



30.10.2014

## MINUTES OF THE MEETING OF THE BEAC AD HOC WORKING GROUP ON FINANCIAL MECHANISM STUDY

**DATE: 9.9.2014, 9.00–16.00**

**LOCATION: Ministry for Foreign Affairs of Finland, Helsinki**

### 1. Opening of the meeting and adoption of the agenda

Chair Birgit Autere presented the new member of the BEAC Ad Hoc Working Group on Financial Mechanism Study (AHWG): Ekaterina Romanchuk from the Russian Ministry of Finance (not present). As the Kolarctic Cross-Border Cooperation Programme is considered to be one of the main funding instruments for the Barents Region, Autere summarized the Programme's possibilities and limits in financing Barents Cooperation. The Kolarctic Programme may have more funding for the period of 2014–2020 than in the previous programming period. The Programme is likely to grow from 70 million euros to 84 million euros or possibly even more if the mid-term evaluation in 2017 is positive. The Republic of Komi is a new-comer in the Programme area and also the city of St. Petersburg was accepted as a major social, economic and cultural center. The thematic objectives of the Programme are:

- 1) Business and SME development
- 2) Environmental protection, climate change adaptation and disaster management and prevention
- 3) Improvement of accessibility to the regions, development of transport and communication networks and systems
- 4) Promotion of border management and border security

Horizontal modalities - cross cutting issues are:

- 1) People-to-people cooperation
- 2) Support to education, research, technological development and innovation

However, the social sector, culture, NGO support and indigenous people are left out.

### Decision:

Chair stated that the minutes of the previous meeting on 29 April, 2014 have been approved and sent to the members of the AHWG. The meeting agenda was approved without any changes.

### 2. Review of the steps taken to date

Questionnaires to the Barents Working Groups and the Barents Regional Committee and inquiries on national funding and on EU funding have been sent according to the work programme. A summary of the answers deriving from the questionnaires has been compiled and sent to the members of the AHWG. Furthermore, a tentative outline for the final report has been drafted and sent for comments. The 2nd meeting of the Ad Hoc Group convened on the 29th April 2014 and was devoted to the presentations of international financial institutions.

**Decision:**

A revised outline for the final report will be drafted based on the comments by the members of the AHWG and submitted to the working group by October 2014.

**3. Next steps**

-According to the Chair's proposal, the next meeting will be held on 18 November, 2014 in Helsinki. The meeting will be devoted to the presentations of EU funding programmes, with the condition that the representatives will be available at that date. This session will include Kolarctic CBC, Karelia CBC, The European Union's Baltic Sea Region Programme, The Seed Money Facility/EUSBSR, The Northern Periphery and Arctic Programme and The North Programme.

-A technical midterm report will be presented to the BEAC Committee of Senior Officials in December 2014: basically it will be a report containing the scope of work and the progress to date. The draft report outline will be circulated among the members of the AHWG for possible comments by the end of October.

-Drafting of the final report with conclusions and recommendations will commence at the beginning of 2015.

-A seed money matrix, compiled by the CBSS Secretariat, will be examined and possibly edited for the use of the AHWG.

**4. Presentations by the Northern Dimension Institute and the Northern Dimension Partnerships****Intervention by Marko Mäntylä/European Union External Action Service**

The chair asked Mäntylä to inform about EU funding which has been provided to the Northern Dimension partnerships and plans for future financing. According to Mäntylä, the EU is a committed partner in the ND and provides significant funding for its activities. Currently, there is a political push for the EU to do more in the Arctic and Barents regions. The Northern Dimension structures offer one viable policy tool for this objective. The ND partnerships are thus highly relevant for the BEAC Financial Mechanism Study. It is worth noting that the ND partners have agreed to further develop the ND's contribution to cooperation in the European Arctic/Barents region and this is one of the main themes towards the next ND ministerial meeting.

