

BEAC AD HOC WORKING GROUP ON FINANCIAL MECHANISM STUDY  
FINAL REPORT

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## **1. Introduction**

### 1.1. Summary

The Barents Euro-Arctic Council decided at the XIV Session on 29 October 2013 in Tromsø, Norway to set up an Ad Hoc Expert Group to conduct an extensive study on the financing of Barents Cooperation. The members of the Ad Hoc Working Group were composed of experts representing the BEAC Member States, the Barents Regional Council and the International Barents Secretariat. The assignment was to assess the financial needs, existing financial sources and financing gaps as well as to explore the possibility of establishing a financial mechanism in the Barents Region.

The Barents Region has considerable economic potential with vast natural resources and unique, pristine environment. Yet, many regions have encountered the consequences of economic recession. The Barents Region faces a demographic challenge, where the population is increasingly ageing and the younger population are leaving the region to work in larger cities in the south.

The cooperation projects of the Barents Working Groups have been financed either from national financing sources or from the Nordic or EU Programmes. The most important source for project financing during the past few years has been the Kolarctic Cross-Border Cooperation Programme.

The Nordic Council of Ministers has had an important role in supporting the multilateral cooperation between the BEAC Member States and North-West Russia. In March 2015, Ministers for Nordic Cooperation decided to put all activities at the Nordic Council of Ministers' information offices in North-West Russia on hold indefinitely due to the changed registration requirements by the Russian officials.

The Project Support Facility of the Council of the Baltic Sea States (PSF) is considered a flexible funding instrument for regional cooperation. It provides seed money for regional projects in the Baltic Sea Region and beyond.

The establishment of the Project Support Instrument of the Arctic Council (PSI) was approved by the Arctic Council in 2005, but the instrument only became fully operational in 2014. It is premature to assess the functionality of the PSI.

In the Northern Dimension context, the Northern Dimension Environmental Partnership (NDEP) and the Northern Dimension Partnership on Transport and Logistics (NDPTL) have established

support funds to pool contributions from donors for project financing. In particular, the NDEP financing mechanism has been considered a success. Projects in the Northern Dimension Partnership in Public Health and Social Well-being (NDPHS) and the Northern Dimension Partnership on Culture (NDPC) are mainly supported by EU funding.

Under the new EU Financing Period of 2014–2020, a multitude of EU funding programmes, relevant to the Barents Euro-Arctic Region and the work of the Barents Euro-Arctic Council, is available. The most relevant EU-funded programmes are the transnational and cross-border cooperation programmes, which focus geographically on the Barents Euro-Arctic region or parts thereof. Most EU funding programmes focus on medium- or large-scale projects and economic development is one of the recurrent themes.

The Northern Periphery and Arctic Programme (NPA) continuously grants financing also for preparatory projects (Preparatory Project Call). The Baltic Sea Region Seed Money Facility on its part supports projects addressing the challenges listed in the Action Plan of the EU Strategy for the Baltic Sea Region (EUSBSR). The Barents Region is to some degree covered by the Baltic Sea Region Seed Money Facility.

Various thematic EU Programmes and Instruments support EU sectoral policies in themes relevant to BEAC priorities. The EU Structural and Investment Funds contribute on their part to regional cooperation and priorities of Barents cooperation.

International Financial Institutions have the necessary resources to provide financing for large-scale projects in the Barents Region. The challenge is to identify and develop bankable projects. Funds for technical assistance are essential to make projects bankable. The IFIs have at their disposal considerable donor funds to assist in project development.

The majority of Barents regions consider the current level of financing insufficient for their joint activities. EU Programmes are perceived as an important source of financing, yet the level of competition among applicants is high and the application procedure is considered complex.

Some of the Barents Working Groups find the availability of financing for regional cooperation more or less satisfactory. Some stressed the need for a permanent funding mechanism for project cooperation and core activities.

From the non-governmental and other civil society organisations' perspective, there is not enough national or EU financing available for small-scale projects.

The awareness of the EU and other funding sources in the region is not always on a sufficient level amongst the civil society actors, the Barents regions and the Barents Working Groups. It is therefore indispensable to raise awareness of the ample possibilities that the existing mechanisms have to offer and accordingly the build capacity of the Barents actors.

The political circumstances since 2014 have had an impact on EU-Russia cooperation in many sectors and have blocked several of the previously available multilateral financing sources. Also the Russian NGO legislation has diminished the possibilities for project cooperation. Under these circumstances, mutual interests to establish a new financial mechanism for the Barents Region may be difficult to find.

In the light of the conducted study, there do not, at this stage, seem to exist common interests or justifiable reasons for establishing a new financial mechanism for the Barents Region. The key task is to improve information dissemination of the existing financing sources for Barents Cooperation among the Barents actors as well as enhance collaboration between relevant stakeholders and different financing instruments.

## 1.2. Background and Mandate

The Declaration of the Barents Summit, which was held on the occasion of the 20<sup>th</sup> Anniversary of the Barents Euro-Arctic Cooperation on 3-4 June 2013 in Kirkenes, Norway, welcomed the initiative by Russia to investigate the possibility of establishing a financial mechanism in the Barents Region to support project activities and to make full use of the region's investment potential. In the Kirkenes Declaration, the Barents Euro-Arctic Council (BEAC) was encouraged to take appropriate action in this regard.

The Barents Euro-Arctic Council decided at the XIV Session on 29 October 2013 in Tromsø, Norway to set up an Ad Hoc Expert Group to conduct an extensive study on the financing of Barents Cooperation. As incoming chair of the Barents Euro-Arctic Council for 2013-2015, Finland announced its readiness to undertake the task.

The Mandate of the BEAC Ad Hoc Working Group on Financial Mechanism Study was adopted by the Committee of Senior Officials of the Barents Euro-Arctic Council in Helsinki on 12 December 2013. The Mandate stipulates that the members of the Ad Hoc Working Group consist of experts representing the BEAC Member States. The representatives of the International Barents Secretariat, the Barents Regional Council and the Working Group of Indigenous Peoples may participate in the work of the Ad Hoc Working Group.

The assignment of the Ad Hoc Working Group was to assess the financial needs, existing financial sources and financing gaps as well as to explore the possibility of establishing a new financial mechanism in the Barents Region. According to the Mandate, the Working Group shall collect relevant information from the BEAC Member States, the EU, regional level actors, Barents Working Groups, cross-border cooperation structures as well as national and international financial institutions and civil society actors.

### 1.3. Work Programme and Methodology

The kick-off meeting of the BEAC Ad Hoc Working Group on Financial Mechanism Study was held on 18 February 2014 in Helsinki and chaired by Birgit Autere from the Ministry for Foreign Affairs of Finland. The Work Programme for 2014-2015 was approved unanimously in April 2014 on the condition that it can be revised during the process, if deemed necessary. The meeting schedule for the Ad Hoc Working Group was agreed on for the next 1.5 years and consists of nine meetings. To a large extent, the content and the key players of the hearing sessions was derived directly from the Mandate of the BEAC Ad Hoc Working Group. The Midterm Report, focusing on the progress of the Working Group, was to be produced and presented to the BEAC Committee of Senior Officials Meeting in December 2014. The Final Report of the BEAC Ad Hoc Working Group on Financial Mechanism Study was scheduled to be completed by September 2015.

From the outset, it was evident that the scope of the study should be limited and region-specific, given the abundance of existing information already available. In terms of information compilation, the Expert Group ended up collecting written contributions through standardised questionnaires from relevant stakeholders and decided to organise hearing sessions for those bodies representing the main sources of funding to better understand the current situation and future visions of the funding of Barents Cooperation. Additionally, an online survey was launched to reach out to a wide range of civil society actors in the Barents Region for their opinion.

