing need for "massive infrastructure investment" in these transitional states.[478]

Yet loans need not be "massive" to be impactful. In 1999, as the bip wound down and remaining funds were being distributed, Nib received word of an upcoming international conference in Reykjavík promoting gender equality in the Baltics and northwest Russia. "Women and Democracy at the Dawn of the New Millenium" fit the moment amidst a growing urgency around women's rights in foreign policy, development aid, and international finance.[479] As Hillary Clinton declared at a landmark un conference in Beijing in 1995, "Women must enjoy the right to participate fully in the social and political lives of their countries if we want freedom and democracy to thrive and endure."[480]

Social and political life was incomplete without economic influence. In response, development thinking embraced the use of small loans

ASDIS ASGEIRSDOTTIR, AFP / LEHTIKUVA

Hillary Clinton arrives in Reykjavík for the Women and Democracy at the Dawn of the New Millenium conference in October 1999.

focused on building and transforming the private sector of developing countries. Amongst the converts was Hillary Clinton, who would be the keynote speaker in Reykjavík.[481]

Unsurprisingly then, microfinance became central to the Women and Democracy conference. Shortly before the October conference, Jón Sigurðsson was invited to contribute to the conference with financing that would "increase women's participation in economic decision making and the development of democratic societies". The Bank's contribution to the Baltics would be matched by a comparable American program in Russia.[482]

Nib directed 1 million euros towards the Baltic investment banks for small enterprises led by women or advancing women's economic participation.[483] Drawing on previous bil experiences of on-lending to

SMEs, NIB also sought and received special permission from the NBIC given the difficulty of satisfying a traditional Nordic interest and the BIP's impending expiration. Usefully, "the initiative had broad support from the highest political level in all the participating countries". Siv Hellén was delegated responsibility for its design and operations.[484]

Such support proved well-placed. Lending went into 45 projects throughout the Baltic countries, from a series of small loans averaging around USD 15,000 in Estonia to slightly larger loans in Latvia and Lithuania. While a challenge to combine such small investments with profitability, the programme successfully channelled capital into emerging female-dominated sectors like retail and services and encouraged female entrepreneurs to build new competencies like preparing business plans. Follow up loan programmes to each of the Baltic states, as well as a EUR 10 million extension through the Council of Europe Development Bank, indicated the loans' popularity.[485] As the NIB's 1999 Annual Report concluded, "This credit arrangement has attracted widespread attention and thus marks a positive conclusion to the Baltic Investment Programme."[486]

The female entrepreneur loans capped NIB's involvement in the Baltic Investment Programme, which the Nordic Council of Ministers allowed to expire upon the completion of its second iteration. Mustering the financial resources and expertise of the Nordic countries and their European allies, the BIP had sought to "fill the void created by the collapse of Soviet-style state owned enterprises" by developing private industry in the Baltics.[487] In the process, the Nordic Council of Ministers hoped to foster Baltic ties to a Nordic region that itself was in a process of geographical redefinition.

For NIB, the BIP displayed the Bank's utility at the vanguard of the Nordic countries' approach to their new neighbours. NIB's financial expertise fit the ethos of the post-Cold War era, wherein economic and

market-based solutions were broadly viewed as the most direct path to a well-functioning democracy. As Jón Sigurðsson would later argue, after 1991, NIB formed one leg of Nordic cooperation with the Baltic countries, with the other led by the Nordic political institutions and the voluntary sector.[488] Even with the failed Baltic Investment Bank proposal and the significant difficulties encountered by national investment banks, NIB could increasingly look towards their Baltic neighbours more as partners than as "cygnets" awaiting instruction from Nordic "swans."[489] The new relationship set the stage for the Bank's subsequent expansion.

The Nordic Investment Bank Expands

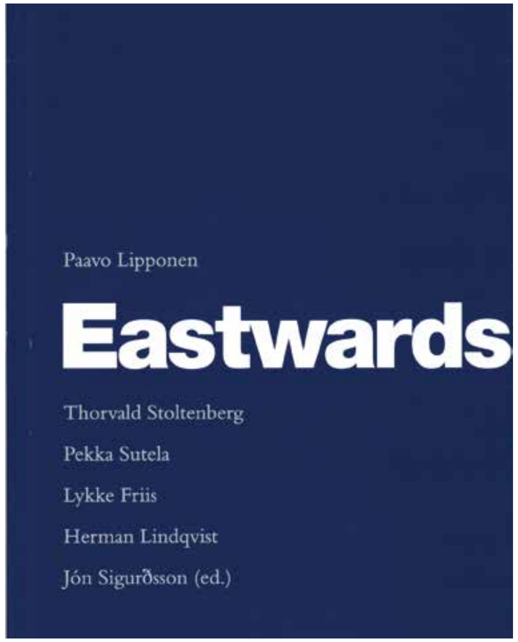
The Push Eastwards

Rather than signalling a declining interest in the Baltic East, the conclusion of the Baltic Investment Programme ran parallel to a dramatic rise in NIB's bilateral and multilateral lending in the former Soviet republics. As predicted in discussions of the Bank's future, operations in the Baltic Sea were increasingly central to NIB's expanding size and purview.

NIB's growth necessitated a capital increase, NIB's fourth, as the 1990s came to a close. In June 1998, the Nordic Council of Ministers voted favourably on a proposal from NIB's Board of Directors to increase the Bank's authorised capital to ECU 4.0 billion, a demonstration of political trust that raised NIB's lending ceiling by almost 1/3rd. The funds facilitated a banner year in 2000 for NIB, which boasted the largest profit margin in its history with a strategy that consciously focused on lending to SMEs. Combined with its triple-A rating, this momentum sustained NIB when financial markets suddenly plunged following the September 11th terrorist attacks amidst declining confidence in economic and geopolitical stability.[490]

NIB's 25th anniversary in 2001 prompted reflection on the various changes the Bank had witnessed since its founding. Jón Sigurðsson, who could chart his personal involvement with NIB back to before its creation, noted how the financial deregulation and globalising tendencies of the past couple decades had prompted new goals in economic cooperation: "The Nordic area as a home market is no longer just a political slogan, it is a living reality."[491] Through its lending, NIB had helped finance various subcontracting arrangements and corporate mergers, a different but hardly incompatible vision of regional integration from those first raised in the immediate postwar period.

NIB



NIB's 25th anniversary booklet in 2001 spoke to an institution firmly concentrated on developments in the Baltic Sea.

Yet it was an element of NIB's business not included in its original mandate that seemed poised to dominate the Bank's future. NIB's international lending had expanded at a clip far exceeding its Nordic equivalent, tripling between 1993 and 2003.[492] As Siv Hellén noted in 2001, the result was that NIB was coming to play "a relatively more important role for Nordic industry outside the Nordic countries rather than within".[493]

As made clear in the title of NIB's 25th anniversary booklet, the Bank's external gaze was firmly fixed in a particular direction: *Eastwards*.[494] Following the dominance of Asian projects in the early 1990s, lending had been increasing to the former communist states, such as a 1995 loan to a telecommunications project in Hungary where Nokia was an important supplier.[495] Subsequently, PIL lending turned sharply towards projects in the Baltic countries and Poland, constituting 23% of all disbursed international loans by 2002.[496] Even before the conclusion of the BIP, NIB was financing Baltic projects through the PIL facility, taking advantage of the growing wealth and creditworthiness of the transition economies.[497] In 2002, this included, on the one hand, loans to state-owned enterprises for expanding energy and port infrastructure and, on the other, investments in private banks and businesses for profit-incentivised projects, such as a shopping centre in Riga developed by Norwegian-owned company Linstow Varner.[498]

The belief that international investment would continue to grow prompted institutional adjustment. In mid-1999, the Nordic states renewed NIB's treaty for the first time. The new treaty had been in the works for years, a response to Sweden and Finland joining the European Union and the Bank's growing portfolio of Eastern European loans. Modelled on EIB's treaty but integrating the "straightforward" language of Nordic agreements, the new treaty clearly denoted NIB as a multilateral financial institution, stating in its first article that "The Bank shall have the status of an international legal person with full legal capacity." The agreement, according to Siv Hellén, reflected "a more global approach to NIB's financing", as NIB's statutes were altered from primarily supporting projects of a "Nordic interest" to instead focusing on "investment projects of interest for both Norden and the countries outside the Nordic region that receive loans or guarantees".[499]

That the neighbouring states would have a significant role in this international outlook was underlined by an April 2001 memorandum on "NIB and the Future". Despite arguing that the Nordic region would remain the most important area for Bank operations, the memorandum predicted continued increases in investment in the Baltic Sea, to be conducted based on "Nordic" conditions.[500] From spring 2001, NIB would indeed begin considering financing in the Baltic countries as part of its ordinary lending, thus requiring only the guarantees of the borrowers rather than the 90% state-guarantees denoted by PIL loans. Loans to Baltic projects of a cross-border nature were considered to satisfy the Nordic interest.[501] Such an extension of NIB's general lending principles to the near abroad indicated a belief that the Bank's "home" territory was growing.

The Gateway to the West

Despite its prediction about an enlarged purview, the memorandum remained mum on the possibility of expanding the Bank's membership. This was at odds with discussions currently underway in the Baltic countries. After the failure of the Baltic Investment Bank, interest had shifted to NIB. Starting in 1995 with the Governor of the Estonian Central Bank and later Prime Minister of Estonia Siim Kallas, Estonian politicians regularly expressed interest in joining the Bank.[502] Such statements – and the new kind of Nordic interest they revealed – fit with a broader strategy amongst the Baltic countries of joining interna-

LEIF R. JANSSON / TT / LEHTIKUVA

Valdis Dombrovskis' enquiry into the possibility of Baltic membership in the Nordic Investment Bank got the ball rolling on enlargement.

tional agreements, in the process aligning themselves with the former First World. The Nordic region and its institutions represented a useful gateway to the west.

In line with this strategy, Estonian Prime Minister Mart Laar wrote his Finnish counterpart Paavo Lipponen, concurrently chairman of the NCM, in May 2001, requesting consideration of Baltic membership in the Nordic Investment Bank. Not only would NIB membership ensure that the Baltics were part of a "western" financial institution, its placement in Helsinki, the product of an earlier compromise, ideally located it as a Baltic Sea institution. However, despite support for the idea from Lipponen,[503] Laar received a negative answer, perhaps due to concerns that Baltic membership would imperil the Bank's creditworthiness.[504]

Yet the situation was far from static. Positive pressure for NIB expansion, with Jón Sigurðsson a particularly vocal voice in its favour, meant that "the wheels began to turn more swiftly".[505] In 2002, the Baltic countries were invited to begin talks about EU and NATO accession, a major breakthrough for their geopolitical realignment. Baltic economic growth continued apace, with the Baltic banking sector advancing significantly.[506] On the back of these developments, Valdis Dombrovskis, the new Latvian Finance Minister, made a renewed enquiry into Baltic membership during a visit to NIB in February 2003. The reaction to Dombrovskis' enquiry proved very different.

At the urging of the Swedish government, which held the NCM's presidency in 2003, Jón Sigurðsson and NIB board chairman Claes de Neergaard prepared a non-paper exploring the possibility of Baltic membership in NIB.[507] Such anonymous non-papers were used to test out reactions on potentially contentious issues and unofficially gather support. Reviewing the Nordic countries' approach and NIB's operations, the non-paper argued that Nordic-Baltic cooperation was entering a new era with Baltic EU membership, necessitating more formalised arrangements. The financial sector was an obvious area to deepen this cooperation, given the already extensive interdependence bred by contacts and Nordic commercial banks' extensive ownership interests in the Baltic banking sector. Indeed, to give the Baltic countries' "opportunities to develop central Nordic values and become well-functioning members of the EU", it was necessary that "what can be perceived as client-patron relations with the Baltics completely cease and that a well-functioning cooperation on equal terms be achieved". Given these interests and NIB's already extensive operations in the Baltic countries, the non-paper suggested that Baltic membership be strongly considered.[508]

The non-paper was sent to the Swedish Ministry of Finance and subsequently distributed amongst the Nordic finance ministries and other influential private and public figures. The Swedish government wished to make the Bank's expansion a highlight of their NCM presidency; accordingly, they developed an ambitious schedule to gain formal approval during the Nordic prime ministers' meeting at the end of June.[509] Prior to that, the Swedes sought to gauge support at a closed meeting of the Nordic cooperation committee in May 2003 in Copenhagen. The Swedish government felt the time was right, explained Stefan Noreén, the Swedish representative, for expanding NIB's membership. The Danish and Norwegian representatives were more reticent. While Denmark pointed at the political and infrastructural challenges of expansion, the Norwegian representative raised concerns about the effect upon NIB and wondered "why they should begin with the largest Nordic institution" in efforts to deepen Nordic-Baltic cooperation. For the most part, though, no major objections were raised. In truth, given the foundations laid by the BIP, NIB was a logical place to begin such institutional integration. Moreover, as the Finnish representative argued, if political support for the idea could be mustered, financial and treaty-based solutions would follow.[510]

In an effort to galvanise this political support, Jón Sigurðsson, amongst others, argued that expansion would benefit everyone: the Bank, its Nordic owners, and the Baltic countries. NIB would gain intimate access to the Baltic finance ministries, not to mention a wealth of projects in need of financing with the World Bank, EIB, and others all scaling back operations in the Baltic Sea. In return, NIB would provide technical know-how and an international network, while helping the Baltic states embed themselves further in regional and European agreements. The Nordic governments meanwhile would deepen ties with like-minded states and potential allies once the EU's eastward expansion was finalised.[511]

On the back of such arguments, the Nordic prime ministers, under the chairmanship of Göran Persson, made the decision to invite Estonia, Latvia and Lithuania to become members of the Bank during a meeting at Harpsund, Sweden on June 29th and 30th. Prior to the meeting, discussions of expansion had been kept confidential, although informal soundings had been taken of Baltic interest. These soundings revealed substantial interest amongst Latvia and Estonia, while the response of Lithuania, which was facing budget difficulties, was less certain.[512]

Beyond the question of political will, a major institutional obstacle stood in the path of Baltic membership: there was no formal mechanism for expanding NIB. The Nordic Investment Bank had been established with a concrete idea of what constituted the "Nordic". As described in Chapter 2, NIB's founders intended the Bank to take advantage of the Nordic region's positive international reputation, rather than extend that regional identity. Therefore, NIB's treaty was closed to new membership.

The Nordic finance ministries consequently tasked a Nordic working group headed by Kurt-Arne Hall from the Swedish Finance Ministry with defining the conditions of Baltic accession. Their proposals were expected by the Nordic Council meeting at the end of October. The working group would have to act quickly to reimagine NIB as a Nordic-Baltic institution.