During the previous programming period 2007–2013, the EU has provided 27 million euros directly to ND partnerships: the main amount has been channeled to the NDEP Support Fund, whereas direct project funding has been allocated to the other three partnerships. Throughout the years, NDEP has received a total of 84 million euros of EU funding. These funds combined with contributions of other donors are currently being utilized and projects are being implemented. Direct project funding to the Partnership on Transport and Logistics, the Partnership in Public Health and Social Well-being and the Partnership on Culture has been allocated from the European Neighborhood and Partnership Instrument. The EU Delegation in Moscow has been in charge of managing the EU funds to the ND partnerships during 2007–2013. This will, however, change for the next programming period. The ND partnerships have also directly or indirectly benefitted from other EU funding instruments such as cross-border cooperation and transnational programmes in the region.

For the new multiannual financing period 2014-20, the Commission has recently approved programming documents for the European Neighborhood Instrument (ENI) ([http://europa.eu/rapid/press-release\\_IP-14-977\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-14-977_en.htm?locale=en)). Support for the ND is foreseen from the ENI Regional East programme and its strategy and multi-annual indicative programme for

2014-17 have been recently approved. The indicative allocation for the ND for 2014–2020 is around 67 million euros. Programming proceeds further on an annual basis. The preparation of the annual action programmes for 2014 is now underway and the programme for 2015 will be approved next year. The allocation of money follows the N+1 principle: programme for 2015 means that the money has to be contracted by the end of 2016.

EU funding forms only one component of the ND funding - ND has always been based on co-funding from the partners, including Russia and Norway. All countries in the region are also providing funding for the partnerships' secretariats and some also directly for project activities. In the Conclusions of 16 July on Ukraine ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/143992.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/143992.pdf)), the European Council requested the Commission to reassess EU-Russia bilateral and regional cooperation programmes. This reassessment is on-going and includes also the EU funding for the Northern Dimension.

A public consultation on Streamlining EU funding for the Arctic has recently been launched by the Commission. The participants are encouraged to respond to it and inform the relevant stakeholders about it ([http://ec.europa.eu/dgs/maritimeaffairs\\_fisheries/consultations/arctic-eu-funding/index\\_en.htm](http://ec.europa.eu/dgs/maritimeaffairs_fisheries/consultations/arctic-eu-funding/index_en.htm)).

#### **Northern Dimension Institute (NDI) / Professor Riitta Kosonen (Director of Center for Markets in Transition at the Aalto University School of Business)**

The Northern Dimension Institute is an open network of 32 universities and research institutes in Finland, Sweden, Norway, Russia, Belarus, Baltic States and Germany. NDI bridges the work of these universities with Northern Dimension Partnerships. This coordination work is carried out by Finnish-Russian cooperation: while Finnish Aalto University is the lead coordinator, Northern (Arctic) Federal University in Arkhangelsk and St. Petersburg State University of Economics act as partners. NDI works in close cooperation with Northern Dimension Partnerships and the ND Business Council by disseminating information and fulfilling information gaps. The role of the NDI is to identify the needed information and to find the relevant networks to produce and distribute this information. Thus, the scope of the NDI activities is defined by the Northern Dimension structures.

The NDI's concrete means to support the Northern Dimension cooperation is through research projects, events and other activities. The NDI has enhanced communication and visibility of the Northern Dimension by modernizing the website [www.northerndimension.info](http://www.northerndimension.info) and ensuring extensive social media presence. Additionally, The Northern Dimension Newsflash will be launched in October 2014 and will be published four times a year.

The lead coordinator is financed by the Finnish Ministry for Foreign Affairs until the end of 2015. The Russian co-coordinators are acting on the mandate of the Russian Ministry for Foreign Affairs. The NDI is currently searching for alternative financing solutions. According to Kosonen, there is no need for a fixed institute. Instead, the agenda, relevant issues and the action model should be defined and developed to ensure the future of the coordination work. Parts of the NDI functions can be financed from external research funds and EU funds.

### **Environmental Partnership (NDEP)/ The Associate Manager of the Northern Dimension Environmental Partnership Ewa Manik**

NDEP as a multi-donor fund was set up in 2001. Donor contributions are used as grants to finance concrete municipal investment projects to improve the environment in the Northern Dimension area. Thus NDEP grants are used to leverage other funding, namely IFI loans and national funding. The maximum share of an NDEP grant is half the size of the overall loan. Water and wastewater treatment and solid waste are among the largest sectors in the NDEP project portfolio. NDEP operates in North-West Russia and Northern Belarus.