## 2. The Operating Environment of the Barents Euro-Arctic Region



### Demography

The Barents Region includes the northernmost parts of Finland, Norway, Sweden and North-West Russia. The Barents Region is sparsely populated; over 5 million people are spread over a geographical area of 1.75 million km<sup>2</sup>. The people are located in the Norwegian regions of Finnmark, Troms and Nordland (altogether 478,144 people), the Swedish regions of Norrbotten and Västerbotten (510,548), Finnish Lapland, Northern Ostrobothnia and Kainuu (666,527) and the Russian regions of Murmansk, Karelia, Arkhangelsk, Nenets and Komi (3,466,302).<sup>1</sup> About 75% of the territory is located in Russia, including the largest cities Murmansk and Arkhangelsk. The joint border of Norway and Finland towards Russia in the Barents Region is approximately 700 km long.

Several indigenous peoples inhabit the Barents Region. The Saami people live in all four countries. The Nenets and Veps people live on the Russian side. The indigenous peoples' right to practice their livelihoods, culture and language is actively promoted and representatives of the indigenous peoples take part in Barents Cooperation. The Working Group of Indigenous Peoples was established by the Barents Regional Council in 1995.

The Barents Region is characterised by a falling population trend due to negative net migration and a declining birth rate. The population of the Barents Region is ageing fast. Young and highly-educated people are migrating mostly from peripheral towns to cities in the South.

<sup>1</sup> <http://www.patchworkbarents.org>

In the past 25 years, Russian regions in particular, but also Lapland and Kainuu in Finland, have lost thousands of working-age citizens due to lack of work opportunities.

Table 1. Land area, population

Area	Land area (km <sup>2</sup> )	Population (1990)	Population (2014)	Population change 1990-2014 (%)
Kainuu	24 451	96 801	79 840	-17.52
Lapland	98 984	199 911	182 844	-8.54
Oulu region	44 089	345 263	403 843	16.97
Norrbotten	98 911	263 735	249 436	-5.42
Västerbotten	54 672	251 968	261 112	3.63
<b>EU countries, total</b>	<b>321 107</b>	<b>1 157 678</b>	<b>1 177 075</b>	<b>1.68</b>
Finnmark	48 615	74 148	75 207	1.43
Troms	25 869	146 594	162 050	10.54
Nordland	38 460	239 532	240 887	0.56
<b>Northern Norway</b>	<b>112 944</b>	<b>460 274</b>	<b>478 144</b>	<b>3.88</b>
Murmansk	144 900	1 191 468	771 058	-35.29
Arkhangelsk	587 400	1 575 502	1 145 760	-27.28
Nenets	176 700	51 993	43 025	-17.25
Republic of Karelia	180 500	791 719	634 402	-19.87
Komi	416 800	1 248 891	872 057	-30.17
<b>North-West Russia</b>	<b>1 506 300</b>	<b>4 859 573</b>	<b>3 466 302</b>	<b>-28.67</b>
<b>Entire area, total</b>	<b>1 940 351</b>	<b>6 477 525</b>	<b>5 121 521</b>	<b>-20.93</b>

Source: <http://www.patchworkbarents.org>

#### *Environment*

The nature of the Barents Region is unique, with its pristine characteristics and vast biodiversity. The environment varies between vast tundra areas in the north and extensive boreal forest zones in the south. The majority of the region belongs to the temperate conifer zone,

whereas the Scandinavian mountain chain, the northern parts of the Kola Peninsula, the Nenets area and Novaya Zemlya are part of the Arctic tundra.

Climate change, pressure on natural resources, increased environmental risks, pollution of the environment and loss of biodiversity are major challenges for the vulnerable Barents environment. The Barents Region is among the areas in the world where the effects of climate change are the most visible. Mitigation of climate change by reducing local greenhouse gases and black carbon and adaptation measures are needed to minimise the effects of climate change on societies and ecosystems and to safeguard the well-being of the people living in the region, including indigenous cultures and traditional livelihoods.<sup>2</sup>

### *Economy*

The economic structures of Barents regions vary significantly between the countries and regions. The overall trend in GDP has been positive in the Barents Region in the 21st century. The East-West division is still apparent as the regions in the Nordic countries enjoy substantially higher GDP per capita than Russian regions. There is, however, variation within the Nordic countries as well. Unemployment rates vary from 2.3% in Troms, Norway to 15% in the Kainuu region of Finland.

Table 2. GDP, unemployment and education level statistics

Area	GPD/per capita/euro			Unemployment rates (% of work force)			Higher education (%)
	2000	2007	2011	2009	2011	2013	2010
Kainuu	16 400	23 500	17 952	9.3	8.3	15.2	21.3
Northern Ostrobothnia	22 500	30 600	21 347	10.0	8.7	13.6	26.3
Lapland	21 600	27 600	29 329	11.6	10.2	12.1	22.8
Norrbotten	27 128	35 674	45 974	9.5	8.1	9.3	23.8
Västerbotten	24 404	31 890	35 450	8.1	7.8	7.1	29.8
<b>EU countries, average</b>	<b>22 406</b>	<b>29 853</b>	<b>30 010</b>	<b>10.6</b>	<b>9.2</b>	<b>10.7</b>	<b>24.8</b>
Finmark	22 768	33 765	41 587	3.6	3.2	3.5	23.0

<sup>2</sup> Declaration of the Barents Environment Ministers 4-5 December 2013 Inari; Action Plan on Climate Change for the Barents Cooperation 2013.



Troms	24 169	34 390	40 998	2.6	2.2	2.3	27.0
Nordland	23 820	35 586	40 186	2.8	2.8	2.9	21.6
<b>Northern Norway, average</b>	<b>23 585</b>	<b>34 580</b>	<b>40 924</b>	<b>3.0</b>	<b>2.7</b>	<b>2.9</b>	<b>23.9</b>
Murmansk	2 283	6 677	8 055	7.6	8.8	7.2	20.4
Arkhangelsk	1 729	6 081	8 839	7.2	6.0	6.1	17.5
Komi	2 185	7 329	11 872	11.8	8.5	7.1	17.4
Republic of Karelia	1 487	4 512	5 459	10.0	8.7	8.2	18.7
<b>North-west Russia, average</b>	<b>1 921</b>	<b>6 150</b>	<b>8 556</b>	<b>9.2</b>	<b>8.0</b>	<b>7.2</b>	<b>18.5</b>
<b>Entire area, average</b>	<b>15 971</b>	<b>23 528</b>	<b>26 497</b>	<b>7.6</b>	<b>6.6</b>	<b>6.9</b>	<b>22.4</b>

Source: <http://www.patchworkbarents.org>

The main drivers of the Barents Region's economy are forestry, metallurgy, mining, energy production, fisheries and tourism. There is a wealth of natural resources, e.g. forests, fish, minerals as well as oil and gas in the Barents Region. The melting of the sea ice in the Arctic Ocean gives access to new transport routes and oil and gas reserves. The natural growth market is intensifying the interest of investors and creates new opportunities for the development of the region. Investments enhance welfare, boost development and prevent depopulation.

One of the main challenges for the region is to develop sustainable and environmentally sound economic activities. The pristine environment is a major tourist attraction, making it one of the most important sources of income in the Barents Region. Clean technology and IT technology also offer significant opportunities for the Barents Region. With the environment being under greater strain, utilities such as water processing technology or energy efficiency solutions have increasing market potential.