In the Regional Interest

The working group established that a new agreement was necessary to secure Baltic membership. NIB's institutional autonomy, enshrined since the NORDEK negotiations, proved useful in this regard, as a new, expanded bank treaty would not necessitate adjustments to other aspects of Nordic cooperation.[513] The biggest issue remained NIB's creditworthiness, which Baltic membership should not imperil. On this basis, expansion was based on Baltic countries paying "their share" of

the Bank's authorised capital based on their gross national income, as well as topping up the reserves so that dividend payments would not be interrupted. The approach essentially turned expansion into a new issue of shares in NIB, which came with the benefit of increasing the Bank's authorised capital by more than EUR 140 million.[514]

While the authorised capital structure was kept the same, the new agreement made more radical changes to the Bank's infrastructure. For one, more members necessitated new governance mechanisms. Consequently, a Board of Governors replaced the Nordic Council of Ministers as the primary means of political oversight. Modelled on EIB, the Board of Governors consisted of cabinet members from each member state and had ultimate decision-making power over the Bank, including amendments to statutes, increases in authorised capital, approval of the Board and Control Committee reports, and liquidation of the Bank. The Board of Directors and Control Committee, meanwhile, maintained their responsibilities, albeit in an altered form. The Control Committee continued to have five members appointed from the Nordic Council, while an additional three members were appointed by the Baltic parliaments. A Control Committee chairman and vice chairman were chosen by the Board of Governors. For the Board of Directors, considerations of adding six new members were rejected in favour of an eight-person Board with eight alternatives. NIB's principle of equality in decision-making was thus preserved.[515]

Another key aspect of the Statutes was likewise altered: the requirement to work for the Nordic interest. "The Nordic interest" had been a central, if often disputed, framework for NIB activities since its founding. Even though NIB's staff sometimes chafed at its limitations and pushed creative interpretations of its meaning, the Nordic interest had served as a reminder of the Bank's regional origins and distinguished it from other commercial and international financial institutions.

Yet this mandate no longer made sense for an organisation that sought to expand its boundaries eastwards. Moreover, the small, upstart companies in the Baltic states that needed NIB financing could not support the two-country principle, wherein lending should benefit more than one member country; consequently, previous loans through the BIP and its environment lending facility had made exceptions. The working group discussed two options: either maintain these exceptions or treat all improvements of the Baltic region as part of the members' interest. The new agreement bridged the difference by calling for financing of "investment projects of interest to the Member countries and other countries which receive such financing". The new mandate maintained the idea that loans should be in the interest of the member countries, and any third-party PIL recipients, but within a broad understanding of what that new regional interest required.[516]

LEIF R. JANSSON / TT / LEHTIKUVA

Juhan Parts, the Estonian Prime Minister, participated in signing the October 26 agreement to expand NIB's membership.

Although the "Nordic interest" was ultimately abandoned, the Bank's name continued to recall its origins. From early on, the working group chose to keep "Nordic Investment Bank" as the moniker, despite the proposed enlargement. As a July draft of the new agreement clarified, "The Bank has acquired considerable name, goodwill, recognition and branding of its name and its abbreviation on the international capital markets ever since it began its operations in 1976."[517] Keeping the name ensured that NIB would continue to benefit from this positive reputation.

The general terms proved acceptable when the Nordic and Baltic prime ministers and finance ministers assembled in Oslo on October 26, 2003, ahead of the Nordic Council's session. After reviewing the new agreement, the meeting concluded with an official invitation for Estonia, Latvia, and Lithuania to join the Nordic Investment Bank. For their part, the Baltic governments signalled that they would accept. Speaking to the international press following the meeting, Juhan Parts, the Estonian Prime Minister, reflected that the invitation was both the fulfilment of past ties and a promise of a collective future: "I think this is a historical day because we remember the time when the Nordic Investment Bank was one of the most important financial institutions supporting our economies in the 1990s [...] This shows that we share the responsibilities of developing this region."[518]

One issue remained unresolved even after a subsequent working group completed their work: the question of language. Through its first thirty years, the Bank had had five official languages with the Scandinavian languages – Danish, Norwegian, and especially Swedish – the primary means of everyday communication. Now, in anticipation of new colleagues from the Baltics, it was decided that the Bank's working language would be English, a major shift in the internal mechanisms of NIB. Yet it was the suggestion to make NIB's official language English that proved particularly contentious. While most of the member states


NIB

Nordic and Baltic ministers and officials sign NIB's new treaty on February 11, 2004. The Bank was now a Nordic-Baltic institution. From left: Taavi Veskimägi, Estonia, Ulla-Maj Wideroos, Finland, Geir H. Haarde, Iceland, Valdis Krastins, Latvia, Dalia Grybauskaité, Lithuania, Haakon Baardson Hjelde, Norway, Gunnar Lund, Sweden, and Claes de Neergaard, NIB. Out of frame on the far left is Catarina Doepel, NIB, and lb Katznelson, Denmark. Out of frame on the far right is Jón Sigurôsson, NIB.

accepted the transition to English, the Finnish government protested, proposing that Swedish remain a second official language of the Bank. The Swedish People's Party, dedicated to the interests of Finland's Swedish-speaking minority and member of the governing coalition during the negotiations, may have influenced Finland's position, but Swedish also had long been important as a "confirmation" of Finland's Nordic identity.[519] Ultimately, Finland held firm. When the Nordic and Baltic ministers and officials gathered in Helsinki to sign NIB's new treaty on February 11, 2004, two official languages, English and Swedish, were included.[520]

The new NIB treaty was subsequently approved by the Nordic and Baltic national parliaments. Despite some minor concerns, including from the Nordic Council Socialist-Green party group that Russia had not been considered for membership in the new NIB,[521] the Bank's expansion was generally viewed by policymakers as a pragmatic and low-risk means of furthering institutional ties across the Baltic Sea. The enlarged Nordic Investment Bank, which came into operation on January 1, 2005, appeared a practical fulfilment of the new regionalism.

From Paternalism to Partnership

The turn of the 21st century proved the Nordic Investment Bank's most profound period of transformation to date. While the threat of losing their triple-A rating amidst the Nordic banking crisis provoked concerns about the Bank's future, it was the simultaneous collapse of the Soviet Union and the Eastern Bloc that turned out to be far more significant. The emergence of the independent Baltic republics pushed the Bank into new forms of international lending closer to the market-building approaches of the regional development banks, while also providing renewed vigour to an institution that entered the decade struggling with a sense of purpose.

In its work for the NCM, the Nordic Investment Bank was more involved with political projects than previously, becoming a key part of Nordic-Baltic cooperation. As an autonomous institution owned but not directly controlled by the Nordic states, NIB had the ability to open new frontiers of cooperation. In Mart Laar's rather panegyric recollection, the connections established through the financing of common projects helped "make in reality what politicians have in dreams".[522]

However, NIB's involvement in the Baltics was not immediately characterised by the kind of equality Laar's statement implies. Notwithstanding initial Nordic support for Baltic membership in various international organisations, there was a sense amongst NIB, the Nordic governments, and even the Baltic states themselves that, after decades of communist rule, the Baltics must first *learn* the proper functions of modern democracy and how to build its infrastructure and market institutions.

The result was an often-paternalistic approach in the early 1990s. The BIP, for example, was created in consultation with the Baltic governments, but important elements, such as removing the Baltic Investment Bank, were pushed forward over the objections of the Baltic governments.[523] Aspects of this attitude extended to the Nordic Investment Bank, where the Baltics were viewed as an important area of operations, but not necessarily as partners in NIB's future.

Nonetheless, the work of NIB in the Baltics was never unilateral. From the start of the BIL, NIB relied on the Baltic investment banks and their knowledge of the local environment in directing lending. This became more apparent in the early 2000s, as the Baltics came to dominate PIL lending. Shared purpose created common ties, finally ensuring the rapid acceptance of Baltic partnership in NIB.

Hardly surprising, the expansion of Bank membership would come to significantly reshape the Bank's activities and outlook in the coming decades. However, any expectation that NIB's enlargement would be a precursor to the similar expansion of other Nordic institutions would have been wrong. While the Nordics and Baltics have continued to increase and deepen their cooperation in a variety of fields, NIB remains the only Nordic institution to take on new member states from the Baltic region or anywhere else. In this regard, the Nordic Investment Bank continues to represent an alternative, still unfulfilled vision of the future of Nordic interest and "normal relations" in the Baltic Sea.

Chapter 5

From Self-Sufficiency to Sustainability, 1976-2021

The Nordic Investment Bank had discovered renewed purpose amidst the collapse of the Soviet Union, becoming central to Nordic efforts to raise and manage investments in the Baltic transition economies. However, the Bank's participation in the Baltic Investment Programme and other Baltic-orientated efforts was only half the story. Equally significant, and interlinked with the move eastwards, was NIB's increasing commitment to environmental protection and sustainability in its operations. Although discussions of environmentally conscious lending have been touched upon in previous chapters, they have largely remained peripheral to the narrative. Yet this growing focus on sustainability, which reshaped international finance in the 21st century, pushed the Bank towards new routines and conceptions of its role in the Baltic Sea region.

The shift towards environmental and sustainable finance built on the Bank's origins in the 1970s and concerns about energy self-sufficiency. Through both Nordic and international projects, NIB established its expertise in developing and utilising resources to power industry and society. Due to external pressure and new priorities in the Bank itself, this expertise gradually transformed into efforts to embed sustainable goals in every aspect of the Bank's activities while maintaining its banking principles. This chapter therefore breaks with the narrative flow to revisit NIB's founding and explore how its focus on financing energy self-sufficiency found new purchase in a movement towards sustainable finance.

The Environment: A New Nordic Interest

Visions of Energy Self-Sufficiency

While the oil crisis catalysed NIB's creation in 1976, interest in regional financing for energy projects dated back to discussions about a Nordic bank in the 1950s. This was hardly surprising, as energy production played a vital role in transforming the Nordic countries from agrarian societies to modern industrial states.[524] The modernisation project relied on cheap energy resources, particularly foreign oil, to fuel industrial expansion and in turn expand the welfare state. By the 1970s, however, threats to energy security and sluggish growth prompted calls for new energy initiatives, especially those harnessing local sources.

Naturally, early bank proposals aimed to boost energy production. After noting the absence of a "rich uncle" during the 1958 customs union debate, Tage Erlander subsequently advocated for the bank as a means of addressing demands for power plants in the far north.[525] A decade later, the expansion and effectivisation of the energy supply, particularly hydroelectric power but also gas and oil, was a major concern during NORDEK discussions given its expected contribution to Nordic manufacturing.[526] This drive for energy self-sufficiency gained added urgency with the OPEC oil crisis, making energy cooperation and common regulation a major topic at the 1974 Nordic Council meeting.[527]

Little wonder then that the Nordic Investment Bank emphasised lending to energy projects from the outset. In its 1975 recommendations, the Nordic Council of Ministers proposed that the determination of a Nordic interest "could, for example, be the case in power plant projects, where the new unit is part of a common power supply network".[528] NIB's

Board of Directors built on this proposal in a 1978 meeting, defining the Nordic interest as energy projects that: 1) led to a transfer of energy capacity, 2) included significant orders of equipment from another Nordic country, 3) had clear significance for another Nordic country's energy supply, or 4) developed new energy sources crucial for the rest of the region. Ultimately, "The size of the loans should be in relation to the Nordic interest of the project."[529]

Indeed, substantial funds were channelled towards projects enhancing Nordic energy capacity. Early loans to Imatran Voima (1976) and Østkraft (1977) helped build the infrastructure for Nordic energy integration and paved the way for the NORD POOL power exchange in the 1990s, which introduced the "Nordic model" for a deregulated electricity market.[530] The region's abundant hydropower resources were key to energy production, and NIB provided multiple loans to the Landsvirkjun power company in Iceland to fund hydroelectric power plants (1979, 1982, 1988).[531]

The development of local energy sources also took other forms. In Iceland, geothermal power emerged in the 1970s as a largely untapped resource to support industrialization. NIB lending included the 1991 expansion of the Svartsengi power station, whose salt-water runoff contributed to the famous "Blue Lagoon." [532] In Denmark, a natural gas pipeline project to Sweden received NIB's largest loan to that point: SDR 41.1 million in 1981.[533] The concentration of significant funds in a few large Danish projects prompted NIB to open its first branch office in Copenhagen to diversify its client base.

Peat, a traditional heating source in the Nordic countries, found renewed significance in the 1970s and 1980s as a local energy resource. Starting with a USD 3.2 million loan to eastern Finland in 1979,[534] NIB invested in various peat-related projects over the next decades, concluding with a loan to a peat-burning plant in Tartu, Estonia in 2007.[535]

While peat, like oil and gas, became increasingly problematic amidst growing awareness of climate change, other loans sparked more immediate controversy. One of NIB's earliest loans went to Teollisuuden Voima Oy (TVO) for the construction of a pair of nuclear power plants in southwest Finland, utilising components from Sweden.[536] The loan exemplified the post-oil crisis environment, where nuclear energy appeared as a potentially "'pure' and inexhaustible source of power".[537]

However, by 1980, in the aftershocks of the Three Mile Island accident in Pennsylvania, USA, the TVO loan drew criticism from anti-nuclear activists in Sweden, who demanded the Bank instead focus on "alternative energy sources".[538] Critics of the Bank like Leif Glensgård subsequently used the TVO loan as evidence that the Nordic Council's treatment of NIB as inviolable silenced legitimate concerns about its lending practices.[539] Nevertheless, calls for greater energy self-sufficiency and exchange overshadowed these complaints. Consequently, the next year, the Bank financed two separate loans of SDR 22.6 million each to the Oskarshamn nuclear power plant in Sweden, more than 25% of NIB's total lending in 1981.[540] NIB would continue to fund nuclear power plant operations over the coming decades, although by the 1990s this had increasingly transitioned into investments into modernisation and safety.