There are two windows of activities: environmental and nuclear. The overall size of the NDEP Fund is €347,2M. While EU is the largest contributor in total (€84M), Russia has been the largest contributor to the environmental window with €60M.

Russia's strong commitment both as investor and beneficiary could be seen as one of the key success factors of the Partnership. In NDEP Russia is both the main beneficiary and the largest donor (loans in excess of €330M and national funds of €610M). Moreover, NDEP has a lot of committed donors - Finland and Sweden offer, in addition to substantial general contributions, a multitude of bilateral funds, especially additional technical assistance grants. In addition, the light and transparent structure and the simple rules of the fund contribute to the success of NDEP.

The NDEP model is i.a. used to finance relevant projects in the municipal sector. In fact, NDEP can be used in the BEAC context as a ready-made, tried and tested financing mechanism. There are still funds available in the NDEP about EUR 60–70 million for new projects. Moreover, there is plenty of technical assistance funding available for projects in the Barents region, such as NEFCO facilities. There are further needs in the Barents area to modernize the water and wastewater treatment systems, the district heating to reduce CO<sub>2</sub> emissions and coal fired boiler houses to reduce black carbon emissions.

When considering the feasibility of establishing a new financing mechanism for the Barents region, the strong commitment of the beneficiary country should be ensured. Grants need to be used as an incentive to secure further funding: loans, local financing and additional bilateral support. Manik promoted a light and transparent fund structure based on international standards and expected there to be a strong desire to extend the mandate of the NDEP fund after its expiration in 2017.

### **Partnership on Transport and Logistics (NDPTL)/ Director for the Northern Dimension Partnership on Transport and Logistics Oddgeir Danielsen**

The main objectives of NDPTL are to improve the major transport connections between ND partners, accelerate the implementation of transport and logistics infrastructure projects, contribute to the removal of non-infrastructure related bottlenecks and monitor the implementation of projects and measures. The main aim of the NDPTL Support Fund is to facilitate project financing by making projects bankable: support is given as grants to studies and the grant can cover up to 50% of the costs. Additionally, the Fund can cover project co-financing for infrastructure.

The strength of ND partnerships in general is that grants are only given to projects that have a high likelihood to be implemented. Thus, the focus is on the feasibility and financeability of projects. The average project size is relatively small: approximately 500 000 euros.

Danielsen also pointed out that regional funding should be used for pushing initiatives for national funding. The main challenge in the NDPTL Fund has been the relatively slow decision making process: all

decisions are made on a consensus principle. However, the Partnership is continuously developing its mechanisms.

Ten-T core network is much more limited than the prioritized transport corridors in the Joint Barents Transport Plan. This needs to be taken into consideration in the review of the Ten-T core network.

**Partnership in Public Health and Social Well-being (NDPHS)/ Director for the Northern Dimension Partnership in Public Health and Social Well-being Marek Maciejowski**

The basic objective of NDPHS is to promote sustainable development of the Northern Dimension area by improving people's health and social well-being. The key priorities are the reduction of major communicable diseases and prevention of lifestyle related non-communicable diseases and promotion of healthy and socially rewarding lifestyles. NDPHS is a softer type of partnership: the focus is not on investments. Instead, NDPHS aims at mainstreaming the results of the partnership and at bringing them to the policy level, to the awareness of political decision makers. Moreover, the areas of action include dissemination of information as well as outreach and involvement of relevant stakeholders.

The Partnership's workplan for year 2014 focuses on the following priorities: development of a new mid-term NDPHS Strategy and its Action Plan, follow-up of the Partnership evaluation, development and facilitation of policies, strategies and projects, leading and coordinating Health Priority area in the EU Strategy for the Baltic Sea Region, as well as providing adequate funding for the NDPHS and Partnership-relevant activities and projects. NDPHS needs funding to run the organizations, not only project funding. Funding is especially needed to cover the expenses of the international technical advisors and the coordinators who are responsible for leading the NDPHS expert groups.