Interaction between citizens, businesses and other civil society actors in the Barents Region is hampered by inadequate transportation and infrastructure systems. This applies to all forms of transport infrastructure: road, rail, air, and sea ports. Well-functioning cross-border cooperation requires smooth border crossings.<sup>3</sup>

<sup>3</sup> See also *Joint Barents Transport Plan 2013* ([http://www.barentsinfo.fi/beac/docs/Joint\\_Barents\\_Transport\\_Plan\\_2013.pdf](http://www.barentsinfo.fi/beac/docs/Joint_Barents_Transport_Plan_2013.pdf)), p. 8, and *Growth from the North*,

### *Know-how*

The Barents Region possesses great know-how in the fields that characterise the region and its potential: environmental protection, tourism, mining, clean technology and digital services.

There are many regional institutions that offer higher education in the Barents Region. The Barents Region has 14 state universities, eight of which are Russian. People-to-people connections have also been active between educational institutes in the area. Exchange and research programmes offer an effective way for upholding the Barents identity and both maintaining and bringing more know-how to the region.

### *Health and Social Issues*

The provision of public services, particularly of welfare services in the sparsely populated areas, is of constant concern. The BEAC countries jointly look for solutions on how to improve services through stronger cooperation and exchange of experiences, including emergency issues, but also long-term prevention of lifestyle-related diseases and the social inclusion of vulnerable children and youngsters. Digital technology may serve as a tool to reach out to the population. For example, telemedicine services have been created to provide distance health care solutions to individual people.

### *Culture*

The Barents Region is characterised by rich cultural diversity. The development of cultural life serves the social and economic development in the region. Due to the fact that the Barents Region is a geographically large and sparsely populated area, there is a special need to strengthen cultural cooperation and create meeting places where cultural practitioners can convene to develop joint cooperation projects.

## **3. Existing Financing Sources**

This chapter describes the outcomes of the hearings and questionnaires<sup>4</sup> regarding various existing instruments and sources available for financing of regional and cross-border projects in the Barents Region.

### **3.1. BEAC Member States' National Funding for Cooperation**

All four Barents countries channel funding for financing multilateral project cooperation in the Barents Region through different

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([http://valtioneuvosto.fi/documents/10616/1095776/J0415\\_Growth+from+the+North\\_net.pdf/2613b2d6-96f8-4ca1-813a-658eaad7f858](http://valtioneuvosto.fi/documents/10616/1095776/J0415_Growth+from+the+North_net.pdf/2613b2d6-96f8-4ca1-813a-658eaad7f858)), p. 28-32

<sup>4</sup> The hearing sessions were organised and surveys conducted between March 2014 and January 2015.

mechanisms. However, the amounts of funding that countries allocate annually vary a lot from one country to another and from year to year.

Sweden provides state funds of approximately EUR 1.5 million per year, which are directed to projects and regional cooperation in the Baltic Sea Region including Barents. In addition to this, the Swedish Institute supports education in the Baltic Sea Region annually. The larger part of Swedish state-funded support for Barents Region cooperation is, however, channelled through various EU Programmes, such as the European Neighbourhood Programmes, Kolarctic, Horizon 2020 and Interreg North as well as through the Northern Dimension, especially its Environmental Partnership.

Russia has no federal or regional budget line for Barents cooperation. Russia finances regional Barents cooperation projects through different governmental bodies, mainly ministries and agencies on an ad hoc basis. The amount of financing depends on priorities in different fields of cooperation and varies from year to year.

Finland has a national financing instrument for project cooperation in the Baltic Sea, Barents and Arctic region. It is primarily directed to multilateral regional cooperation, such as the Northern Dimension and the regional councils: the Arctic Council, Barents Euro-Arctic Council and the Council of the Baltic Sea States. The financing adds up to EUR 2.1 million in 2015. The instrument is used to support Finland's participation and utilisation of Finnish expertise in implementing multilateral projects. Finland also contributes to Barents multilateral cooperation through various EU Programmes.

Norway funds projects in the Barents Region through various programmes and cooperation structures. In 2014 the Norwegian Ministry of Foreign Affairs launched a new programme called Arctic 2030, which will provide funding for a variety of projects and activities in the High North and the Arctic. In 2015 a sum of NOK 150 million (around EUR 18 million) is available under this programme, which replaces the former Barents 2020 and Arctic Cooperation grant schemes. Innovation Norway instrument provides funding for bilateral Norwegian-Russian projects and multilateral projects in the Barents Region.

The Norwegian Ministry of Foreign Affairs also allocates funds specifically for project cooperation with Russia in areas such as environment, nuclear safety, health, education, research, business cooperation and people-to-people contact. A part of these funds, in 2015 amounting to NOK 150 million (around EUR 18 million), is delegated to other ministries and institutions.

The Norwegian Barents Secretariat will administer project financing of about NOK 46 million (around EUR 5.5 million) per year for the period 2015–2017. Projects must involve a Norwegian and a Russian partner

from the Barents Region. The Norwegian Barents Secretariat grants funding to approximately 200 Norwegian-Russian projects annually. Civil society and media-focused projects are given priority. The Norwegian Barents Secretariat's financing enables Russian partners to participate in Barents Cooperation at the project level.

### 3.2. Regional Cooperation Structures

#### 3.2.1. Regional Councils

##### The Barents Euro-Arctic Council and the Barents Regional Council

The Barents Euro-Arctic Council is an intergovernmental cooperation forum, established in 1993 between Finland, Norway, Sweden, Denmark, Iceland, Russia and the European Commission. At the same time, the Barents Regional Council was established to form a framework for the cooperation of the 13 Barents regions. The indigenous peoples have an advisory role in relation to both Councils. The work of the Councils is administratively supported by the International Barents Secretariat, which was established in 2007. Several Working Groups have been formed to develop sectorial cooperation within the Barents Region.

The projects developed and implemented in the framework of the Barents Working Groups have been financed either from national financing sources or from the Nordic or EU Programmes. The most important source for project financing during the past few years has been the Kolarctic Cross-Border Cooperation Programme.

##### The Council of the Baltic Sea States

The Council of the Baltic Sea States (CBSS) was established in 1992 as an overall political forum for regional intergovernmental cooperation. The Members of the Council are the eleven states of the Baltic Sea Region as well as the European Commission. The role of the Council is to serve as a forum for political dialogue among its Member States and as a focal point for information and coordination.

The 9th Baltic Sea States Summit held in Stralsund, Germany in 2012 decided on the establishment of the Project Support Facility (PSF) of the Council of the Baltic Sea States. The total amount of the PSF is EUR 1 million for a three-year period. The first call for proposals was launched in 2013. PSF funding may range from EUR 10,000 to EUR 50,000, which is allocated as seed money to viable projects. PSF-funded projects should be in line with the three long-term priorities of the CBSS: regional identity, sustainable and prosperous region, and safe and secure region. The experiences gained from PSF have been mainly positive. The CBSS secretariat considers the size of the PSF instrument optimal.

The objective of the Project Support Facility is to be a flexible funding instrument. It aims, among other things, to pave the way for larger regional cooperation projects financed by bigger funds. In the future, the PSF could become a co-financing tool for the development and implementation of Baltic Sea macro-regional cooperation projects.

According to the CBSS secretariat, to date the PSF selection process has been considered fair, non-politicised and not too burdensome. It takes only four months from a call for proposals to disbursement of funds. The selection committee consists of the Troika of CBSS Chairs and the Secretariat, who rank eligible projects against each other based on certain criteria, and subject to final and unanimous approval by the Committee of Senior Officials. The PSF has widely increased interest in the CBSS and has opened doors to donor meetings hitherto non-accessible for the CBSS. One of the key elements of the PSF is that cooperation is based on transparency.