NIB Joins the Fray

The focus on energy during NIB's early years mirrored its political environment and the high capital demands of large-scale energy projects. However, while substantial and cheap energy had driven 20th century affluence and state-building, by the 1960s and 1970s, it had become increasingly problematic, part of a "difficult modernity" to which technology was both the problem and solution.[541] Questions arose about the costs of establishing modern industrial nations and its toll on the natural landscape. As writer Lars Gyllensten lamented in a debate with Olof Palme in 1969, the Swedish state seemed content to ruin nature "for a drop or two of electrical energy".[542]

Amid mounting critique of modernisation and its ever-increasing energy demands, the Nordic states began seeking new forms of cooperation on environmental protection and preservation. However, according to historian Melina Antonia Buns, what really drove the formation of Nordic environmental cooperation were negotiations around broader economic integration in 1967, including the NORDEK debates. Whereas pollution had been considered an "inevitable symptom of a modern society's economic prosperity" in the postwar period, by 1967 there was greater pressure to view ecological and economic goals as interlinked.[543] In a globalised world, environmental degradation could not simply be dismissed, especially when air and sea pollution transcended national borders and demanded coordinated international responses. The Nordic countries, vulnerable to acid rain from European sulphur dioxide emissions, became leading advocates for international solutions to transboundary environmental issues.[544] Their reputation was bolstered by Norwegian Prime Minister Gro Harlem Brundtland's leadership of the World Commission on Environment and Development, more commonly known as the Brundtland Commission, and its 1987 report "Our Common Future."[545] The report's call for a reorientation towards "sustainable development" included recommendations that the World Bank and other IFIS "support wider and longer term development objectives than at present: growth, social goals, and environmental impacts".[546]

The Brundtland Commission's recommendations mirrored internal discussions within IFIS. The financial liberalisation of the post-Bretton Woods system drew attention to the activities of financial actors and their socioeconomic impact. By the 1980s, the growing popularity of

Gro Harlem Brundtland addresses the UN General Assembly on October 19, 1987. The Brundtland Commission was instrumental in popularising the concept of "sustainable development".

environmental issues prompted commercial and international banks alike to endorse the concept of sustainable development. Usefully, sustainable development connected ecological protection with economic growth and focused on the proactive role of the financial sector in shaping environmental policies, rather than culpability for environmental degradation. Accordingly, organisations like the European Investment Bank shifted from piecemeal investments in pollution-control projects to formally embracing a commitment to environmental protection in the early 1980s.[547]

The new paradigm was codified in the "Declaration of Environmental Policies and Procedures Relating to Economic Development" signed in 1980 by ten prominent IFIs and multilateral development agencies. Embracing ideas of proactive influence, the agencies acknowledged that

"international development assistance institutions have, along with their member governments, a special responsibility to ensure the sustainability of the economic development activities financed by them".[548] A new Committee of International Development Institutions on the Environment (CIDIE) was established to oversee the implementation of the declaration.[549]

Between the environmental leadership of its member countries and IFI interest in sustainable development, the field was primed for NIB to act. According to Barbro Eriksson, Loan Administration Specialist at the time, the Bank was involved in the CIDIE process from an early stage, eventually joining the declaration in the mid-1980s.[550] However, concerns arose that CIDIE's call for strenuous consideration of environmental criteria during project evaluations might hinder NIB's ability to attract customers.[551] Despite this, interest in environmental lending persisted, resulting in a 1987 proposal for a Nordic action plan for economic and environmental stability from the Nordic Council of Ministers, following the Brundtland Commission's recommendations. The "Nordic Cooperation Programme for Environmental Protection" sought to merge an environmental agenda with economic progress, especially through the rationalisation of energy and transportation infrastructure.[552]

The discussion culminated in the Nordic Council's second extraordinary session in November 1988, thirteen years after NIB's creation during the first extraordinary session. Although NIB did not feature prominently, it was recognised as a prime partner in developing Nordic leadership in "environmental technology" by financing its export abroad, especially to China and southeast Asia.[553] The question, NIB's second president Jannik Lindbæk declared during an NIB roundtable in 1988, was "Can we in the Nordic countries make progress more quickly than in the rest of the world generally, without this happening at the price of industry's competitiveness?"[554]

More important for NIB was a subsequent action plan to expand the Nordic "home market" in line with the Brundtland Commission's recommendations. The Bank's leadership, asked to contribute to the action plan, used the opportunity to reformulate NIB's approach to environmental financing. This incorporated a "simplified" interpretation of the "Nordic interest" to include projects "where the purpose or effect is an improved environment", even when they only involved one country (for Nordic loans) or deliveries from a single Nordic country (for the international Project Investment Loans).[555]

The revision of the Nordic interest produced immediate results. The Copenhagen office began aggressively advertising NIB's new environmental functions, particularly amongst Danish counties seeking to reduce water emissions.[556] The outreach generated loans for water and sewage treatment plants in Nysted County and Løgstør County in 1989, and Horsens County the following year.[557] Increasingly, environmental and energy interests overlapped in both Nordic and PIL loans. For example, in 1991, a loan to a diesel-fuelled power plant in Linköping, Sweden lowered emissions, while in 1993 a hydropower plant in Caruachi, eastern Venezuela, included initiatives that minimised environmental degradation.[558] These environmental investments made an impression, and by 1989 NIB had built a reputation amongst its customers for environmental lending.[559]

Not everyone was as impressed with the Bank's efforts. In 1991, the Norwegian organisation Future in Our Hands formally petitioned the Nordic Council, demanding that NIB conduct hearings with environmental organisations prior to negotiations on any lending agreements. "The Nordic Investment Bank has neglected the environment and it is time for a cleansing", proclaimed the organisation, citing extensive loans to "environmental sinners" like Norsk Hydro. "Environmental Bank Without an Environmental Profile" blared one headline covering the case.[560]

Shallow and Overtaxed: Cleaning the Baltic Sea

Even as NIB's record for Nordic loans was contested, the Bank was evolving new loan programmes that would redefine its lending over the coming decade. As part of the 1989 action programme, NIB was encouraged to consider environmental issues in its projects for neighbouring countries. The wording reflected the increased attention to developments in the Soviet Union.

While the Baltic Investment Programme became NIB's most high-profile engagement with its new eastern neighbours, it was preceded by environmental investments targeting the Baltic Sea. In September 1990, a conference in Ronneby, Sweden with high-level delegations from countries bordering the Baltic Sea – along with Czechoslovakia, Norway, and the European Community – convened to discuss strategies for cleaning the Baltic Sea, which had become one of the most polluted bodies of water on the planet.[561] For decades, the relatively shallow sea had been a a dumping ground for chemical waste, detritus, and other pollutants, while overfishing prompted a collapse of already deteriorating marine life. By the 1980s, nutrients from wastewater sustained visible algae blooms, as "fishing nets and waterline constructions became noticeably more covered in greenish slime".[562]

Scientists had recognised the deteriorating condition of the Baltic Sea since the 1960s, but political responses lagged. In 1974, states from East and West signed the Convention on the Protection of the Marine Environment of the Baltic Sea Area, known as the Helsinki Convention. Intended to promote reforms to combat pollution, the Helsinki Convention's actual impact was limited, as pollution continued to stream into the Baltic Sea, particularly from the Soviet East.

The Ronneby conference represented a notable effort to coordinate an international response to a sea in crisis. It was recognised that, "To

EUROPEAN SPACE AGENCY

By the end of the 20th century, the Baltic Sea was one of the world's most polluted bodies of water. Contains modified Copernicus Sentinel data 2019

bring the Baltic Sea into ecological balance will be expensive."[563] Consequently, NIB, which participated in Ronneby, became an "executing agency" for a Baltic Sea Task Force together with the World Bank, EIB, and the primordial EBRD.[564] The Task Force was charged with raising funds and identifying effective measures for cleanup operations. NIB, with Klas Ringskog, head of project analysis, at the helm, coordinated the studies for the Soviet Union and the Baltic republics. The Task Force ultimately produced an action programme proposal targeting over 130 pollution sources, with a calculated price tag of ECU 18 billion.[565]

The action programme was approved by a meeting of environmental ministers in Helsinki in April 1992, along with an updated version of the Helsinki Convention and its monitoring body HELCOM. HELCOM, short for Helsinki Commission, governed cooperation on Baltic Sea environmental projects.[566] Participants in HELCOM realised "that lasting improvements in the quality of the Baltic Sea depend ultimately not so much on international regulations as on heavy investments – particularly in Estonia, Latvia, Lithuania, Poland and Russia".[567] Subsequently, a series of feasibility studies, six with NIB as executing agency, were conducted for projects in areas like waste management, power plant conversion, and agricultural runoff.[568]

Despite the direct impact of Baltic Sea pollution on the Nordic countries, participation in HELCOM was controversial, as it diverted resources away from the Bank's focus on lending to Nordic energy and manufacturing projects. However, when NIB's leadership considered withdrawing from future collaboration with HELCOM in October 1993, it was pointed out that such a decision would have a deleterious effect on the Bank's relationship with the other IFIS and would mean that "NIB's profile as an institution that works with environmental issues would, for obvious reasons, probably come into question." Instead, the leadership chose to maintain "an active role" in HELCOM, provided it did not threaten the Bank's creditworthiness, financing eight of HELCOM's first eleven projects.[569]

Joining NIB in HELCOM was the newly established Nordic Environment Finance Corporation (NEFCO). Beginning operations in autumn 1990 as a department of NIB, NEFCO had more tools for funding environmental technology and services. Nonetheless, the influence of NIB, and particularly the PIL facility, was written upon NEFCO, starting with its statutes, which stated that NEFCO's purpose was: "to advance investments of Nordic environmental interest in East Europe by contributing

St. Petersburg's water works and sewage purification.

to the financing of companies in these countries".[570] Unlike the Nordic Development Fund, NIB's president also served as president of NEFCO until July 1993, when it became a separate organisation.[571]

NEFCO evolved alongside the world around it. Originally focused on East Germany, German reunification prompted a shift towards the former Soviet Union, as well as Poland, Czechoslovakia, and Hungary.[572] The ecological crisis in the Baltic Sea gave NIB and NEFCO shared purpose, as they sought to operate in areas that "complemented each other" while avoiding competing over administration of Baltic Sea trust funds.[573]

In addition to administering trust funds,[574] NIB would add a new lending facility for cleaning the Baltic Sea. In August 1996, the NCM

approved an ECU 100 million Environmental Investment Loan facility (MIL) to finance environmental investments in the Baltic countries, Poland, and northwestern Russia. Amidst an uncertain future, the MIL facility helped demonstrate NIB's ongoing utility as a financial arm for their owners.[575] Fully guaranteed by Nordic governments, MIL loans enabled the Bank to finance projects for entities whose low credit ratings would typically make them unsuitable for other lending types, crucial for investing in Russia and its municipalities.[576]

Amongst NIB's initial MIL projects, a loan made in collaboration with NEFCO and EBRD to modernise St. Petersburg's water works and sewage purification emerged as of particular "importance to several Nordic countries, aimed as it is at reducing discharges of sewage into the Gulf of Finland".[577] This loan established a precedent for future MIL lending to invest in water treatment in St. Petersburg, often co-financed with NEFCO. Still, progress remained slow. Despite several MIL commitments, only one loan had been disbursed by 2000 due to the protracted timelines and political challenges associated with environmental projects.[578] In response, NIB continued to seek new avenues for sustainable finance in the Baltic Sea.

New Parameters Emerge

By the Nordic Investment Bank's 25th anniversary celebrations in 2001, a well-attended affair that counted among its guests Finnish Prime Minister Paavo Lipponen and five Nordic finance and economic ministers, the Bank's environmental impact had become a notable part of its profile. As NIB's Annual Report described it, "All the Ministers stressed the importance of NIB's active participation in the financing of environmental projects in general and of urgent environmental projects in the neighbouring areas in particular."[579]

Another, albeit unofficial, anniversary text proved far more sceptical of the Bank's positive contribution to environmental protection and sustainability. 2001 marked "25 Years of Invisibility" for the Nordic Investment Bank, according to the Swedish chapter of the activist organisation Friends of the Earth. This invisibility stemmed from NIB's lack of transparency, which obscured its environmental impacts. Friends of the Earth argued that the emphasis on "Nordic interest" curtailed the Bank's willingness to assess the consequences of its actions outside the region, especially in the Global South. The pamphlet pointed to environmental degradation linked to NIB-funded dams in Laos and Colombia, along with projects closer to home, such as the Via Baltica and the (never disbursed) Öresund Bridge between Malmö and Copenhagen. Among its recommendations, Friends of the Earth urged NIB to uphold its claimed democratic and environmental values, such as by halting funding for hydropower plants.[580]

Despite this critical scrutiny, NIB's leadership was busy developing new institutions for environmental finance. On March 9, 2001, in cooperation with Sweden, NIB hosted a group of four international financial institutions – including the EBRD, EIB, and the World Bank – to discuss strategies for coordinating environmental financing. This meeting led to the establishment of a working group centred around an EBRD proposal to create a financial partnership related to the Northern Dimension Initiative, which Finland had introduced in 1997.[581] The initiative, which became operational in 2000, aimed to promote regional cooperation in Northern Europe, especially between Russia and the European Union.[582] Prime Minister Lipponen, central to launching the plan, emphasised that the accession of Sweden and Finland meant that "The [European] Union has thus acquired a natural 'northern dimension' […] we need a policy for this dimension, too."[583]

This would include a new partnership "to address environment and energy efficiency of the Northern Dimension Area". The working group acknowledged the progress made by the Baltic countries and Poland in addressing environmental issues but observed that "The environmental situation in Northwest Russia, including Kaliningrad (Russian NDA), remains very difficult […] There is a very large legacy of past and ongoing environmental degradation with cross-boundary impacts that has not yet been addressed. For instance, sewage from 1.5 million people in the St. Petersburg area is still discharged untreated into the Baltic Sea." In response, they established the Northern Dimension Environmental Partnership (NDEP), which would combine IFI loans with grants to develop "environmental utilities" against air and water pollution, as well as accumulated radioactive waste.[584]

The NDEP placed NIB at the centre of a far larger and more coordinated environmental facility than previously, becoming NIB's most significant avenue for environmental lending in the early 2000s. Perhaps in recognition of NIB's role in establishing the NDEP, the Bank received the honour of leading its Steering Group during its first year.[585] Besides finding donors willing to contribute grants to NDEP's fund, the Steering Committee drew up an investment programme of 12 priority projects with an estimated cost of EUR 1.3 billion.[586] While NIB would head six of these projects, "Unquestionably the most important […] is the completion of the Southwest wastewater treatment plant in St. Petersburg."[587] A loan agreement under the NDEP was signed in March 2003 in St. Petersburg to complete the Southwest plant, deemed "the most important single investment which can be made to protect the marine environment of the Baltic Sea".[588] The project had actually begun in 1987 but been suspended due to lack of funds after the collapse of the Soviet Union.[589] To finish the plant, an expected EUR 190 million was needed, to which NIB contributed a EUR 45 million loan to the Russian project company Nordvod.

With NDEP at its foundation, NIB integrated environmental factors more thoroughly into its operations. To support the NDEP, the maximum lending limit for the MIL facility was raised from EUR 100 to EUR 300 million on June 12, 2002, expanding its capacity to address environmental projects in Northwest Russia, which often involved state or municipal authorities that fell outside of NIB's typical lending parameters.[590]

In 2001, for the first time, NIB began discussing "positive discrimination" for environmental loans in its Annual Report. This concept exempted these loans from the usual Nordic interest regulations and allowed longer maturities and greater repayment flexibility, thought especially critical for projects with limited cash flows, "e.g. for municipal wastewater treatment plants".[591]

The following year saw further adjustments. Although NIB had conducted environmental assessments since 1995, by the end of 2002, these assessments were modelled on the EuroStat system utilised by other IFIs in an attempt to harmonise systems for the benefit of international cooperation. Incoming projects would be classified as category A, B, or C based on their potential negative environmental impact, with the intent of ensuring that projects lived up to minimum requirements of environmental performance. Projects rated as category A, which were anticipated to have significant effects, required a full environmental impact assessment (EIA). Category B projects, which were moderate in impact, necessitated a partial assessment, while projects deemed to have an insignificant or unmeasurable environmental effect (Category C) were usualy exempt. Despite this, an EIA could still be mandated. Assessment criteria included social impacts, especially for projects with lasting effects on lifestyles or with influence on involuntary resettlements or indigenous peoples.[592]

NIB's shift toward environmental objectives appeared fully realised by 2002, when its Annual Report declared, "The Nordic Investment Bank's main purpose is to promote sustainable economic development in the Nordic area and the neighbouring regions, in accordance with the priorities of the Nordic countries".[593] Environmental lending was an area where NIB could "Emphasise the role as a niche bank" and thereby "Do more of what NIB is good at", as one presentation in 2001 reflected.[594]

What NIB "was good at" had evolved beyond merely developing energy self-sufficiency for the Nordic countries; nonetheless, the energy sector remained crucial to the Bank's environmental initiatives. In 2002, it was calculated that "The energy sector, which is a major polluting source, dominates the Bank's environmental lending in the Baltic countries and Poland", a statement true for the PIL facility in general.[595] Energy extraction was no longer just a means of powering industry but also a problematic legacy of the past that needed to be addressed.