NDPHS utilizes an online project funding coordination tool, which assists in proceeding from a project idea through project application to funding. Funding to this tool has been channeled by Finland and Norway (currently only by Norway). Finland, Sweden and Germany provide funding to support the work of the NDPHS expert groups. Additionally, EU funding is utilized as direct project financing (approx. 1 million euros), as well as to carry out the coordination work of the Health Priority area in the EU Strategy for the Baltic Sea Region.

Currently the Partnership's agenda includes indigenous people's health issues, drafting of the new strategy 2020 including the high North, as well as financing issues: NDPHS is expecting Russia to allocate funds to the basic functions of the Partnership.

**Partnership on Culture (NDC)/ Senior Advisor for the Northern Dimension Partnership on Culture Ilze Gailite Holmberg**

NDC is the youngest ND partnership: it was established in 2010. The mission of the NDPC is to contribute to the social and economic development in the ND area by focusing on the operating conditions for cultural and creative industries. NDPC works to bridge the gap between public and private funding by strengthening cooperation between the cultural and creative industries and the business community. Entrepreneurship in the field of creative industries is not well-developed in the arctic regions and thus further cooperation is needed. Moreover, the Partnership organizes meetings, seminars and workshops to facilitate dialogue and exchange of best practices between the various actors in the region: cultural and creative entrepreneurs, financing institutions, civil servants and media. In addition to this, NDPC follows the policy development for cultural and creative industries and cultural based innovation in the member countries and regional councils.

Currently the Partnership is developing a comprehensive Legally Binding Agreement (LBA), which defines the framework of NDPC International Secretariat and other aspects of collaboration. Additionally, a system of project support and administration after LBA is to be developed. NDPC is also preparing a long term strategy. NDPC is working in close collaboration with the Northern Dimension Institute to identify the cultural and creative industries' policy developments, networks, best practices as well as to analyze the cultural and creative industry projects in NDPC. The results that will be achieved through these studies will be reflected in the NDPC' s strategy regarding the support to projects and other future strategic issues.

NDPC's 2nd call for projects was launched in 2014. Project support was given especially to previously funded activities and networks in order to facilitate their growth and sustainability and to improve NDPC's visibility. 4 projects were supported.

Funding for NDPC comes from partner countries as annual voluntary payments. Additionally, in 2012–2014 the Partnership received project funding from EU as well as from other external sources. The amounts granted have ranged from 7000 to 30 000 euros. The funding challenges include the NDPC's members' differing interests and thus insufficient involvement in launching project competitions that the industry would be interested in. Additionally, funding from EU is considered inadequate.

#### **5. Presentations by Regional Cooperation Structures: Arctic Council, Council of the Baltic Sea States, and the Nordic Council of Ministers**

##### **Arctic Council (AC)/ Director General of the Secretariat of the Arctic Council Magnús Jóhannesson**

Currently, there are 66 on-going projects in the six working groups of the Arctic Council. Approximately 20% of these projects are in the environmental sector. The general goal of each project is to look at what is happening in the Arctic region, why is it happening, what are the consequences and the recommendations as to how the environmental impacts we can be minimized. The general objective is to have projects finalized and results and recommendations prepared during one chairmanship.

The Arctic Council member states are the main contributors to project work financing. Additionally, NEFCO, Nordic Council of Ministers and EU DG Research provide funding for project work. The establishment of the Arctic Council Project Support Instrument (PSI) was approved by the Arctic Council in 2005. The instrument became operational in 2014. It is intended to complement state funding and it has received contributions from various sources. The PSI is focused on work within Russia and especially on the work of the Arctic Contaminants Action Programme (ACAP). Parts of the funds in the PSI have been earmarked by the contributor-state to certain fields, such as black carbon. All the projects that receive PSI funding need to be approved by the Arctic Council. According to Jóhannesson, only time will tell how the instrument will start working.