Several Baltic Sea Region networks have benefited from the PSF in the times of scarce financing for the area. Some PSF-funded projects are also relevant for the EU Strategy for the Baltic Sea Region and the Russian Strategy of Social and Economic Development of the North-West Federal District, because the priorities of these strategies correspond with the CBSS priorities. The funding allocated to the PSF to date will be utilised by the end of 2015 and the future of the funding instrument will depend on the position of the CBSS Member States at the time.

#### The Arctic Council

The Arctic Council was established in 1996 as a high-level intergovernmental forum to provide a means for promoting cooperation, coordination and interaction among the Arctic States: Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden and the USA, with the participation of six indigenous Permanent Participant organisations and other Arctic inhabitants on common Arctic issues. The issues of sustainable development and environmental protection have been the main focus of project work within the Arctic Council.

The main contributors to project financing are the Arctic Council Member States. Additionally, the Nordic Environment Finance Corporation (NEFCO), the Nordic Council of Ministers and EU DG Research have provided funding for project work. Working Groups present completed project deliverables to the Arctic Council Ministers at the end of each two-year Chair period.

The establishment of the Project Support Instrument (PSI) of the Arctic Council was approved by the Arctic Council in 2005. The instrument became fully operational in 2014. The size of the instrument is around EUR 16 million. The Members of the PSI

include NEFCO, Finland, Iceland, Norway, Russia, Sweden, the United States and the Saami Parliament. The PSI is a financing instrument for the purpose of mobilising and channelling financing for specific action oriented Arctic Council projects. The PSI has currently made investment decisions on the Arctic Contaminants Action Programme (ACAP) projects in Russia. Priority is given to projects related to pollution prevention, abatement and elimination. Certain funds in the PSI have been earmarked by the contributor to certain fields, such as black carbon. The PSI is intended to complement national funding.

#### The Nordic Council of Ministers

The Nordic Council of Ministers (NCM) was established in 1971 to maintain Nordic cooperation. NCM information offices were opened in North-West Russia in 1995<sup>5</sup>. The main objective of the information offices in Russia has been to contribute to the development of the region and to maintain Russia's active role in northern cooperation. The focus has been on civil society, education and environment. The NCM has also supported multilateral cooperation between the Member States and North-West Russia, which is coordinated within other policy frameworks, such as the Northern Dimension, the EU's Strategy for the Baltic Sea Region and the regional councils. The latest guidelines for cooperation were adopted in 2013.

The Nordic Council of Ministers has supported activities in North-West Russia, including the Barents Region, mainly through four financing programmes. The Knowledge Building and Network Programme has had an annual budget of EUR 3.6 million for regional projects. The programme was designed to serve as seed money to initiate new cooperation activities. The NGO Programme has supported capacity building of civil society organisations with an annual budget of approximately EUR 848,000. The NGO Exchange Programme has channelled annually EUR 470,000 for the development of networks between NGOs in the Nordic countries and North-West Russia. In addition, the NCM has had the Arctic Cooperation Programme with the annual budget of EUR 1.1 million. The Nordic Council of Ministers has supported a number of concrete projects and initiatives by the BEAC within the fields of economic development, indigenous people and environment.

#### 3.2.2. Northern Dimension Partnerships

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<sup>5</sup> In 2015 the Russian Ministry of Justice registered the Nordic Council of Ministers' information offices in North-West Russia as "foreign agents", which in effect hinders the information offices' activities. Due to this, the Ministers of Nordic Cooperation decided to close the offices in North-West Russia and maintain only a minimum presence. Closing the offices and finishing ongoing projects is estimated to take until the end of the year 2016.

The Northern Dimension (ND) is a joint policy between the EU, Russia, Norway and Iceland. It covers a broad geographic area from the European Arctic and Sub-Arctic areas to the southern shores of the Baltic Sea. The Northern Dimension operates through four partnerships: the Northern Dimension Environmental Partnership (NDEP), the Northern Dimension Partnership in Public Health and Social Well-being (NDPHS), the Northern Dimension Partnership on Transport and Logistics (NDPTL) and the Northern Dimension Partnership on Culture (NDPC). Cooperation is based on the principle of co-financing from the EU and the participating countries. The NDEP and the NDPTL have established support funds to pool contributions for project financing.

The Northern Dimension Institute, the Northern Dimension Business Council and the Northern Dimension Parliamentary Forum complement the cooperation and increase awareness of the ND within the wider society.

#### The Northern Dimension Environmental Partnership (NDEP)

The Northern Dimension Environmental Partnership (NDEP) support fund was set up as a multi-donor fund in 2001. The current contributions to the NDEP Fund amount to EUR 352 million. Donor contributions are used as grants to support concrete municipal investment projects to improve the environment in the Northern Dimension area. The NDEP grants are used to leverage other funding i.e. IFI loans and national funding. The maximum share of an NDEP grant is half the size of the overall loan.

There are two windows of activity: environmental and nuclear waste clean-up. Water and wastewater treatment, solid waste and energy efficiency are among the largest sectors in the portfolio of the NDEP environmental window. The NDEP operates in North-West Russia, including the Barents Region, and the environmental window also in Northern Belarus. While the EU is the largest contributor with EUR 84 million in total, Russia is the largest contributor to the environmental window with EUR 60 million, followed by Sweden with EUR 26 million and Finland with EUR 19 million. Moreover, the NDEP has a lot of other committed donors.

The NDEP support fund management considers Russia's strong commitment both as investor and beneficiary one of the key success factors of the partnership. In addition, the light and transparent structure and the simple rules of the fund contribute to the success of the NDEP.

The NDEP finances projects in Russia, including the Barents Region. The NDEP Fund still has EUR 56 million available for new projects. In the Russian part of the Barents Region, there is a need to modernise water and wastewater treatment systems, district heating to reduce

CO<sub>2</sub> emissions and coal-fired boiler houses to reduce black carbon emissions.

#### The Northern Dimension Partnership on Transport and Logistics (NDPTL)

The Northern Dimension Partnership on Transport and Logistics (NDPTL) was established in 2009. The main objectives of the NDPTL are to improve the major transport connections in the ND region, accelerate the implementation of transport and logistics infrastructure projects and contribute to the removal of non-infrastructure-related bottlenecks.

The NDPTL Support Fund was established in 2012. The EU, Finland, Norway and Germany have contributed to the Fund. The main aim of the NDPTL Support Fund is to facilitate project development, preparation and implementation. Support is given as grants for studies and a grant can cover up to 50% of the costs. Additionally, the fund could cover project co-financing for infrastructure. So far, a total of seven projects, amounting to EUR 1.6 million, have received funding from the NDPTL Support Fund. These projects mainly include feasibility and pre-feasibility studies. The amount of funding for each project varied from EUR 140,000 to EUR 500,000. At the moment, the fund has EUR 1.4 million available for new projects.

#### The Northern Dimension Partnership in Public Health and Social Well-being (NDPHS)

The Northern Dimension Partnership in Public Health and Social Well-being (NDPHS) was established in 2003. The objective of the 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. The NDPHS focuses on mainstreaming the results of the partnership and increasing the awareness of political decision-makers.

The NDPHS has an Activity Fund, which currently has EUR 176,000 (SEK 1.6 million). The fund is used to finance activities aimed at contributing to the achievement of NDPHS objectives, e.g. implementation of projects, organisation of events, and publications. The EU has granted approximately EUR 1.3 million since the inception of the NDPHS. In addition, Norway allocates funds to projects between Norway and Russia through the NDPHS pipeline. Currently, the Partnership is finalising its new strategy for the period up to 2020.