On September 22, 2005, a ceremony was held in St. Petersburg to inaugurate the Southwest Wastewater Treatment Plant, the crown jewel of the NDEP. In attendance were Finnish President Tarja Halonen, Swedish Prime Minister Göran Persson, and Russian President Vladimir Putin. The completion of the Southwest Plant proved, as Putin declared, "an outstanding example of cooperation in the north of Europe".[596]

The New Mandates

Johnny Åkerholm's Presidency

2005 was a year of significant change for NIB. Between the accession of the Baltic states on January 1 and the inauguration of the Southwest plant on September 22, NIB underwent its third transition of power. Jón Sigurðsson had led NIB for an unprecedented eleven years, though his connections and advocacy for the Bank ran far longer, and had over-

NIB

Johnny Åkerholm faced the challenge of reimagining NIB's purpose when he became the fourth president.

seen the expansion of NIB's membership. His departure on March 31, 2005 signalled the end of the Bank's first iteration and the beginning of a new chapter.

For leadership in this next phase, NIB turned to Johnny Åkerholm. The Bank's first Finnish president, Åkerholm had spent his career in various international organisations like the OECD and the ERBD, the latter as Secretary General since 2003, and governmental posts in Finland during the depths of Finland's banking crisis.[597] Unlike Jón Sigurðsson, who had spent decades around NIB, Åkerholm professed little familiarity with the institution prior to his appointment, despite NIB's close cooperation with EBRD on the Baltic Investment Programme and NDEP. This lack of familiarity ultimately proved advantageous, enabling Åkerholm to introduce fresh perspectives on how other institutions organised operations and found purpose amidst surging financial markets. While the Bank's stability reduced the risk of existential threats, unlike the uncertainty of the early 1990s, its identity as a joint Nordic-Baltic institution remained ambiguous. As he later recalled, upon arrival, Åkerholm faced "fundamental questions" about what the future held for an expanded NIB.[598]

One unanswered question regarded the Bank's sphere of operations. Since the end of the Cold War, NIB's international lending had increasingly targeted the neighbouring regions, particularly the Baltic states.

With these countries now members, the relationship between member and non-member lending necessitated re-evaluation, especially after the PIL facility increased to EUR 4 billion in 2005.[599] A pair of memoranda prepared for the first meeting of the eight-member Board of Directors outlined only a slightly adjusted strategy for international lending. Expanding the number of PIL recipients, already sitting at 29 countries, could reinforce NIB's contribution to the "mutual interest" of members and borrowers through "sustainable economic development". MIL lending, meanwhile, could encompass an expanded "neighbouring region" that included Belarus and parts of Ukraine.[600]

These considerations proved critical for Åkerholm as he assumed the presidency and began the task of drafting mandates for the Bank.

Competitiveness as a Target

As NIB's Board of Governors convened for its inaugural meeting on May 19, 2005, the atmosphere was speculative, but hopeful. The Board in a subsequent press release outlined NIB's prospective future "promoting [members'] economic growth through cross-border investment in environmentally sound infrastructure and industry, both within and outside the membership region."[601] The big vision, short on details, would be fleshed out in the Bank's new mandate.

The need for a new mandate stemmed not only from NIB's expanded membership, but from significant changes to the global economy in the Bank's first thirty years. The challenges of attracting international financing to the Nordic peripheries had largely disappeared, replaced by eager investors and a steady cash flow towards commercial and industrial projects. This high global liquidity, in addition to EU funds, proved particularly important for the Baltic states, where new projects found short-term financing on favourable terms. Amidst this apparent prosperity, NIB would need to find new ways of providing "added value" to its members by reimagining its purpose and impact: "Why do we exist? What good can we do?"[602]

The Bank's management drafted a strategy proposal over the summer of 2005, which they presented to the Board of Directors in August. The new strategy would hinge on two elements: environment and competitiveness. With the first aspect already in the scope of the Bank's previous work, the proposal sought to define and operationalise the nebulous concept of "competitiveness".

To develop these ideas, NIB's young vice president of strategic planning, Magnus Thor Agustsson, prepared a report entitled "Competitiveness as the target for NIB's activities". Agustsson sought to bring NIB's comparative advantages, such as long-term financing, preferred creditor status, experience with complex financial structures and cooperation, and "the ability to provide political comfort", in other words its ability to "signal" political will for certain transactions, to bear in promoting the competitiveness of the member states and the Nordic-Baltic region as a whole. Efforts to boost "competitiveness" had become decisive amidst the rise of the "competition state", a concept which viewed nations as locked in a struggle for money, talent, knowledge, and other finite resources. As Agustsson explained, "With increased integration and globalization and a related (at least perceived) acceleration of structural change, many countries are focusing on the identification of their relative strengths and weaknesses and the identification of measures to improve their relative positions".[603] This international economic competition prompted a rethinking of existing social and economic structures and a reimagining of NIB's role.

In analysing how NIB could foster competitiveness, Agustsson identified five sectors where NIB could "have a real impact": finance, physical infrastructure, research and development, productivity and innovation, and international trade and investment. These areas, Agustsson surmised, matched well with NIB's lending to date, especially the socio-economic benefits of infrastructure. By framing lending within a competitiveness mandate, NIB could address various national contexts while tailoring its offerings to meet specific needs.

When shared with the Board of Directors, "Competitiveness as the Target for NIB's Activities" provoked wide-ranging debate about NIB's future. Both Agustsson and Åkerholm insisted that the competitiveness strategy provided "a useful bridge to the past emphasis" of NIB on aspects like cross-border activities, but that the changed status of the global economy required an "evolution" rather than a "revolution." However, some board members were less sanguine, insisting that NIB needed to do "something more" to satisfy the market demands and could not themselves "decide what the market needs." The discussion centred around who NIB should satisfy first: the customer demands or the owners' interests? In response to an idea that NIB "should be a <u>commercial</u> institution" to better respond to market demands, the Finnish board member observed the "risk to the existing purpose of the Bank, what the bank is supposed to do, what does [sic] new owners want to do". Consequently, the Finnish representative argued what was critical was "not necessarily the most profitable" but what was most "important", such as the environment. Following the discussion, the Board approved further studies, as long as sound banking principles remained paramount.[604]

An updated and expanded proposal presented at the next Board meeting described NIB's previous "Nordic interest" mandate as organically developing from market demands, a statement that correctly identified the Bank's pragmatic attitude while overlooking how political goals shaped its early identity. In contrast, NIB's revised mandate aimed to reorient NIB's lending, borrowing, and risk management around a cohesive set of economic and socioeconomic targets. Projects would be assessed based on their alignment with this new mandate, thereby helping to "ensure growth in an environment where the national borders are largely unimportant from an economic point of view". In avoiding the previous ambiguity of "Nordic interest", the Board of Directors could focus less on approving individual transactions and more on overseeing the Bank's strategic direction, including setting benchmarks, targets, and its appetite for risk.[605]

The framework's proposal to organise activities around specific targets seemingly drew from other IFIs like EBRD, which Friends of the Earth had commended for its environmental mandate and which Åkerholm later claimed to have taken inspiration from.[606] Nonetheless, when the framework was presented to the Board of Directors, some members expressed concern that giving so much power to the Board could undermine the Bank's expected subordination to its owners. To this, Åkerholm responded simply: "<u>You</u> represent the owners."[607] Shortly thereafter, the strategy was approved for further development.

A Baltic Sea Bank

The Board of Directors closely monitored the new Strategy's development over the rest of 2005 and into 2006. While generally positive about the commitment to competitiveness and the environment, the Directors speculated about the compatibility of these goals with region building efforts, especially the promotion of cross-border projects. Concerns also arose regarding which sectors the Bank should prioritise, with some members finding the focus areas "too extensive", while others feared that targeting certain sectors "could be seen as a 'pick the winner' strategy", a comment at odds with NIB's supposed "signalling" function. The Board also critiqued the revised mechanisms for evaluating loans. Finnish board member Kristina Sarjo, for instance, speculated whether

an excessively "strict adherence to the new methods of assessing rating and risk pricing" might alienate customers and compromise NIB's "flexibility and ability to meet the funding needs of its customers also during bad times".[608]

Despite these concerns, the Board approved the Bank's new Strategy, including the mandates, at a meeting on August 24. The approval formalised an identity that NIB had already begun to promote. "Competitiveness in the Baltic Region" was the theme of NIB's 30th anniversary seminar on June 14, 2006. Opening the conference, Johnny Åkerholm declared, "It is important to reflect upon how our members can continue to be successful in global competition, and in particular how NIB could support this process […] We believe NIB has a special role to play as a Baltic Sea bank in order to promote the success of this region."[609]

The new Strategy distilled the essence of a Baltic Sea bank into NIB's new mission statement: "The Bank promotes sustainable growth of its Member countries by providing long term complementary financing, based on sound banking principles to projects that strengthen competitiveness and enhance the environment."[610] This dual focus on competitiveness and environmental sustainability positioned NIB as the only "larger" IFI with an explicit environmental mandate at the time.[611] Realising the impracticality of engaging in multiple areas, the new Strategy narrowed NIB's focus area to energy, logistics and environmental technology, and support for SMEs.[612]

In addition to economic risk assessments, proposed loans would receive qualitative ratings based on their fulfilment of the new mandates. These ratings allowed for comparisons across sectors and countries while providing a holistic view of project impacts, which NIB could weight based on particular forms of mandate fulfilment. A project's final score would involve, first, an assessment of the loan's potential effect on competitiveness and environmental measures, and, second, a measure of its implementation risk, meaning the project's likelihood to achieve the potential effect. This approach to evaluation made NIB amongst the first IFIs in the world to prioritise specific kinds of impacts in its evaluations, helping to act upon its vision of "sustainable growth".[613]

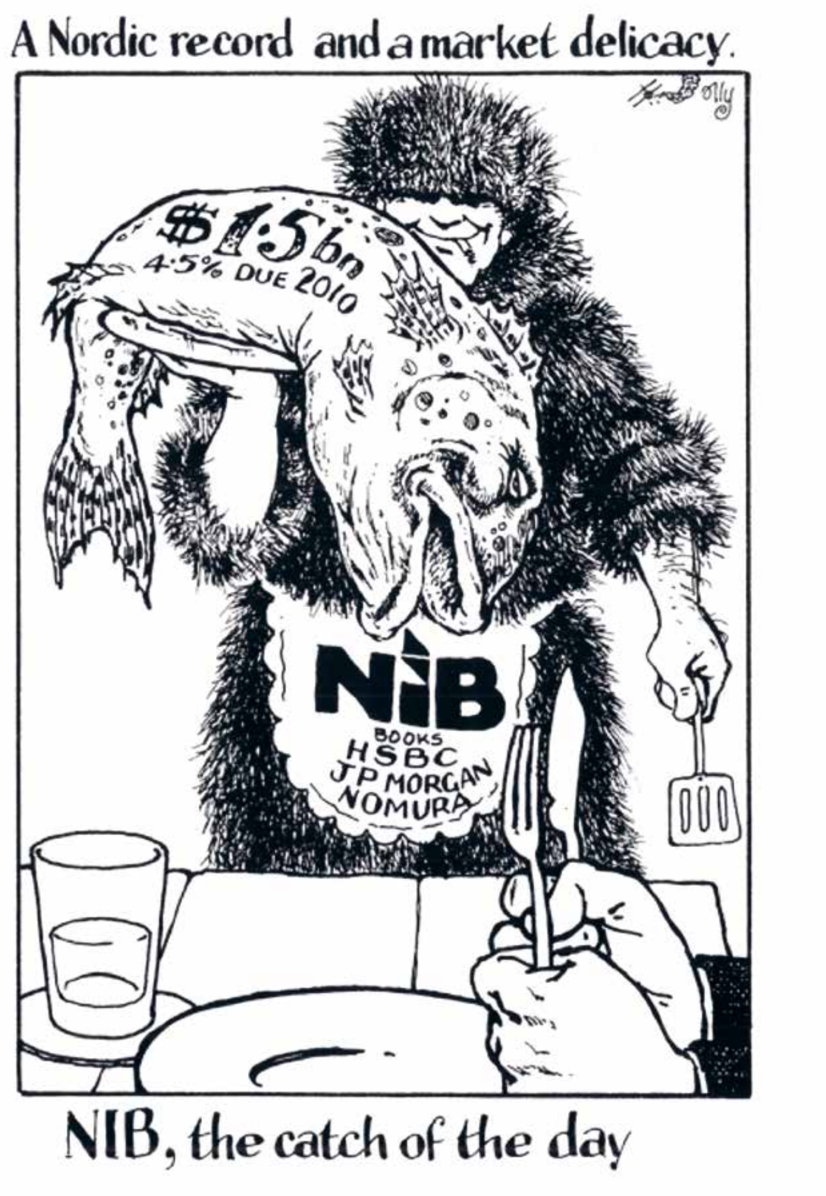
For competitiveness, the ratings considered a loan's potential to enhance a company or business sector's commercial viability, as well as external effects like technological innovation or regional integration. Environmental mandates, meanwhile, concentrated on the "net direct benefit for the environment".[614] NIB underscored these commitments by signing the European Principles for the Environment in 2006 and revising its own environmental policy in 2007. The revised policy pledged to integrate both ecological and social considerations in loan assessments and to conduct environmental audits on past and current projects. While the public response to the revised environmental policy proved "very limited, close to non-existing", it helped bring NIB in alignment with practices in other IFIs when it took effect on January 1, 2008.[615]

The new assessment methods ensured that the Bank's mandate and mission remained at the forefront of its long-term lending. The Bank planned to apply this approach to both member and international lending. Consideration of including Bulgaria, Romania and Serbia in the Bank's "neighbouring area" was eventually abandoned, leaving Russia and Ukraine as the primary targets for MIL loans. Nonetheless, projects in other countries could still be serviced by PIL lending, such as a EUR 35 million loan to modernise telecommunications networks in Serbia and its neighbours.[616]

Through such activities, the Bank aimed to clarify its identity and values within the Baltic Sea region.[617] Even so, the reality of NIB's staffing revealed a discord with its vision of a Baltic Sea bank. Despite adding the first Baltic member to NIB's management team in January 2006,[618] by the end of 2007, Baltic employees comprised only 4% of NIB's workforce. NIB continued to struggle to recruit staff from the Baltic countries, in part due to concerns about relocating families to Finland, meaning that the Bank retained a largely Nordic, particularly Finnish, character to its staff.[619]

While the new Strategy was most visible in its lending, its effects reverberated in other areas. Borrowing on capital markets, traditionally a means of broadly raising funds for the Bank, increasingly aimed at supporting "identified targets".[620] Most notably, in October 2011, NIB launched a new product, the NIB Environmental Bond, linking capital directly to environmental lending. The first project earmarked for this bond was an offshore wind farm in Ringkøbing, Denmark.[621] Other bonds remained more general. In 2006, NIB released its fifth US benchmark bond for USD 1 billion. Its positive reception, especially amongst Asian markets, revealed that NIB, despite its recent transformations, continued to be viewed as a stable investment.[622]

The new mandates rolled out in Åkerholm's first years allowed the Bank to refocus its activities amid muted demand for long-term lending. In the Baltic countries, lending volume was particularly low in 2005 and 2006 due to the availability of other funding and the prioritisation of SME financing, which brought only relatively small sums onto NIB's books. As Johnny Åkerholm would note, economic growth had "increased risk-taking globally, and many borrowers have been able to obtain financing on terms which were considered unthinkable only a few years ago".[623] Yet an even more unthinkable development loomed on the horizon, set to dramatically transform NIB's outlook.