Mäntylä pointed out that both the PSI and NDEP have a focus on the Barents hot spots services and NEFCO is running the PSI as well as managing the Barents Hot Spots facility. Full advantage should be taken from these synergies.

**Council of the Baltic Sea States (CBSS)/ Director General of the Secretariat of the Council of the Baltic Sea States Jan Lundin**

The experiences gained from the CBSS Project Support Facility (PSF) have been mainly positive. The 9th Baltic Sea States Summit in Stralsund, Germany in 2012 decided on the establishment of the PSF. The first call for applications was launched in 2013. The total amount of the PSF is one million euros. PSF funding may range between 10 000 euro and 50 000 euros, and it is allocated to viable projects as seed money. Projects funded by the PSF should be in relation to the five priority areas of the CBSS: environment and sustainability, economic development, education and culture, energy, civil security and human dimension. So far there have been 3 calls for applications, a total of 44 applications and 14 grants approved. The total amount of the PSF is considered right, but there is a wish to still expand the pole of applicants.

The objective of the PSF is to support cooperation in a flexible way: to pave the way for larger regional cooperation projects, funded by bigger funds existing in the region. Moreover, the PSF is a flexible, non-bureaucratic, and fast (4 months from call to disbursement) funding instrument and as such brings value to cooperation in the region. In the future the PSF could become a co-financing tool for the development and implementation of Baltic Sea macro-regional cooperation projects, valuable for the Baltic Sea Region. Ideally, it would foster long-term partnerships in regional cooperation.

There are positive signals about the follow-up of first PSF-projects through other financing possibilities (IB S-H, ESF etc). The selection process has been considered fair, not “politicized” and not too burdensome. The selection committee consists of the CBSS Troika and the Secretariat, who follow consensus decision making. The PSF increases interest for CBSS and opens doors to financial meetings and contexts hitherto closed for the CBSS. One of the key elements of PSF is that there is no “hidden agenda” – a lot of open cooperation is carried out with international financial institutions. There is some work required on the future composition and size of the selection committee, but the quality of decisions is already decent. The potential need for additional guidance by the CBSS Committee of Senior Officials and/or political level in the PSF decision making process should be on the agenda in the future.

Several Baltic Sea Region networks have benefited from the PSF in the time of scarce Baltic Sea Region financing. Some projects, funded from the PSF, are also relevant for EU Baltic Sea Region Strategy and/or the Russian Strategy of social and economic development of the North-West Federal District, because the priorities of these strategies overlap with the CBSS priorities. The money allocated to PSF to date will be utilized by the end of 2015 and the future of the instrument will depend on the country chairing CBSS then.

**Nordic Council of Ministers (NCM)/ Counselor Christina Lehtinen, following the Nordic Council of Ministers at the MFA of Finland**

Nordic cooperation has been on-going since the 1950s. Prime-ministers are responsible for the cooperation in the Nordic Council of Ministers. Recently, new guidelines concerning funding have been approved by the NCM. In the 1990s NCM information offices were opened in the Baltics and in 1995 in North-West Russia. The main objective of the information offices in Russia is to contribute to the development of the region and to maintain Russia’s active role in the northern cooperation. The focus is on civil society, human rights and the environment. NCM supports the bilateral cooperation between the member countries and Russia.

The NCM's North West Russia cooperation promotes democracy and civil society and facilitates broader regional cooperation in the ND and the Baltic Sea Strategy and other frameworks. New guidelines for cooperation were adopted in 2013. The Programme Knowledge Building and Network has an annual budget of 2,7 million euro for regional projects. Most projects are prepared by the NCM office in St. Petersburg, but the NGO programme is open for applications. In addition, the NCM has an Arctic Cooperation Project with a 424 000 euro annual budget. In general in the NCM projects 50-50 funding is desirable. The NGO exchange programme and in the areas of common interest the minimum co-funding can be 30%. Because of budget cuts, the NCM will no longer finance other organizations' activities.

Recent projects in the Barents region include fishing industries in Barents and cooperation in the sphere of mining industries with Russian partners from Murmansk. Projects and the sums are quite small, but cooperation has still been very fruitful and satisfactory.