#### The Northern Dimension Partnership on Culture (NDPC)

The Northern Dimension Partnership on Culture (NDPC) is the youngest ND partnership, 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. The 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 extensive cooperation is therefore needed. The NDPC organises meetings, seminars and workshops to facilitate dialogue and exchange of best practices between cultural and creative entrepreneurs, financing institutions, civil servants and media in the region. The NDPC follows policy development for cultural and creative industries and culture-based innovations in the Member States and regional councils.

During 2010–2014 the NDPC received project funding from the EU amounting to EUR 600,000 as well as from other external sources, mainly from the Nordic Council of Ministers. The NDPC has had two rounds of calls for project proposals: the first call was launched in December 2012 and the second in 2014. Priority in the second call was given in particular to previously-funded activities and networks in order to facilitate their growth and sustainability and to improve NDPC's visibility. A total of 16 projects have received financing from the NDPC. The amounts granted have ranged from EUR 7,000 to EUR 30,000.

The NDPC is preparing a long-term strategy that will address project support and financial issues. The partnership has also discussed the possibility of creating a funding mechanism for project support.

#### EU funding to Northern Dimension Partnerships

The EU is a committed partner in the Northern Dimension and, as a consequence, provides significant funding for ND-related activities.

During the previous EU Multiannual Financial Framework 2007–2013, the EU provided EUR 18 million directly to Northern Dimension partnerships from the European Neighbourhood and Partnership Instrument (ENPI). Out of this amount, EUR 14 million was channelled to the ND Environmental Partnership Support Fund. From the establishment of the NDEP in 2001 the partnership has received a total of EUR 84 million of EU funding.

An amount of EUR 1.4 million has been provided to the Northern Dimension Partnership on Transport and Logistics Support Fund. In addition, a total of EUR 2.6 million in direct project funding has been allocated to the Partnership on Transport and Logistics, the Partnership in Public Health and Social Well-being and the Partnership on Culture. The EU Delegation in Moscow has been in charge of managing the EU's direct project funding to the ND partnerships during 2007–2013. 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.

In the current EU Multiannual Financing Period of 2014–2020, the indicative allocation for the Northern Dimension is around EUR 67 million from the European Neighbourhood Instrument (ENI). Support for the Northern Dimension is foreseen from the European Neighbourhood Instrument (ENI) Regional East Programme.

In the Conclusions of 16 July 2014 on Ukraine, the European Council requested the Commission to reassess EU-Russia bilateral and regional cooperation programmes, which may have an impact on EU funding for the Northern Dimension.

### 3.3. EU funding programmes

The EU has various financing instruments supporting its external action.<sup>6</sup> Under the current EU Financing Period of 2014–2020 a multitude of EU funding programmes relevant to the Barents Euro-Arctic region and the work of the Barents Euro-Arctic Council are available.<sup>7</sup>

The most relevant EU-funded programmes are the transnational and cross-border cooperation programmes, which focus geographically on the Barents Euro-Arctic region or parts thereof.<sup>8</sup> The Kolarctic and the Karelia Cross-Border Cooperation Programmes, the Interreg North Programme, the Interreg Baltic Sea Region Programme and the Northern Periphery and Arctic Programme are of particular importance for regional cooperation, since they support international cooperation projects between participants from two or more BEAC Member States.

#### 3.3.1. European Neighbourhood Instrument Cross-Border Cooperation Programmes

##### The Kolarctic Cross-Border Cooperation Programme

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<sup>6</sup> The European Neighbourhood Instrument (ENI) provides funding for regional and cross-border cooperation, including in the Barents Region through support for the Northern Dimension and cross-border cooperation programmes. The Partnership Instrument (PI) is a global instrument supporting EU external action, which includes support for Arctic collaboration and cooperation with Russia. For more information: [http://www.enpi-info.eu/library/sites/default/files/attachments/MEMO-13-1134\\_EN.pdf](http://www.enpi-info.eu/library/sites/default/files/attachments/MEMO-13-1134_EN.pdf)

<sup>7</sup> [http://ec.europa.eu/contracts\\_grants/index\\_en.htm](http://ec.europa.eu/contracts_grants/index_en.htm)

<sup>8</sup> [www.keep.eu](http://www.keep.eu). KEEP is the source of information on the projects and partners of Territorial Cooperation, including the INTERREG programmes, the IPA (Instrument for Pre-Accession) and the ENPI (European Neighbourhood and Partnership Instrument) cross-border cooperation programmes.

The Kolarctic Cross-Border Cooperation (CBC) Programme<sup>9</sup> is co-funded by the European Union from the European Neighbourhood Instrument, Finland, Norway, Russia and Sweden with their national and regional financing. Funding is granted to joint projects operating in line with the strategic priorities jointly agreed by the countries. The Kolarctic Programme is considered the most important financing instrument for cross-border development activities in the Barents Region.

The area covered by the Kolarctic Programme comprises Lapland in Finland, Norrbotten in Sweden, Finnmark, Troms and Nordland in Norway and Murmansk Oblast, Archangelsk Oblast and Nenets Autonomous District in Russia. The Republic of Komi was accepted as an adjoining region. Hence, the programme area for the years 2014–2020 covers the Barents Region even more extensively than before. The Kolarctic Programme intends to enhance cooperation with the International Barents Secretariat as well as the Norwegian Barents Secretariat.

Four themes were selected for the Kolarctic Programme 2014–2020: 1) business and SME development; 2) environmental protection, climate change mitigation and adaptation; 3) improvement of accessibility to the regions, development of sustainable and climate-proof transport and communication networks and systems and 4) promotion of border management and border security, mobility and migration management. Also promotion of local cross-border people-to-people cooperation and support to education, research, technological development and innovation will be applied as horizontal action, where relevant.

The total confirmed allocation for the Kolarctic CBC Programme for the period 2014–2020 is EUR 63.4 million. Depending on the results of the European External Actions Service midterm evaluation, additional EU financing may be allocated to the programme. With the additional EU funding, the overall financing will potentially amount to EUR 103 million. Additionally, project partners will allocate a minimum of 10% share of the total budget to the projects.

More flexibility is granted for financing activities outside of the programme core region. A maximum 20% of total programme financing may be used for eligible costs of lead partners or partners from the adjoining regions or from the major social, economic and cultural centre or for additional flexibility. This additional flexibility is to be targeted to activities supporting Barents Cooperation and other Euro-Arctic cooperation.

During the ENPI CBC programme period 2007–2013, a total of 48 development projects and three large-scale investment projects

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<sup>9</sup> <http://www.kolarcticenpi.info/en>

were implemented with Kolarctic financing. The average size of a Kolarctic project was EUR 1.3 million. During the 2007–2013 ENPI programme period, a total of 30% of the Kolarctic Programme budget was allocated to economic development projects. During the new ENI CBC programme period, there is pressure to allocate even more funding to the economic field.

#### The Karelia Cross-Border Cooperation Programme

The Karelia Cross-Border Cooperation (CBC) Programme<sup>10</sup> is a bilateral programme between Finland and Russia within the Barents Region. The programme area covers the regions of Kainuu, North Karelia and Oulu in Finland and the Republic of Karelia in Russia. The regions of Lapland, North Savo, South Savo and South Karelia in Finland and the Murmansk, Arkhangelsk and Leningrad regions in Russia are introduced as adjoining areas. The programme includes the cities of Helsinki, St. Petersburg and Moscow as major social, economic or cultural centres.