NIB

NIB’s “groundbreaker” bond in September 2007 was almost immediately oversubscribed as buyers flocked to safe investments.

Facing the Unthinkable – The 2008 Financial Crisis

Uncertainty Grows

On July 31, 2007, two large hedge funds operated by the prestigious US investment bank Bear Stearns collapsed, despite Bear Stearns injecting USD 1.6 billion in an effort to rescue them. At the time, the significance of the bankruptcies was unclear. Some commentators saw the failure as merely a case of mismanagement, while others suggested that the events indicated deeper problems within the financial sector. Few recognised they were observing the initial convulsions of a global economic meltdown.

The eventual global financial crisis derived from a complexified financial marketplace characterised by high global liquidity, fiscal and technological innovations, and relatively low regulation. The result was a market with a taste for complicated, sometimes opaque, financial products. While major Nordic institutions like Danske Bank had limited participation in the riskiest of these products, like the derivatives market, the interconnectedness of the global financial sector meant that turmoil in the US subprime market quickly led to a “cash crunch” worldwide.[624] In the process, many of the New York City investment banks central to the Bank’s early growth found themselves in trouble.

NIB’s management watched the drama unfold with caution but not trepidation. After all, there was no certainty that troubled markets would descend into a wider collapse. An August 2007 presentation to the Board of Directors surmised, “The market turbulence in July/August should not be too much exaggerated. The current global expansion appear [sic] to be reasonably solid which most likely will support both financial and fundamental adjustments. These in turn will help set the stage for a new phase of global expansion."[625]

Troubled markets could in fact be turned to NIB's advantage. Following a popular NIB bond issue in New Zealand and a successful USD 3 billion short-term issue by EIB, NIB launched its own USD 1 billion bond in September 2007. The response proved overwhelming. Within three hours, USD 2 billion in orders flooded in. "I have never seen anything like it in my life," NIB's Head of Funding, Kari Kukka, would recall. "It was a blow-out, and we just had to say 'stop selling'." The "groundbreaker" bond, ultimately increased to USD 1.5 billion, fully funded NIB through the rest of the year, and demonstrated the "undeniable quality" of NIB's bonds in a world where AAA names had become less reliable.[626]

On the other hand, NIB's own portfolio began to show signs of volatility in July, as the value of its holdings fluctuated with worsening economic conditions in the second half of 2007.[627] By year's end, the prospective "new phase of global expansion" seemed more remote, but the Bank's planners still anticipated broad economic growth, if at a "somewhat weakened rate".[628] Indeed, openings lay amidst the uncertainty. The Bank's 2008 business plan noted that "A continuation of the present tensions in the financial market will probably present additional business opportunities for the Bank," presenting new financing options and better loan pricing.[629]

One opportunity area for new lending lay in the energy sector, which the new mandates revitalised as a prime area for NIB investment. From a competitiveness standpoint, NIB had an opportunity to address high commercial demand for electricity, promote the technological leadership of member states, and support EU initiatives to create a unified Baltic Sea electricity market. The latter aspect, combined with the Baltic countries' energy surpluses, signalled a renewed prioritisation of cross-border energy transmission. Environmentally, investments were needed to enhance energy efficiency and transition to cleaner fuels, thereby reducing pollution in the Baltic Sea and climate change in the Arctic.[630]

On the invitation of the Board of Governors on May 30, 2007, the Board of Directors began to explore various proposals for increasing energy financing while supporting NIB's focus on environment, transport and logistics, and innovation through SMEs. Some proposals, like greater technical assistance to public authorities or providing financing with lower interest rates, faced pushback from a Board of Directors unwilling to reroute dividends for these initiatives. The question of dividends in fact became a point of contention throughout Åkerholm's presidency, with management advocating converting dividends into other means of fulfilling the Bank's mandates.[631]

The Board instead approved two new lending facilities. The Baltic Sea Environment financing facility (BASE) allocated EUR 500 million in support of HELCOM's Baltic Sea Action Plan and its efforts to combat pollution through projects like waste management and removal. The second facility – Climate Change, Energy Efficiency and Renewable Energy (CLEERE) – underscored the energy sector's placement as a core part of the Bank's sustainability financing. The facility, which came at a critical time of falling energy prices that diminished the appeal of renewable energy investment, proved immensely popular, as the USD 1 billion dedicated towards projects for abating climate change – such as hydro, wind, biomass and geothermal power production – was fully allocated by the end of 2009.[632]

Difficult Questions

The popularity of the new facilities, CLEERE in particular, stood in stark contrast to the rapidly deteriorating economic situation. Major banks reported huge losses from mortgage-backed securities throughout the first half of 2008, intensifying fears and prompting a dramatic debate at NIB's Board of Directors meeting in June. The discussion centred on a proposal to modify NIB's risk assessment of its member states. The proposal decoupled the pricing and rating of sovereign loans for NIB's member countries, aligning all sovereign ratings to NIB's highest internal rating while conducting country risk evaluations separately.

The proposal drew a strong rebuke from the Icelandic board member, whose country's financial sector teetered on the precipice of disaster. The private Icelandic banks had borrowed heavily on international credit markets amidst high liquidity and low interest rates, but the ensuing financial turmoil prompted surging inflation and uncertainty over the future. Ólafur Hjálmarsson, the Icelandic director, argued that the proposal should be amended to "The Board approves that sovereign loans to member countries are rated and priced equally."[633] A separate proposal for equal credit ratings argued that "stronger social responsibility" to member states required equal status for all owners. However, the Board approved the proposal without the underlined amendment over the objections of Iceland and Latvia.

In response, Ólafur Hjálmarsson requested a written objection be recorded in the Board of Directors' minutes. In it, Ólafur claimed "that the proposed changes in the rating of Member countries goes against the purpose of the Bank and the vision of its founders". Lower credit ratings would negatively affect lending to municipalities and other public entities in favour of lending to private firms, resulting in "more competition with private financial institution and a loss of core markets". Ultimately, this "unfortunate" change would diminish the Bank's "status and value in the Member countries".[634]

It was not only the Bank's internal cohesion being challenged by the financial crisis. June and July 2008 proved full of contradictions, with

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The collapse of the Icelandic banking system and subsequent hardship inspired regular protests outside of the Alþingishús, Iceland's parliament.

many bonds held by NIB deteriorating even as earnings from lending and borrowing skyrocketed.[635] The Icelandic situation was particularly alarming, necessitating a special review over summer 2008 of NIB's Icelandic exposure.[636] Icelandic projects began to fill up NIB's risk watchlist, starting with Eimskip (Hf. Eimskipafélag), a shipping company that had received several loans from NIB, most recently from a Faroese acquisition in 2004. Following Eimskip's placement on the watch list in April, an additional EUR 100 million of Icelandic loans were added, particularly after the Icelandic banks were nationalised and placed into receivership in October and November 2008.[637]

By October, NIB's Head of Lending acknowledged that "Iceland is now the biggest problem". As the country's financial industry collapsed, Iceland increasingly occupied NIB's time and attention. Madis Üürike, the Estonian chairman of the Board, recognised that the Bank should prepare itself for the reality that, in Iceland, "we will loose [sic] money", but urged "we don't have to panic – look at the long perspective". Indeed, the October meeting of the Board was full of cautions against panic and exhortations to trust the Bank's long-term operations. Still, the Board of Directors demanded weekly reports of "watch-list changes" and the "Icelandic 'drama'".[638]

By the end of 2008, it was increasingly clear that NIB would incur losses on its Treasury portfolio. The Bank had over EUR 55 million in exposure to Lehman Brothers, the US investment bank whose massive debt of USD 619 billion provoked the largest corporate bankruptcy in US history. While NIB tried, with the help of Cleary Gottlieb, to secure a repayment on three Lehman Brothers notes, all bought in July 2007, the Bank found itself also exposed indirectly through participation in transactions where Lehman was a counterparty. Additionally, NIB held bonds issued by the three major Icelandic banks – Glitnir, Kaupthing, and Landsbanki – before their nationalisation, totalling over EUR 77 million. NIB's exposure to Kaupthing Bank was particularly problematic, as Kaupthing also owed NIB from loans drawn for on-lending to SMEs.[639]

These anticipated adjustments to NIB's portfolio meant that, despite increased income, NIB would record a net loss in 2008 for the first time in its history, projected at EUR 281 million. This loss also meant the Bank would not distribute a dividend to its owners for the first time in fifteen years.[640] Although this situation was not catastrophic compared to the losses suffered by other financial institutions, and indeed most of the losses were unrealised as NIB maintained its assets until markets rebounded, it necessitated a critical decision regarding how NIB should proceed: cut back its activities and consolidate or lean into its role as a Baltic Sea bank by increasing its lending?

"Business as Usual"?

It became quickly apparent that NIB would not "turtle" like other institutions, reducing expenditures and becoming conservative in its investments. Instead of this "pessimistic view", it was agreed that NIB should respond to the global situation, along with political pressure "to support the member country corporate sector" amidst a contraction of liquidity by expanding lending. Several challenges, however, remained. For one, while NIB's gearing ratio still allowed for an expansion of lending by EUR 4 billion, losses predicted in the Bank's "Economic Capital" calculations, necessary to maintain the Bank's triple-A rating, meant there was "virtually no room left for expansion". It became essential to have "the perceived support from the owners of the Bank" for expanding activities.[641]

Management decided to concentrate its lending activity in 2009 on its focus areas, particularly the energy and environment sectors. The growing risk aversion among private capital towards these sectors inspired fear that the lack of long-term financing would provoke a wave of bankruptcies and "strengthen the negative spiral in the economy". In response, management proposed concrete measures: "The Bank could increase its lending in support of energy sector investments that help the member countries to secure adequate regional production and distribution capacity in the power sector and to reach the targets related to improved energy efficiency, reduced green-house gas emissions and an increased share of renewable energy." Many of these projects were already in the pipeline by the end of 2008, comprising about half of 2009's allocated budget.[642]

This approach drew condemnation from some of the Board of Directors. In an email, a Baltic member explained their refusal to support this plan, "reasoning that this plan is 'trying to do business as usual in difficult times' and I would like to see [a] business plan reflecting important NIB's role in helping owner countries to cope with difficult times." Over these objections, the Board approved the decision to concentrate activities on NIB's focus areas.[643]

NIB's international lending was also brought into question. A review of NIB's non-member lending recommended a drastic reduction in the target countries. Since the inception of PIL facility, NIB had signed framework agreements with thirty-nine different countries to recognise NIB as an IFI. The problem, according to a 2008 strategy document, was that the rate of NIB's international lending, around 20% of lending activities, meant that NIB's presence in many countries was marginal and made it difficult to justify IFI treatment. Åkerholm's team proposed reducing the number of countries to effectively allocate NIB's resources for mandate fulfilment, deepen contacts, and establish a more continuous presence. The Bank settled on twelve countries, including Russia, Poland, Ukraine, Belarus, Romania, Bulgaria, and Azerbaijan, as well as larger nations like India, Brazil, Vietnam, South Africa, and China. Indeed, lending to China reaching USD 1 billion in October 2007.[644] In response, in 2008, NIB closed its representative office in Singapore, which had opened in 1994, and replaced it with an office in Beijing. The next year, the Bank rented offices in Moscow and New Delhi.[645]

Despite maintaining the 20% non-member lending mark, NIB anticipated that "A reduction of the Bank's geographical coverage will no doubt be to the disappointment of some stakeholders among the exporting companies in the member countries".[646] Sure enough, just days before the December Board of Directors meeting, the Confederation of Danish Industry lodged their concern that "The proposal to considerably decrease the number of focal countries comes at an inopportune time due to the current financial situation." The reduction threatened to undo international relationships and endanger financing amidst

NIB BULLETIN 2006, P. 23

A USD 30 million loan programme to Vietnam is signed in 2006. While China remained the most significant customer for NIB loans outside of the Baltic Sea, NIB also sought to increase relations with other countries like Vietnam. From left: Nguyen Thanh Do (Vietnam), Mirja Koskimäki (NIB), and Søren Kjær Mortensen (NIB).

a financial crisis.[647] Some Board members also questioned the wisdom of focusing on larger countries like Brazil and China where NIB would only be a minor player. Nonetheless, the Board approved the reduction to twelve countries in early 2009, although the Norwegian director registered his opinion that "the management has not put forward a satisfactory analysis" of the countries chosen and their consequences for the Bank's risk profile.[648]

During the next few years, NIB worked to implement its new lending approach. The plan for 2009 proved highly successful, initially leading to record profits of EUR 324 million.[649] With environment and energy projects constituting 50% of total lending by 2010, NIB could position itself as a promoter of "sustainable growth for our economies". "Renewable energy" projects bridged energy and environment, with investments in biomass heating and power, wind power (both land-based and offshore), geothermal power, and hydropower. Indeed, hydropower projects remained important clients for NIB, with the Bank agreeing loans to Vattenfall AB in Sweden and the Greenland Self Rule

NIB made several loans to build up wind power around Ringkøbing, Denmark.

Government in 2010. NIB also continued to be involved with the build-up of wind farms in Ringkøbing. This focus on energy and environmental projects resulted in regular extensions of the CLEERE facility, which grew to EUR 2 billion in 2010, EUR 3 billion in 2011, and EUR 4 billion in 2012, before being integrated into NIB's standard lending.[650]

The member countries demonstrated their continued support for NIB's actions by raising the authorised capital to EUR 6.142 billion in 2010, effectively addressing the limitations on lending expansion due to potential losses. The Bank also remained cognisant of the spiralling Eurozone debt crisis, which prompted the launch of the NIB Refinancing Facility in late 2011. The facility made EUR 500 million available to support industries facing liquidity challenges who wished to refinance projects completed in the last three years. By that time, however, economic recovery, while fragile and uneven, was taking hold in the Nordic and Baltic countries, meaning the facility went unused.