The basic principle of Karelia CBC programme financing is 50% EU funding, 25% Finnish funding and 25% Russian funding. The total confirmed allocation for the Karelia CBC Programme for the period 2014–2020 is EUR 43 million. Depending on the results of the European External Actions Service midterm evaluation, additional EU financing may be allocated to the programme. With additional EU funding, the overall financing could potentially reach EUR 75.4 million.

The thematic objectives defined for the next programme period are business and SME development, culture, environment and border management and security. As in all CBC programmes, Karelia CBC does not award operating grants to enterprises, but builds up preconditions to facilitate their work. All CBC programmes finance projects with clear objectives, not permanent structures.

During the ENPI CBC programme period 2007–2013, a total of 66 projects and five large-scale investment projects were implemented with Karelia Programme financing. A total of EUR 42.4 million was contracted to these projects. Projects were implemented in the fields of regional planning and development, tourism, culture, social well-being, forest and energy, as well as sustainable use of natural resources. The average size of a Karelia development project was EUR 630,000. The budget of a large-scale investment project was on average EUR 3.8 million.

#### 3.3.2. The Northern Periphery and Arctic Programme

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<sup>10</sup> <http://www.kareliacbc.fi>

The Northern Periphery and Arctic Programme<sup>11</sup> (NPA) 2014–2020 is a transnational cooperation programme under the EU's European Territorial Cooperation (ETC) goal. It is co-financed by the European Regional Development Fund (ERDF). It has a wide programme area covering Northern/Western parts of Finland, Ireland, Sweden, Norway, the United Kingdom (including Scotland and Northern Ireland) and the whole territory of the Faroe Islands, Iceland and Greenland. Russia and Canada have been offered observer status in the monitoring committee. Despite geographical differences, the large programme area shares a number of common features: low population density, low accessibility, low economic diversity, abundant natural resources, severe weather conditions and high impact of climate change. Changing the name of the programme (previously the Northern Periphery) implies that the significance of the Arctic for the EU is growing.

Examples of tangible impacts achieved during the previous programme period 2007–2013 include improved access to healthcare services in remote rural areas, cost savings in public transportation, reduced environmental impact of salmon aquacultures, increased share of renewable energy generation, and creation of new jobs in the area of traditional crafts. In total, 333 partners were involved in 47 key projects throughout the programme area.

Total funding for the Northern Periphery and Arctic Programme 2014–2020 is around EUR 88 million of which EUR 50 million comes from the ERDF, EUR 28 million from the participating Member States and EUR 9 million from the participating non-Member States. The size of projects varies between EUR 250,000 - EUR 2 million. At least three countries involved per project is a prerequisite. The project cycle can be up to 36 months. The EU support to projects is 65%; for companies, the EU support can be a maximum of 50% of the total project budget. Partners from North-West Russia and Canada's Northern Territories are eligible to join the programme as associate partners on a project-by-project basis.

Financing is also granted continuously for preparatory projects (Preparatory Project Call) with a maximum budget of EUR 45,000. The share of EU funding can be up to 65% of the total budget. The project period is six months and there has to be a minimum of two countries participating. The priorities for the programme period 2014–2020 are promoting innovations and entrepreneurship, fostering energy-secure communities through promotion of renewable energy and energy efficiency, and protecting, promoting and developing cultural and natural heritage.

### 3.3.3. Interreg North

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<sup>11</sup> <http://www.northernperiphery.eu/en/home/>

Interreg North<sup>12</sup> is a cross-border cooperation programme under the EU's ETC goal between Finland, Sweden and Norway. It is co-financed by the ERDF. Common challenges of the programme area include sparse population, demographic challenges (i.e. ageing of the population, youth emigration), social exclusion, cold climate, long distances from the markets and insufficient infrastructure. The Joint Managing Authority is the Administrative Board of Norrbotten in Luleå, Sweden.

The total financing of the Interreg North Programme for 2014–2020 is approximately EUR 83 million. Financing consists of EU financing of EUR 42 million, national financing from Finland and Sweden of approximately EUR 24 million and Norwegian financing of approximately EUR 17 million. The EU support to projects is 65%.

20% of the programme budget can be used for projects outside the programme area, e.g. in Russia. The main beneficiary still has to be the core programme area. Furthermore, all financed projects must bring clear added value to cross-border cooperation and the border regions. During the previous programme, the possibility for Russian participation was not fully taken advantage of.

The thematic priorities for the programme period 2014–2020 are research and innovation, entrepreneurship, culture and environment and joint labour markets. The programme aims at enhancing cooperation between basic industries and SMEs, improving energy and environmental techniques including cleantech and digital services, promoting cultural and creative industries as well as the traditional Saami livelihood. This programme has inherently focused on harder priorities – business and high-level research were priorities in the previous programme.

#### 3.3.4. The Interreg Baltic Sea Region Programme

The Interreg Baltic Sea Region Programme<sup>13</sup> is a transnational cooperation programme under the EU's ETC goal. It is co-financed by ERDF. Its overarching goal is to strengthen integrated territorial development and cooperation for a more innovative, better accessible and sustainable Baltic Sea Region. The programme area covers 11 states around the Baltic Sea: Denmark, Estonia, Finland, Latvia, Lithuania, Poland, Sweden and northern parts of Germany as well as Norway, Belarus and the North-Western District of Russia. The Baltic Sea Region Programme can also be used for projects in the Barents Region provided that outcomes of such projects also bring value to the Baltic Sea Region. It is recommended that such

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<sup>12</sup> <http://www.interregnord.com>

<sup>13</sup> <http://eu.baltic.net/Interreg-Baltic-Sea-Region-2014-2020.26029.html>

projects would also include at least one other Baltic Sea Region country.

The Baltic Sea Region Programme provides co-financing to projects from a total budget of EUR 344 million, out of which EUR 264 million is ERDF funding and EUR 59 million national funding for partners from EU Member States, EUR 12.6 million Norwegian funding for Norwegian partners and EUR 98.8 million ENI funding for Russian and Belarusian partners. The EU budget of a typical project is around EUR 2.9 million and the duration is approximately 36 months.

Priorities for the Baltic Sea Region Programme for 2014–2020 include capacity for innovation, efficient management of natural resources, sustainable transport and institutional capacity for macro-regional cooperation. The Baltic Sea Region Programme is also an important tool for implementing the EU Strategy for the Baltic Sea Region.

Project objectives should be relevant for the major part of the Baltic Sea Region. The outcomes typically include, for example, action and development plans, cooperation models, feasibility studies, pilot investments or recommendations for policy-makers and practitioners. The project partnerships are usually a mixture of public authorities, research organisations, specialised agencies, NGOs and enterprises.

ENI funding for partners from Russia will become available only after a financing agreement between the European Commission and the governments of Russia and Germany, as the country hosting the managing authority, has been concluded.

#### European Union Strategy for the Baltic Sea Region Seed Money Facility

The Baltic Sea Region Seed Money Facility<sup>14</sup> supports projects addressing the challenges listed in the Action Plan of the EU Strategy for the Baltic Sea Region (EUSBSR). It co-finances the initial stage of a larger project development and supports the refining of main project ideas, partnership building and preparation of fully-fledge project proposals that are in line with the implementation of the EUSBSR. The Barents Region is covered by the area of the Baltic Sea Region Seed Money Facility. Partners from the Barents Region are therefore eligible to apply for funding. At least three partners from three different Baltic Sea Region countries are required for partnership. The size of the seed money projects ranges from EUR 30,000 to EUR 50,000. From 2016 onwards, seed money for EUSBSR projects will be provided by the Interreg Baltic Sea Region Programme.

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<sup>14</sup> <http://seed.eusbsr.eu>

### 3.3.5. Other EU Programmes

Various thematic EU Programmes and Instruments support EU sectoral policies relevant to BEAC priorities. These programmes include e.g. the Connecting Europe Facility (energy, transport and ICT), the Life Programme (environment and climate action), Erasmus+ (education, training, youth and sport), Creative Europe (culture and media), Horizon 2020 (research and innovation), the Third Health Programme (health and social well-being), COSME (EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) and the EU Civil Protection Mechanism.

These programmes focus on supporting particular EU policy objectives and mainly function on the basis of calls for proposals. Each programme has its own set of rules and criteria for geographical eligibility of applicants. The main focus is on EU Member States, but project partners from the neighbouring countries can in many cases be involved. Norway and Iceland participate in a number of EU Programmes through the European Economic Area Agreement. Actors from the Barents Region can participate in the programmes if they fulfil the eligibility criteria and contribute to the objectives of the programmes.

The EU Structural and Investment Funds (European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF)) contribute on their part to regional cooperation and priorities of Barents Cooperation. Pertinent EU Member States are in a decisive position to determine to what extent these funds are utilised for the benefit of the BEAC region.

## 3.4. International and National Financial Institutions

### 3.4.1. European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) has been one of the largest international financial investors in Russia.<sup>15</sup> Russia accounted for 21% of EBRD's total business volume, making it the largest country of operations in 2013. The EBRD invested a total of EUR 1.8 billion in 56 projects in Russia in 2013. One of the EBRD's key strengths in relation to Russia is that the bank is able to provide financing in Russian roubles, a condition that cannot be met by any other international financial institution to date.

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<sup>15</sup> In July 2014, EBRD shareholders gave guidance to the Bank's management not to, for the time being, present to the Board of Directors new projects in Russia.



In the Barents Region, the EBRD's mandate covers only Russia. The EBRD's key priorities in Russia are diversification, modernisation and innovation, privatisation and private sector development and regional development. The Bank has also conducted several operations with the public sector in Russia, for example related to water and waste water treatment and district heating. The Bank has been the main financing institution of NDEP projects as well as the manager of the NDEP support fund.

In the Barents Region (Murmansk Oblast, Arkhangelsk Oblast, Nenets Autonomous District, Republic of Komi and Republic of Karelia), however, the EBRD's portfolio is relatively small, in total EUR 172 million. Some 53% of the Barents Region projects are located in the Republic of Komi. The Syktyvkar Municipal Water and Wastewater Services project is one of the most successful in the region.

The EBRD administers a number of donor funds designed for supporting projects with concessional funding in different ways, of which funding feasibility studies is prominent. These funds are provided by individual donor countries or sometimes multilaterally by a group of countries.

A bank loan value of EUR 5–6 million is the minimum size. Otherwise, the project is not profitable for the Bank due to the necessary overhead costs involved.

#### 3.4.2. The European Investment Bank

The European Investment Bank (EIB) is owned by and represents the interests of the European Union. The main mission of the EIB is to support sound investments that underpin EU policy objectives. The EIB and the European Commission are in the process of finalising the bank's 2014–2020 mandate, which, among other things, streamlines the objectives of EIB lending outside the EU.

The EIB has supported the Strategic Partnership between the EU and Russia, as well as regional initiatives, in particular, the Northern Dimension Partnerships. The EIB's strategic objectives for the lending activities in Russia are private sector development, especially SME support, development of social and economic infrastructure, and climate change mitigation and adaptation. The EIB has lent a total of EUR 3.85 billion in Russia in the period of 2007–2013. At the beginning of 2014, the

portfolio for Russia consisted of 14 operations worth EUR 1.6 billion.<sup>16</sup>

The EIB has worked in close cooperation with other International Financing Institutions (IFIs) in Russia. The EIB has operated both with public and private sector projects.

#### 3.4.3. The Nordic Investment Bank

The Nordic Investment Bank (NIB) is owned by the Nordic and Baltic countries. The annual lending volume is around EUR 2 billion. According to its recently adopted strategy, the aim is to increase non-member country lending in the longer term up to around 20% of annual new lending. The updated strategy also states that increased attention will be paid to Arctic region projects. In 2013, the Bank disbursed a total of EUR 111 million in 5 projects in Russia. NIB has played a major part in financing and implementing NDEP projects in Russia and Belarus.

The NIB's purpose is to promote competitiveness and environmental improvement. The main business areas are energy and environment, infrastructure, transportation and telecom, industries and services, financial institutions and SMEs. EUR 10 million is regarded as the indicative minimum loan size. The NIB provides smaller loans in cooperation with financial intermediaries such as local banks. The NIB can finance up to 50% of the total project cost. The NIB also administers several trust funds, through which technical assistance is allocated to projects in the regions adjacent to the member countries<sup>17</sup>.

NIB is ready to finance projects within the Barents Region that fall within its priority areas: (renewable) energy generation, transmission and distribution; energy efficiency; transport and logistics; municipal infrastructure; pollution abatement; and industrial investments in sectors like metals and minerals and forestry.<sup>18</sup> Responsible safeguard policies have to be applied to mitigate environmental threats, when utilising the region's potential. Moreover, sufficient local capital resources have to be mobilised to match international investments.

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<sup>16</sup> In the conclusions of the European Council of 16 July 2014, the European Council requested the EIB to suspend the signature of new financing operations in the Russian Federation.

<sup>17</sup> [http://www.nib.int/loans/loan\\_products/trust\\_funds](http://www.nib.int/loans/loan_products/trust_funds)

<sup>18</sup> Due to the current situation in Ukraine and the EU sanctions in place, new projects in Russia are, for the time being, unlikely to be undertaken.

Well-designed, implementable projects are a prerequisite for NIB financing. Adequate feasibility studies are required to ensure the quality and execution of projects.

#### 3.4.4. The Nordic Environment Finance Corporation

The Nordic Environment Finance Corporation (NEFCO) finances small and medium-sized projects up to EUR 5 million with a Nordic relevance or a Nordic interest. Hence, NEFCO complements the other IFIs by assisting in projects' preparatory phase. The geographic mandate covers Russia, Ukraine, Estonia, Latvia, Lithuania, Moldova and Belarus.

In Russia, the main areas of operation are North-West Russia and the Barents Region. The focus is on public sector projects. NEFCO's current project pipeline lists over 150 projects in Russia. So far, 75 projects have been implemented and closed. The largest sectors are energy efficiency, renewable energy, wastewater treatment, waste management and cleaner production. Examples of successfully implemented projects in Russia are a renewable energy project in Archangel and energy efficiency projects in Gurievsk and Novodvinsk.

NEFCO has several financing instruments for projects in the Barents Region<sup>19</sup>. The Barents Hot Spots Facility (BHSF) is targeting the 42 hot spots identified by NEFCO in collaboration with the Arctic Monitoring and Assessment Programme in 2003. The facility reports to the BEAC Working Group on Environment. To date 68 feasibility studies and pre-project measures have received BHSF financing within the waste, wastewater, industry and energy sectors. Projects are being actively developed in the Barents Region, particularly in the field of energy efficiency in Komi and Karelia. The Technical Assistance Fund of the Baltic Sea Action Plan also provides grants for technical assistance to projects that support the implementation of the Baltic Sea Action Plan (BSAP) with the aim of restoring the good ecological status of the Baltic Sea by 2021. The HELCOM Member States are eligible to apply for the funding.

NEFCO cooperates with the EBRD, EIB and NIB within the implementation of the Northern Dimension Environmental Partnership. NEFCO finances mainly municipal projects in North-West Russia. The focus is on waste, wastewater and district heating. There are a total of 29 investment projects in the Baltic and Barents Sea areas.