By the time Johnny Åkerholm stepped down as NIB president in March 2012, the Bank's new mandates had been tested and tempered in the crucible of financial crisis. NIB had recovered its losses and resumed paying dividends that year, even as parts of the European economy remained in recession. Åkerholm saw continued success ahead. Speculating about the coming twenty years, Åkerholm told a Helsinki audience, "the Nordic and Baltic countries should work together more on a regional basis and seize more opportunities to make a global difference as a region rather than as individual countries".[651] His leadership of the expanded NIB demonstrated one vision of what such cooperation could look like.

Financing Sustainability

Building the Brand

In line with NIB's long-standing tradition for balance amongst its members, the presidency next passed to Denmark, the only founding member that had not held NIB's top post. The choice was Henrik Normann, well-known in the Danish commercial banking world, having at various times led Danske Bank's banking services in Denmark and its global investing arm, Danske Markets. Normann, whose education was in history and social sciences, thus brought private sector experience to NIB when this "historian became the North's banker" in April 2012.[652] Reflecting on the organisation before taking the reins, Normann forecast "the future role of NIB to be broadly as it is today. But as the political and economic environment changes, so must NIB. Therefore, change simply has to be part of the fabric, or should we say the DNA, of the organisation. Not dramatic change but constant adjustment to a new environment."[653] This adjustment included bringing NIB into alignment with common banking practices at the beginning of the 2010s.[654]

The need for adjustment struck Normann upon arriving in Helsinki. During a Board of Directors meeting in June 2012, Normann's second in the top job, the new president unveiled his initial findings. "Why is there no customer queue outside NIB to borrow money?" Normann asked the Board. Answering his own question, the president identified several issues that contributed to keeping "customers" away. First, NIB suffered from an image problem. NIB was "not well-known" and its "mixed messages" on priorities – upholding its mandate, conducting credit analysis, maintaining market pricing – caused the Bank to be

NIB

Henrik Normann, NIB's fifth president, would grow the Bank significantly during his tenure.

"seen as difficult and slow". Additionally, increasing costs due to regulation and capital requirements after the Great Recession made the long turnaround times on NIB's loans unbearable for both customers and the Bank itself.[655]

As Normann saw it, NIB could not compromise on credit quality or its market pricing without the potential to "ruin the bank", although minor adjustments, such as more flexible prices, were possible. On the other hand, less stringency in following NIB's mandate would not ruin the Bank, especially if one recognised that "We are mandate-driven, but [it is] not crucial whether mandate-fulfilment is good or excellent." Normann proposed an initial plan to "increase our earnings" through cost control and higher margins with the target of growing the balance sheet 3-5% annually while paying high dividends. This could be achieved by maintaining operational excellence, placing greater emphasis on membership lending, partnering with other financial institutions to build NIB's SME portfolio, reducing loan processing from six to three months, and re-allocating resources, including closing the Bank's Oslo, Stockholm, and Copenhagen offices. Although the Copenhagen office had been opened to broaden Danish lending, the Bank's operations in Denmark had been marginal for the past twenty years. The offices were duly closed that year.[656]

Normann envisioned NIB as a streamlined institution with a consistent brand and a profitable bottom line. Streamlining included reassigning tasks and roles with the aim of "breaking down the silos" and enhancing operational efficiency.[657] By aligning NIB's mission with the efficiency of commercial banks, its financial power could be unlocked.

Despite the drive towards profitability, Normann made clear that the dual mandates established by his predecessor would remain. The Bank had integrated sustainability as a central concept and goal throughout its activities, updating its 2008 Environment Policy with a new

Sustainability Policy in March 2012. The Sustainability Policy further harmonized NIB's practices with the definition of sustainability in other IFIs and particularly the EU. Although NIB had previously considered environmental and social aspects in its Environmental Policy, the update made international cooperation easier and enhanced transparency, including publishing a list of projects excluded from NIB financing due to their negative social or environmental impacts. Excluded projects included large coal-burning power plants, drift-net fishing, and illegal or ethically controversial areas like gambling, tobacco, and the sex trade. NIB also maintained its long-standing practice of not financing the "production of ammunition and weapons, and weapons carriers".[658]

NIB instead funnelled lending towards its slightly revised focus areas. Starting in 2012, the Lending Department reorganised around five sectors: 1) Energy and environment; 2) Financial institutions and SMEs; 3) Infrastructure, transportation, and telecom; 4) Heavy industry and mechanical engineering; and 5) Consumer goods and services. Although the final two sectors merged in 2014, these categories would characterise NIB's lending for the next half-decade.[659] While energy and environment projects included several loans for wind and biomass facilities, hydropower became particularly significant between 2012 and 2014, with eight hydropower initiatives funded in 2013 alone. Normann also identified infrastructure as a vital area during the ongoing credit crunch. In financing infrastructure, NIB's "role is highlighted during these financially difficult times. We are open for business."[660] NIB especially targeted air and rail infrastructure projects for their boost to competitiveness, such as funding part of the Rail Baltica running through Lithuania.

While energy and infrastructure aligned with historical commitments, financing for research and development (R&D) experienced unprecedented growth under Normann. NIB had been financing R&D projects since 1994, and, under Åkerholm, R&D came to form the predominant

part of NIB's "Innovation" focus area. Still, Innovation was regularly the smallest of the sectors, in part due to the Bank's lack of risk capital.[661] With Normann, the script was rewritten, with "Industries and services" emerging as the largest focus area in 2013 and 2014 thanks to "substantial" financing to R&D projects. The movement aligned NIB's primary product, loans with long maturities, with projects that inherently possessed long-term horizons but also higher risk. R&D projects mapped easily onto NIB's existing mandates, giving the chance, as one recipient of an NIB R&D loan explained, to "make science earn money".[662]

To clarify their brand, the Bank updated their slogan in 2013 – "Financing the Future" – and their mission: "to finance projects that improve competitiveness and the environment of the Nordic and Baltic countries".[663] Under this simplified wording, NIB consistently recorded mandate fulfilment of good or excellent on more than 90% of its disbursed capital. While complementary, however, the Bank's mandates were not always compatible. In 2014, for example, NIB's EUR 34.8 million loan to Klaipedos Nafta AB in Lithuania for a new liquefied gas terminal was expected to raise CO_2 emissions and result in an overall net increase in emissions for that year. Despite this, the loan meant lower prices for heat and energy in Lithuania, raised competitiveness, and safeguarded the "security of gas supply" by eliminating dependence on Russia as the single supplier to Lithuania.[664]

Even with Normann's desire to grow the Bank's balance sheet, loan disbursements remained largely stable from 2012 to 2014, hovering slightly above EUR 2 billion on average. Conversely, other elements of Normann's plan were rapidly incorporated, including shifting lending to member countries. By 2014, loans to non-member states reached a record low of 4% of total disbursements since the introduction of the PIL programme in 1982. This refocusing did not completely terminate NIB's participation in international collaboration. In 2011, under Åkerholm, the Bank had helped found and host the Northern Dimension Partnership on Transport and Logistics, tasked with building up regional infrastructure. They followed this up the next year with the Russia Energy Efficiency Programme, established alongside SIDA and the Swedish Ministry for Foreign Affairs, with Russian state-owned VTB Bank and privately-owned Gazprombank as cooperating on-lenders.[665]

NIB also made further inroads on global capital markets, issuing its largest ever global benchmark bond of USD 2 billion in 2013. The next year, NIB issued an inaugural benchmark NIB Environmental Bond of USD 500 million, with a EUR 500 million environmental benchmark bond following the next year. Most of NIB's green bonds subsequently financed wind, biomass, and hydropower projects.[666]

Back in February 1991, Jannik Lindbæk had cautioned his management team about excessive activity amidst the banking crisis, emphasising that NIB was "not a lending factory".[667] Henrik Normann took a different approach to the lethargic investment environment following the financial crisis. Interviewed for the Bank's website following his appointment as president, Normann stated: "We are all aware of the crisis in the euro area. Under these circumstances an organisation that is AAA rated can ensure long-term funding and really make a difference in a period where banks' balance sheets are constrained. NIB's role is elevated during hard times."[668] Yet it was after demand rose amidst a wider European economic recovery in the mid-2010s that Normann's NIB would truly elevate its activities.

Adaptability and Additionality: The 2015 Strategy

By 2014, NIB was nearing the end of its first decade as a Nordic-Baltic organisation, a period highlighted by financial crisis and the establishment of new mandates. As stability returned to international markets,

NIB continued its emphasis on member financing in areas like R&D, energy and environment, and infrastructure. However, in a Board of Directors strategy meeting on June 12 and 13, 2014, Henrik Normann would radically challenge this status quo.

As the Board members settled in, Normann began the meeting by asking whether NIB should be closed. Normann elaborated in his presentation. Noting both NIB's successes and its current challenges, such as the costs of ever-increasing regulation and the limited demand for NIB services due to commercial banks shopping low interest loans, Normann warned that NIB "runs the risk of becoming irrelevant" if it could not grow its business. However, it was not apparent that NIB should grow. Normann provided three potential scenarios for NIB, the most attention-grabbing of which involved shuttering the Bank or merging with EIB.[669] Just as was proposed in the early 1990s, such a suggestion indicated meaningful concerns about the future of the Bank, including whether its capital could be more profitable if released to more highly geared agencies like the export credit institutions. Closing NIB, Normann stated, would be an "interesting signal to the Market and other IFIs".[670]

The idea of closing NIB was intended to provoke hard questions about the continued value of the Bank's approach, vital in an institution whose focus on the future shaped its own operations. Normann's presentation came amidst a series of seminars and workshops in early 2014

NIB

Henrik Normann's 2015 presentation asked whether NIB still served its purpose in the modern world. Such questions invoked serious consideration of the role of NIB in an economically robust Baltic Sea region.

NIB

An autumn 2014 meeting of the Board of Directors reviewed NIB's new strategy while flanked by portraits of former NIB presidents. From front: Silje Gamstøbakk (Norway), Algimantas Rimkūnas (Lithuania), Sven Hegelund (Sweden), Heikki Cantell (NIB), Pentti Pikkarainen (Finland, Chairman of the Board), Henrik Normann (NIB), Madis Üürike (Estonia), Þorsteinn Þorsteinsson (Iceland), Jesper Olesen (Denmark), and Kaspars Āboliņš (Latvia).

to review the Bank's strategy and policies, culminating in a two-day strategy meeting in Copenhagen in June. This collaborative effort collected 1,328 pages of background material across 122 documents that would become united to form NIB's new strategy.[671]

Rather than closing the Bank or completely overhauling NIB's previous strategy, the process found that "In [the] present financial environment [there is] no need for a 'new NIB.'" Instead, adjustments were necessary to ensure the Bank remained flexible and continued providing value to its members. A strategy review from early 2015 emphasised the necessity of maintaining NIB's "position as a 1) safe, 2) sound, 3)

profitable, and 4) relevant bank for the Nordic-Baltic economies/shareholders to benefit from. Therefore, NIB has to be prepared and possess the ability to change and act as the surrounding world evolves. At the same time the core business model stays unchanged." As important was defining what NIB was not: it was not a development bank, an export credit agency, an exclusively green bank, or an institution intended for "real anticyclicality".[672]

The overarching themes from the seminars were distilled into two main areas of expansion. The first, "smaller clients", echoed Normann's earlier findings. To better serve SMEs, NIB lowered its mandate eligibility criteria and revised its lending practices. This included offering secure loans or parallel financing with local institutions where NIB had greater risk-sharing responsibilities, effectively "stepping in to take over part of the risk". [673] A broader definition of SMEs also allowed NIB to invest in mid-sized companies (mid-caps) through direct loans, on-lending, and bond purchases.

On the other hand, the second area, "non-member country lending", appeared to diverge from Normann's initial vision. NIB aimed to rebuild its atrophied non-member business to about 20% of disbursements, which was deemed a "sustainable share of the Bank's operations while providing sufficient opportunities to play a meaningful role on supporting member country enterprises". To raise international lending, NIB would eliminate previous country limits and intensify contacts with export enterprises and other IFIS. As with small client financing, expanding non-member lending would entail increased risk for the Bank, as the strategy report recommended extending PIL loans to weaker rated countries.

The 2015 Strategy incorporated additional minor adjustments and clarifications. NIB committed to practicing sound banking principles and considered both pillars of its mandate of equal importance, even if that mandate "should be understood as [a] 'guiding star'" rather than a strict framework, allowing for "exceptions on a case-by-case basis". The Bank would support Nordic-Baltic integration, increase Baltic lending, increase Arctic lending, and engage in "'slight' anticyclicality." Internally, NIB aimed to improve its human resource measures for recruiting and training employees while increasing outsourcing-specific tasks like credit and rating processes to "stay lean".[674]

Staying lean was increasingly imperative in a Bank that had continued to grow. By 2015, NIB had expanded to 188 employees within its Unioninkatu headquarters. In recognition of the importance of risk management, the lending and treasury departments had been segregated from those responsible for assessing risk and monitoring Bank activities.[675] While this improved the possibility of identifying and mitigating potential issues, it came with the danger of compartmentalising the burgeoning staff and losing the sense of community and common purpose evident in NIB's early days. In response and in addition to greater HR resources, NIB started to implement solidarity-building exercises like "NIB Day", an annual tradition begun in 2014 to discuss and develop the Bank's common values and culture.

Ultimately, NIB's 2015 Strategy fulfilled its promise to adjust operations without the radical transformation embodied in the 2008 Strategy. It retained many current practices while steering the Bank toward greater profitability and growth. However, this increased focus necessitated accepting more risk through lending to SMEs and non-member countries. As the strategy report noted, "The increase in risk exposures among the weaker risk classes will significantly increase the level of expected credit losses. However, the assumed pricing and resulting income is expected to exceed the anticipated level of credit losses and enhance diversification of the loan book." Even if these areas became stressed, the Bank's models anticipated sufficient capital resources so

Activities like "NIB Day" maintained solidarity
and cohesion in a rapidly expanding institution.

long as "traditional" lending activities were maintained. Indeed, it was vital that NIB's ordinary lending kept its current quality, as "robust profit generation over time is required to strengthen the capital base to enable balanced growth in lending volumes and the envisaged risk-taking". This strategy projected a 3% growth up to 2020, with the current gearing ratio "not expected to pose a constraint for the project lending growth".[676]

The following years saw extreme increases in NIB's lending, as the Bank set new records in disbursements in 2015 (EUR 2.7 billion), 2016

(EUR 3.4 billion), and 2018 (EUR 4.047 billion). As promised, lending to SMEs gradually expanded, with NIB launching its first risk-sharing loan facility together with the Garantia Insurance Company of Finland in 2016. NIB would share half the risk while Garantia analysed and selected

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Loans to companies like Össur were part of a concentrated effort to integrate mid-caps into NIB's ordinary lending.

projects from Finnish SMEs and small mid-caps seeking to upgrade productivity.[677] Mid-cap lending likewise grew, including a EUR 50 million loan the same year to finance Icelandic prosthetics company Össur's R&D programmes and re-finance its acquisition of another company.[678]

NIB also built up a portfolio under a new Arctic Financing Facility of EUR 500 million. Eventually primarily financing Norwegian projects, including on-lending to northern SMEs, the facility reached full deployment by 2018. According to Danish board member Julie Sonne in a 2014 interview, the Facility allowed NIB to combine its Arctic contacts and environmental mandate to support sustainable development in the region. Normann likewise emphasised the importance of enabling Arctic residents to participate in "wealth generation", [679] but also cautioned against rushing heedlessly into this "Arctic El Dorado". "We exaggerate short term change", Normann advised a 2016 panel, but we "understate long term change" that could compromise projects in a region under rapid transition.[680]

While NIB advanced lending to "small clients", the anticipated expansion of non-member country investing proved illusory. Despite restating the goal to return non-member lending to around 20% of disbursements in every Annual Report through 2019, non-member disbursement dwindled to just 1% (EUR 26 million) by 2019. Problems with significant international borrowers contributed to this decline. After Crimea's annexation in 2014, NIB discontinued its Russia Energy Efficiency Programme, as well as new lending to Russia amidst discussion of potential EU economic regulations.[681]

NIB also encountered difficulties with its Chinese lending. In 2015, NIB disbarred a Chinese company for alleged prohibited practice upon the recommendation of their Committee on Fighting Corruption. Despite these troubles, NIB continued its China Loan Programme under its competitiveness mandate, pledging to enhance procedures like pre-screening and project monitoring. In 2017, the Bank began a loan programme with the Chinese Ministry of Finance for on-lending to projects fulfilling NIB's mandate, where Nordic and Baltic companies could place competitive bids. Although it is unclear whether a subsequent debarment of four companies and three individuals the following year was related to the Chinese loan, these experiences collectively may have solidified the belief that risk-taking should mostly be confined to small clients within member countries.[682]

Despite promoting equal importance for its environmental and competitiveness mandates, the latter continued to dominate, with environmental mandate fulfilment dipping to 19% in 2018, about EUR 755 million given the overall growth of lending.[683] NIB continued issuing bonds under its Environmental Bond framework, becoming the largest Nordic issuer of green bonds, and purchasing green bonds to support environmental projects. In 2018, NIB updated its mandate rating framework to better capture the needs of member countries, especially in its competitiveness mandate, which was relabelled as "productivity". Productivity would include societal impacts like human capital improvement through research, education, and healthcare, while environmental impacts placed a greater emphasis on climate change mitigation and resource efficiency.[684]

Despite the collapse of non-member lending, the 2015 Strategy allowed NIB to deepen its engagement in the financial sector. Amidst good liquidity from expanding investment activity and its own higher tolerance for risk, the Bank reasoned that "Strong financial results improve the Bank's ability to make a lasting impact in the region".[685] What was initially deemed a minor revision in the 2015 Strategy in fact proved transformative, pushing NIB toward greater responsiveness and ambition. This transformation was far from complete.

Lending in the Time of Covid

On the heels of its updated mandate rating framework, NIB planned a bold revision of its core Statutes. At the annual meeting of the Board of Governors on May 24, 2019, amended Statutes were approved, pending national ratification. The amendments aimed to "modernise" NIB, making it "more relevant in its operations and thereby add more value and be more effective in achieving its mission". According to a subsequent public statement, this "agile" and "more efficient" NIB would be able to "secure its strong position for the future" amidst an "immensely changing" financial sector.

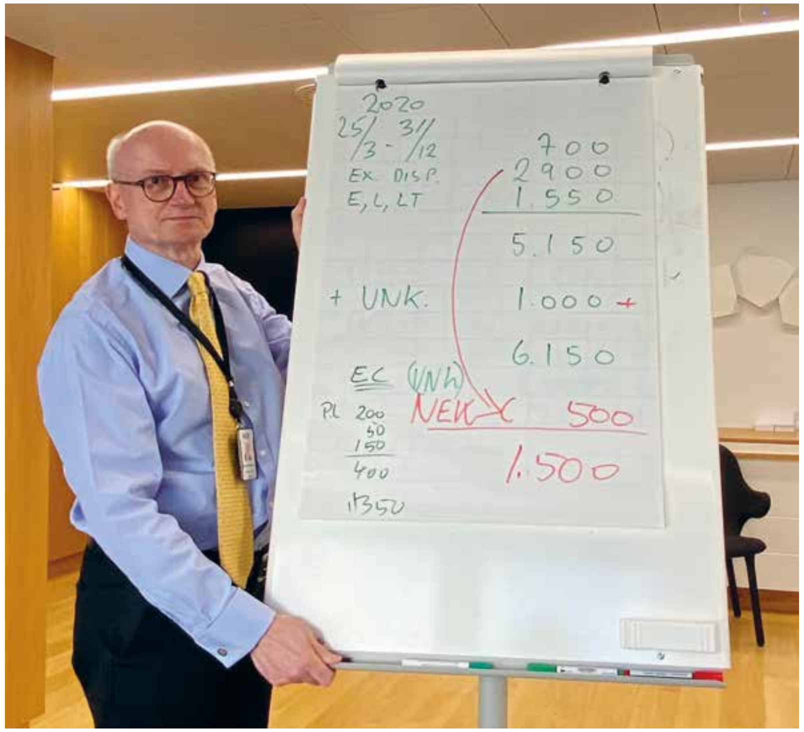
Four major revisions were included, most prominently changes to the Bank's liquidity requirements. While the 2015 Strategy report projected that NIB's growth would fit within the existing gearing ratio, lending had actually fallen in 2019 due to statutory caps. To raise these limits without seeking additional authorised capital – an approach viewed negatively by both rating agencies and the Board – NIB proposed replacing its long-standing 250% gearing ratio. This gearing ratio had failed to keep up with "the full range of NIB's operations and [was] not linked to the actual risk levels attached to NIB's assets". The new capital and liquidity requirements, based on a series of calculations that included the current quality of NIB's portfolio, allowed NIB to increase its lending while still prioritising its quality and balance.

NIB's PIL facility had existed almost as long as its gearing ratio. However, as part of the Bank's renewed focus on member states, the PIL was abolished, with its associated special credit risk fund and guarantees converted to paid-in and callable capital respectively. The Environmental Investment Loans facility, known as MIL, was also discontinued, though its guarantees were not converted. The PIL had successfully allowed NIB to pursue the globetrotting purview of an IFI and been the model for the Baltic Investment Programme and NIB's sister organisations NDF and NEFCO. However, since 2005, the Bank's operational horizons had constricted to its member countries, echoing earlier ambitions for regional integration. At the same time, NIB's mission horizons had enlarged as it tackled global challenges like sustainable development and climate change, to which the converted capital could be applied.

The new statutes included some less historic changes, if nonetheless significant. The Control Committee became more focused on monitoring mandate fulfilment, leaving oversight of financial and technical aspects with its chairman. The updated Statutes also introduced limited equity financing, a product previously absent from NIB's operations aside from during the sale of the Baltic national investment banks during BIP II. Now, NIB could invest up to 15% of its paid-in capital and accumulated reserves in companies where "market failures are identified and traditional debt financing would not be suitable", a condition that maintained principles of additionality while avoiding competition with the private sector.[686]

Other internal changes to project management made better use of the Bank's enlarged staff. From 150 employees in 2005, Åkerholm's first year as president, the Bank had grown to 222 by 2020. Nor did NIB struggle as much in attracting candidates beyond the Nordic countries, with 33 nationalities eventually represented amongst NIB's employees.[687] Gender balance was also strengthened. While NIB had long been a more equal institution than many commercial investment banks in the 1980s and 1990s, most popularly caricatured in the "Big Swinging Dicks" of Saloman Brothers,[688] the early Bank had largely been populated by male staff and a heavily male Board of Directors. By the end of 2020, NIB had 93 female employees as opposed to 129 male, with four of its nine Board members women; however, men still dominated the Bank's Executive Committee by a 7-to-2 margin.[689]

JUKKA AHONEN / NIB



On March 25, 2020, at the daily morning meeting of NIB's Executive Committee, Henrik Normann presented his plan for increased lending to tackle the impact of the pandemic. Normann's plan was promptly approved.

As a major revision to NIB's practices, the amended Statutes required parliamentary approval from the eight member countries before taking effect on July 29, 2020. Consequently, the Statutes came into effect amidst a new global emergency: the COVID pandemic. As the pandemic rapidly overran national borders in early 2020, domestic economies and global supply chains alike screeched to a halt. With demand and prices plummeting and the length of "the Great Lockdown" uncertain, the IMF announced in April 2020 that "a strong multilateral cooperation is essential to overcome the effects of the pandemic".[690]

NIB moved quickly to assume a countercyclical role. While NIB had for the most part acted cautiously in the face of previous economic crises, the Bank responded swiftly in March 2020 to calls from the Board of Governors to increase lending to "the maximum level" in order to "support sustainable businesses facing short term liquidity problems due to the crisis".[691] By April 8, 2020, NIB had signed three "Response Loans" with the Baltic republics, totalling EUR 1.4 billion. Financed through two special "Response Bonds" issued in spring 2020, the loans were utilised at the discretion of the states. The flexibility afforded to the states meant varied applications of the Response Loans. Whereas Estonia used the loans to alleviate pressure on healthcare and other government programmes, Latvia primarily sought to support smaller businesses disrupted by the pandemic. The three loans, part of nearly EUR 5 billion in disbursements throughout 2020,[692] stood outside NIB's traditional mandate, but were intended to have a socioeconomic impact, for example alleviating unemployment for vulnerable groups and financing child- and eldercare.

Both the speed and size of NIB's response to the COVID pandemic were unprecedented, prioritising economic recovery amidst the Bank's operations. As Henrik Normann explained, "In times of economic crisis, NIB can take on such a stabilising role."[693] Still, NIB's mandates remained important, with a majority of NIB's ordinary lending in 2020 (57%) going to projects fulfilling the environment mandate.[694] This comeback in environmental lending was backed by NIB's selection of "climate change" as its top challenge in 2020 and addressed "the goal set by the Board to increase environmental lending as well as the growing significance of sustainable finance".[695]

2020 would be Henrik Normann's final full year with NIB, as he stepped down as president on March 31, 2021. The Nordic Investment Bank had always stressed pragmatism and a good return on investment, but, under Normann, growth became a more pronounced motivation in NIB's operations. Normann had come into the presidency wondering why customers were not queuing up outside the Bank. His leadership over the next nine years helped NIB "strengthen its market position, become a more dynamic institution and achieve even better control over its financial risks", according to a retrospective of Normann's tenure in Danish newspaper *Berlingske*. In prioritising maximising returns, NIB had raised the balance on its books from DKK 100 billion in 2012 to DKK 260 billion at the beginning of 2021.[696] Additional capital meant NIB's actions carried increased weight, including, according to Normann, a broader social benefit, as the Bank "helped secure the welfare" of the Nordic and Baltic countries.[697] In the process, as NIB's Associate Director for Sustainability Magnus Andersson explained, "We have probably in a way moved a little bit from the IFI world more towards commercial banking over time."[698]

Even with an emphasis on profitability and growth, the Bank's core principles remained intact. Sound banking practices ensured that increased risk-taking did not jeopardise NIB's triple-A status. Indeed, the decision of S&P in 2015 to raise NIB's stand-alone credit rating to "aaa" spoke not only to the commitment of NIB's shareholders, but also the "extremely strong" quality of NIB's financial basis.[699] Ongoing commitments to integration, productivity, and environmental sustainability continued to shape NIB's operations and brand. Despite a focus on lending primarily to member countries, Normann's NIB fostered a more cosmopolitan outlook, addressing shared challenges on a global scale. Speaking of the importance of a holistic approach to sustainability beyond the perspective of the Nordic-Baltic region, Normann asserted that "We need to co-operate, not isolate ourselves. The green transition is a global challenge. It is twice as hard to solve it in a fractured world."[700]

NIB on a Mission

Upon its creation, NIB took an overriding interest in energy projects, a reflection of the Bank's birth amidst mid-century modernisation efforts and lingering concerns from the OPEC oil crisis. While energy remained pivotal to the Bank's operations, it gradually merged with initiatives aimed at fostering positive environmental impacts, particularly after environmental benefits became a formal mandate rather than just a derivative of the "Nordic interest". Although identifying environmental projects has proven more challenging compared to the broader competitiveness/productivity mandate, both aspects remain integral to NIB's efforts to finance sustainable progress since their introduction in 2008.

Like other financial institutions, NIB became more complex in the decades following 2008 as banking instruments grew increasingly technical and their awareness of risk heightened. This evolution eventually led to a departure from the conservative statutory gearing ratio, a remnant of an earlier period that limited NIB's envisioned growth. Yet this growth was pursued while remaining committed to the mandates established during Åkerholm's presidency, allowing NIB's mission to be both comprehensive and scalable, swelling in ambition in tune to the Bank's development. Ultimately, NIB moved closer to the consistent brand that Normann had originally envisioned. ●

Conclusion

The Nordic Investment Bank in 2026

A Half-Century of Growth and Change

As the Nordic Investment Bank enters its fiftieth year, its story, its successes and challenges, its record of futures delivered and futures abandoned, testifies to the significant transformations of the Nordic and Baltic Sea region over the past half-century. In its efforts to finance industrial developments with a positive socioeconomic impact, the Bank has been involved in many of the major events that define the recent history of its member states. To understand these events and their circumstances is to understand NIB.

However, if the Bank was only a mirror for such changes, its history, while nonetheless rich, would be less worthy of review. Instead, NIB as "the North's banker" has played its role in influencing the direction of these regional transitions through its expertise and lending. As an international institution, the purpose of NIB has never just been about making and lending money, even though that has certainly remained important. When defining and defending its actions, the Bank has had to take into consideration its members, their needs and priorities, and how the tools of a financial institution can serve these desires. Equally, by placing capital behind political imaginings and cross-border encounters, the Bank helped give these visions weight and potential, even sustaining them when they were contested. The Nordic Investment Bank must therefore also be counted as part of the fabric of Nordic-Baltic regional history.

It is prescient at this point to ask whether NIB has achieved its purpose. The various revisions and evolutions of the Bank over fifty years can make this tricky to answer, but the original motivations for the Bank's establishment in 1976, the strengthening of Nordic economic competitiveness and the preservation of Nordic cooperation in the face of European integration, have advanced significantly over the past fifty years.

The 2025 rankings of the Swiss-based IMD World Competitiveness Yearbook – which includes political, social, and economic criteria – lists all the Nordic countries in the top fifteen and all member states in the top forty.[701] As problematic as such indexes can be, the consistency of these rankings speak to a region that, in the words of former US President Barack Obama, punch above their weight in a globalised economy.

Moreover, Nordic cooperation appears strong in the 21st century, even as an increasing number of Bank members joined the EU and, by extension, the far larger EIB. The fears of division and fragmentation that motivated early efforts to establish a Nordic bank have been largely settled, even as new concerns arise. With its identity closely aligned to the region it serves, NIB's stability owes much to its ownership by a small number of member countries with traditionally aligned values. Of course, the Bank's efforts to foster cooperation have also transformed over its lifespan. Specific goals have been reformulated and refitted. The desire to build a stronger, more transnational, and more industrialised North Calotte, for instance, has morphed into a wider Arctic focus while maintaining the idea of bringing investment capital to an economically peripheral region.

On the other hand, the accession of the Baltic countries added a radically new element to the Nordic Investment Bank's mission. Unlike many other IFIS, NIB was not established with the purpose of helping birth a new regional alignment but rather was meant to strengthen a

NIB

NIB's sixth president, André Küüsvek, was also the first from a Baltic country.

preexisting "Nordic" identity. Baltic membership upended this dynamic and made NIB in this respect closer to other IFIS. It was through the operations of the Bank that the values, borders, interests, and connections of a Baltic Sea region could be conceived. Demonstrating how existing institutions can thrive within this regional realignment has been amongst NIB's most important political contributions. Indeed, the fairly seamless integration of the Baltic countries in 2005 proved that a Baltic Sea identity was not just possible but functional, at least in these particular circumstances.

Nothing has demonstrated more the transformation of NIB into a Baltic Sea bank than the hiring of its sixth president, André Küüsvek. Küüsvek, an Estonian, was the first president from a Baltic country, a testament to the survival of NIB's traditions for member balancing. Just like the organisation he was to later lead, the end of the Cold War and the renegotiation of regional economies proved formative for Küüsvek.

As a student, he was exposed to a world where the traditional boundaries of East and West were breaking down, taking his higher education in five different countries. Subsequently, Küüsvek returned to Estonia in time to witness the country's transition to democracy and a market economy. He entered commercial banking in Estonia and then Germany before spending the subsequent twenty-five years at various positions at EBRD. Thus, like Åkerholm, Küüsvek brought experience in international finance from EBRD; but also had roots in private institutions.[702] His story is a lesson in the possibilities of a more integrated Baltic Sea region.

Küüsvek oversees a bank that differs radically in its size, approach, and sophistication than the one led by Bert Lindström. The early NIB proved pragmatic and dexterous, pursuing an eclectic collection of operations and agendas. In such a small organisation, the personalities, interests, and connections of individual employees shone bright and greatly influenced the Bank's direction. Under Lindbæk, the youthful energy of the Bank was channelled towards respectability and permanency, as NIB sought and received recognition from clients, commercial institutions, and other IFIs. The proof of NIB's value and influence was seen in its utility as the spearhead of the Nordic Council of Ministers' Baltic operations, as Jón Sigurðsson guided the Bank first into Baltic Sea cooperation and then helped transform it into a symbol of that cooperation.

Throughout these shifting circumstances and challenges, NIB adapted, creating new lending facilities and borrowing tools while continuing to serve its primary functions. However, as the Bank's operations and horizons grew, the requirement to work for the Nordic interest, originally a means of distinguishing NIB from its commercial and international colleagues, became increasingly difficult to fulfil. Finally, after the Baltic expansion, such goals no longer made sense for NIB. Johnny Åkerholm, upon becoming president in 2005, was central in not only updating NIB's mission to the dual mandates of competitiveness and the environment but also insisting that NIB's operations be judged on its mandate fulfilment, which allowed the Bank to maintain a focus on socioeconomic goals while also responding to the broader economic environment. This focus on mandate fulfilment was supplemented by intense visions for institutional growth under Åkerholm's successor, Henrik Normann. Ultimately, the two aspects – mandate fulfilment and growth – complemented each other, as NIB's expanded balance sheet has allowed it to more vigorously pursue its efforts to finance sustainable projects.

The increasingly complex lending environment has ultimately produced an increasingly complex bank. Along the way, the Bank has made compromises to become larger and more agile in the mould of a commercial bank. In particular, the move away from NIB's traditional gearing ratio in 2020 necessitated rethinking how the Bank could promote sustainable growth. With NIB's lending ceiling calculated based on the quality and diversity of its existing portfolio, the Bank found itself with an overexposure to public projects, including many of those that had financed the clean-up of the Baltic Sea, such as wastewater treatment facilities.[703]

To diversify and strengthen their portfolio, the Bank has sought new areas for lending. Projects in energy generation and electricity transmission remain vital to the Bank's profile, but NIB has also demonstrated an increasing interest in areas like healthcare innovation and consumer retail production. The Bank moreover continues to take a pragmatic response to market gaps and needs, for example by investing in "underserved market segments" like mid-caps and the Baltic private sector, which previously was a negligible part of NIB's overall disbursements. As part of these efforts to provide additionality, NIB has increased its involvement with lower rated counterparties, which comes with risks but also the potential for greater profitability. The overall result is a diversified portfolio, aiding its overall quality and raising the Bank's lending ceiling.[704]

Even as the Bank has expanded its lending into new areas, one element of the Bank's operations that has long distinguished it from similar organisations remains intact: dividends. Annual payments to owners made NIB valuable in multiple ways and returned a very tangible result on their investment. And indeed, NIB has proven an excellent investment. Although difficult to calculate accurately due to the shifting currency that the Bank reported its holdings in – first SDR, followed by ECU, and, since 1999, EUR – by NIB's estimate, it has returned EUR 1.2 billion in dividends on EUR 321 million of equity contributions from its owners.[705] Most of this has gone to the Nordic countries; still, in the years since the Bank expanded in 2005, the Baltic states have received roughly half of their authorised capital back in dividends. Although the idea of removing the disbursements has been raised as a means of allowing the Bank even greater power to support industrial growth and transitions, the Bank continues to pay its owners on a yearly basis.

Eyes towards Tomorrow

Since 2021, NIB under André Küüsvek has advanced its core principles even as regional and global developments have set the stage for further transformations. While the Bank's lending normalised in 2021, returning to EUR 2.44 billion in disbursements after the nearly EUR 5 billion of the 2020 pandemic year, the level of activity in the latter part of Normann's tenure has been maintained. NIB recorded between EUR 3.4 and EUR 4.4 billion in disbursements during the period 2022 to 2024, in part a reaction to the market volatility and inflation following Russia's invasion of Ukraine on February 24, 2022. NIB once again played a stabilising role as commercial investors retreated from NIB focus areas. As Küüsvek promised, NIB's lending would assist member countries in, "navigating the storm together".[706]

Amidst this storm, as many large commercial banks are reducing their focus on climate and sustainability,[707] NIB continues to prioritise these areas and indeed has become more aggressive by raising the bar of its mandate fulfilment to 95% of disbursements.[708] In 2021, 72.8% of NIB lending went to projects with a positive environmental impact, while, the following year, green bonds reached an annual intake of EUR 1 billion for the first time. Since 2018, NIB has also issued blue bonds linked with water protection and cleaning projects that have proven wildly successful with investors.[709] NIB continues to enter into new agreements linked with sustainability goals, including the InvestEU programme for sustainable energy infrastructure, which necessitated taking more risk in lending to SMEs and mid-caps. On the other hand, the Bank's revised 2021 Sustainability strategy placed projects involving energy generation using fossil fuels on its exclusion list, along with processing crude oil, coal, peat, or natural gas, all vital elements of NIB's earlier efforts to develop regional energy self-sufficiency.[710] Even in approved sectors, NIB has begun to include the effectiveness and impact of supply chains when evaluating current and future projects in an effort to address three sustainability issues: 1) human rights and labour conditions; 2) biodiversity and deforestation; and 3) water stress.[711]

The push towards a more aggressive stance on sustainability and environmental goals has come with tough decisions and the potential for controversy. In 2023, NIB launched a Climate Strategy to align financing activities with Paris Climate Agreement targets and thereby contribute to net-zero economies by 2050. Included in this Climate Strategy was a commitment to NIB's 2021 decision to finance projects in so-called slow-lanes sectors, "where solutions are not readily available or cost effective, where emissions remain 'hard-to-abate'."[712] NIB served these hard-to-abate projects with a new Sustainability-Linked-Loans facility to finance high CO_2-emissions-producing industries like cement and mining, with incentives like lower interest margins dependent on borrowers meeting sustainability targets and stepping up their climate efforts.[713] The Climate Strategy proved contentious for financing what Future in Our Hands earlier called "environmental sinners", but NIB reasoned that this lending was part of their obligation to take a long-term perspective in their operations.[714] Rather than concentrate on the immediate emissions numbers in their portfolio by investing exclusively in renewable energy generation or other low-emissions projects, NIB argued that their resources were better used assisting companies who desired to improve the effectiveness of their operations and reduce their environmental footprint. According to NIB's guidelines, "These sectors require innovation, transformative change, and new tools to address their unique challenges. Operating in the slow lane will present greater difficulties, but it is the right path to take to achieve a sustainable future."[715]

Just like the continuous revision of "Nordic interest", the modern Bank has found it necessary to revisit and revise its mandates and definition of sustainability, even when it challenges decades of precedence. In March 2024, NIB's Board of Governors voted to break with NIB's long-standing policy by opening for investment in the defence industry, including financing research, infrastructure, and equipment that could have military and security applications.[716] This was followed in 2025 by opening lending to conventional weapons and ammunition. NIB's original refusal to fund arms manufacturing came amidst Cold War tensions and a Nordic region torn between two superpowers. Even the funding of arms manufacturers like Raufoss and Kongsberg Våpenfabrikk to produce car parts had proven controversial amongst NIB's Board of Directors. Eventually, in 2012, this policy was formalised through the inclusion of ammunition and weapons on NIB's exclusion list.

These traditions have been rewritten in an environment of extreme geopolitical uncertainty. As the Baltic Sea region becomes increasingly precarious amidst Russian aggression and US retrenchment, rearmament has emerged as a major concern for NIB's member states. Whereas defence issues were once considered anathema to Nordic cooperation, they are increasingly central to Nordic-Baltic collaboration.[717] The future appears to require tough and well-armed NIB member states. As Jens Stoltenberg, former Norwegian Prime Minister and chairman of NIB's Board of Governors in early 2025, argued, "Security is a public good and a prerequisite for sustainable development. This understanding is particularly strong in the Nordic-Baltic countries."[718] Luca De Lorenzo, NIB's Head of Sustainability and Mandate, concurred, reiterating the Bank's commitment "to ensuring that NIB's Sustainability Policy reflects societal developments and aligns with the needs of our member region".[719]

Such decisions make clear that the definition of the sustainable society is in flux and will continue to evolve in response to new perspectives, problems, and agendas. NIB can meet these challenges as an organisation with a better sense of itself and its place, having demonstrated the ability to adapt its procedures, outlook, and even its mission as circumstances changed and political priorities shifted. The future remains ever pertinent for NIB, as does the question: what comes after tomorrow?

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Byron Z. Rom-Jensen is a postdoctoral fellow at the University of Oslo with an interest in the international history of the Nordic countries. His research explores a Nordic identity in flux in the 20th and 21st centuries, shaped by developments and interactions beyond the region.

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Chapter 2

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157 Hellén, The Establishment and Development of the Nordic Investment Bank; Mauro Megliani (2024), The Nordic Investment Bank: The Evolution of an International Institution, *International Organizations Law Review* 21(2): 216.
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159 Regnskap for driftsåret 1.1-31.12.1978, NIB Archive, Control Committee, Volume 2, Meeting 1/79
160 Kontrollkommitténs mote 2/77 den 23.8.1977, NIB Archive, Control Committee, Volume 1, 2/77; Hellén, The Establishment and Development of the Nordic Investment Bank, 404.
161 The statutes required that members transfer 25% of the subscribed capital in three equal payments to the Bank. The payments were to take place in 2, 14, and 26 months after NIB's opening. Förordning om bringande i kraft av överenkommelsen om upprättandet av Nordiska investeringsbanken (May 27, 1976), NIB Archive, Communications Department, H1.
162 Nordic Investment Bank (1986), *Nordiska Investeringsbanken och dess verksamhet 1976-1985,* Nordic Investment Bank, 2.
163 Hermod Skånland and Peter Laurson, Protokoll fort vid Nordiska Investeringsbankens styrelsemöte 1/76 den. 9.6.1976 i Helsingfors, NIB Archive, Board of Directors, 1976-77.
164 The position was described as "managing director" or "verkställande direktör" in Swedish. The title was changed following the Bank's enlargement in 2005 and the term "president" has been used throughout the book for the sake of consistency.
165 Author's translation. Nordisk investeringsbank lån i milliardklassen, (April 5, 1976), *Norges Handel og Sjøfarts Tidende*.
166 Dennis, NIB - Från Långbänk till Snabbspår, 182. A second Swedish candidate was also considered in this final round.
167 This meeting, where the Board of Directors called Lindström from the sauna, is perhaps inspiration for stories about the decision on NIB's headquarters. Peter Laurson (May 13, 2024), Interview with author, telephone.
168 Annikki Saarela, Tal i Aarhus (September 13, 1977), NIB Archive, Communications Department, G1.
169 Barbro Eriksson (May 3, 2024), Interview with author, telephone.
170 Protokoll fört vid Nordiska Investeringsbankens styrelsemöte 1/76 den 9.6.1976 i Helsingfors, NIB Archive, Board of Directors, 1976-77.
171 Protocol of Board of Directors meeting 11/77 in Oslo, December 20, 1977, Board of Directors, 1976-77.
172 Nordiska Investeringsbanken, Report and Accounts for the period June 1, 1976 to December 31, 1976, Nordic Investment Bank. From here on out referenced as: NIB Annual Report, 1976-77; Finlands Författningssamlings Fördragsserie, nr. 26, (1976), NIB Archive, Communications Department, H1.
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175 NIB Annual Report, 1976/77.
176 Annikki Saarela, Tal i Aarhus (September 13, 1977), NIB Archive, Communications Department, G1.
177 Siv Hellén (February 14, 2024), Interview with Author, Helsinki.
178 Protokoll fört vid Nordiska Investeringsbankens styrelsemöte 6/76 den 14.12.1976 i Köpenhamn, NIB Archive, Board of Directors, 1976–77.
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186 William Dullforce, Increasing stature at home and abroad (January 15, 1981), *Financial Times,* NIB Archive, Communications Department, C7.
187 Peter Laurson, Investointien Erityisrahoituksen Saantimahdollisuudet ja -Lähteet, Pohjoismaiden Investointipankki (May 16, 1970), NIB Archive, Communications Department, G2. Loan applicants were to provide information about the company and project, as well as describing its importance to both the various countries involved. Harald Henriksen (?), Den Nordiske Investeringsbank (August 1977), NIB Archive, Communications Department, G2.
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195 Ibid., 17–18.
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Chapter 3

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Chapter 4

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Index of Names