#### 3.4.5. The State Corporation Bank for Development and Foreign Economic Affairs

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<sup>19</sup> [http://www.nefco.org/financing/financing\\_instruments](http://www.nefco.org/financing/financing_instruments)

The State Corporation Bank for Development and Foreign Economic Affairs, Vnesheconombank, (VEB) is a Russian state corporation established in 1922. It receives funds directly from the state budget and is used to support and develop the Russian economy and to manage Russian state debts and pension funds. The minimum amount of loan is EUR 20 million.

VEB is primarily a Russian development bank. This differentiates it from the IFIs. VEB prioritises investment projects that do not entail competition from commercial financial institutions. The bank gives preference to projects that are carried out on a public-private partnership basis. VEB actively cooperates with foreign development institutions in the field of SME support. The size of the SME support programme in the Barents Region is currently around EUR 43 million. Russian SMEs are less willing to take loans in comparison to Western companies. Instead, they prefer to utilise their own internal financing.

Jointly with the German Development Bank (KfW), VEB established a Pilot Financial Initiative (PFI) under the auspices of the Council of the Baltic Sea States in 2012. The PFI offered financing for projects of SME enterprises, as well as public-private partnership in environmental protection, innovation, modernisation and energy efficiency. PFI activities were targeted at the South Eastern Baltic Sea Area and North-West Russia. However, all the projects that received funding from the PFI are in Leningrad oblast or St. Petersburg. No project proposals were received from the other principal target areas – Pskov region, Kaliningrad Region or Novgorod Region. The continuation of this initiative is uncertain.

#### **4. Financing Needs and Gaps**

The following information on financing needs and gaps is based on hearings and discussions at meetings of the Ad Hoc Working Group as well as the questionnaire answers received from key stakeholders.<sup>20</sup>

##### **4.1. Financing Needs and Gaps Identified by the Barents Regions and Barents Working Groups**

###### Barents Regions

According to the survey on financing of multilateral project activities in the Barents Region<sup>21</sup>, only one region out of 13 Barents regions considered the current level of financing sufficient for their activities in

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<sup>20</sup> The hearing sessions were organised and surveys conducted between March 2014–January 2015.

<sup>21</sup> The Secretariat of the BEAC Ad Hoc Group launched a survey for the BEAC regions in spring 2014. The response rate was satisfactory: 11 out of 13 BEAC regions answered the questionnaire.

the Barents. The principal problem in financing Barents Cooperation was seen in the lack of financial mechanisms that would encompass the whole Barents Region. This prevents regional actors from developing geographically-wide projects and leads to unequal access to financial opportunities of different regions. EU Programmes were perceived as an important source of financing, but in most replies they were seen as complex, time-consuming and inflexible instruments. Project planning within the EU Programmes demands a lot of time and competence. There are not, however, sufficient funds available for projects' preparatory phase and many Barents regions stressed the need for a mechanism, which could allocate seed money for feasibility studies and preparing project proposals.

In general, Barents regions stressed that there was a need for coordination between different financing instruments laying out the priorities and requirements. Many regions also brought up the lack of financial resources for everyday work and cooperation, e.g. for travel costs and working group meetings. Due to these financial challenges many regions called for a special programme or a fund for financing the Barents Regional Council, cooperation between regions and the regular work of the Barents Working Groups. Some regions suggested that each BEAC Member State's ministry for foreign affairs could channel more national money for Barents Cooperation.

For Barents regions, the most common financing sources were the Kolarctic, the Karelia and the Interreg EU Programmes as well as the Euregio<sup>22</sup> and Northern Dimension Partnerships. Most regions received some financing from their respective ministries of foreign affairs and some mentioned the role of the NIB, the NEFCO and the EBRD in the financing of Barents projects. The Nordic Council of Ministries and the Norwegian Barents Secretariat were also mentioned among the prominent donors.

#### Barents Euro-Arctic Council Working Groups, Barents Regional Council Working Groups and Joint Working Groups

The availability of financing for the BEAC Working Groups, Barents Regional Council Working Groups and Joint Working Groups was quoted as diverse, depending on the field and geographical dimension of the group.<sup>23</sup> Some Working Groups saw the current situation as more or less satisfactory, whereas others stressed the need for permanent funding mechanisms. In some cases, the challenge was not the lack of instruments, but the difficulties in finding a suitable financing instrument for different types of actions. There was a need for user-

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<sup>22</sup> Euregio Karelia is a cooperation forum of the three Finnish regions Kainuu, North Karelia and Northern Ostrobothnia and Republic of Karelia of Russia. The basis of the foundation was the common aim of the partner areas to improve living conditions of inhabitants through cross-border cooperation.

<sup>23</sup> 10 out of 15 Working Groups answered the questionnaire on project financing sent to the Barents Working Groups in spring 2014.

friendly information on various financing sources. With Regional Working Groups in particular, there is demand for small-scale project financing, which can be problematic because EU instruments allocate money only to projects of considerable size. The lack of a financing instrument covering the whole Barents Region was brought up as well.

The application processes for channelling funds to the BEAC Working Groups or Regional Working Groups - especially from the EU Programmes - were seen as lengthy and unpredictable. For the BEAC Working Groups, which rely solely on project funding, this complicates the long-term planning and development of their work. Language barriers and numerous reporting requirements were also found challenging. Some Working Groups mentioned the lack of financing for their daily work. In general, the Working Groups wished for more flexible financing instruments and more transparent and less bureaucratic application processes.

#### 4.2. Financing Needs and Gaps Identified by the International Financial Institutions

The European Bank for Reconstruction and Development stated that the Barents Region is partially in a depressed economic condition and requires large investments. Budgets of regional governments are in deficit and cannot afford large investments. Industrial emissions and black carbon might be areas on which the bank could focus on in the future. In general, in Russia there is a lack of projects matching the bank's mandate. It is difficult to find private sector projects initiated by companies with enough business volume and expertise. The EBRD pointed out that technical assistance funds would be helpful for Barents Cooperation.

The European Investment Bank considered that there is a huge financial gap between what needs financing and what is actually being financed. The problem is the bankability of projects; how poorly-prepared projects can be revamped in order to become eligible for financing. Projects financed by the EIB must be economically justified, technically viable, financially self-supporting and environmentally sound. Moreover, appropriate procurement procedures are required.

The EIB stated that the question is how to make a better use of the existing instruments, such as the NDEP, and how the NDEP mandate could be extended to cover the Barents Region better. Quota for project initiatives from the Barents Region should be considered within the NDEP.

The Nordic Investment Bank envisaged that the Barents Euro-Arctic Council could act as a framework in which feasible projects could be identified for such technical assistance. It is essential to conduct thorough project preparations, bearing in mind that there is only a limited amount of grants available for this purpose.

In the coming years, the NIB will increase its activities in the Arctic. The NIB sees energy efficiency as a key target area of particular interest. However, awareness of energy efficiency is generally weak in Russia. A reform of tariff structures is a prerequisite for sustainable public sector projects. Other special challenges in working in the Russian Barents Region are the regulatory and institutional constraints complicating the identification of borrowers and the municipalities' limited experience and resources to develop projects.

Bankability of EU-funded projects should be taken into account better in the future. EU funding could be utilised to carry out the preparatory phase of the project, followed by financing from the IFIs. Additionally, the NIB remarked that capital investment funds are already accessible. The issue is not a shortage of capital, but a lack of high-quality projects. A reasonable option would be to put money into a Barents Region-specific technical assistance fund, which would be conducive and mobilise further investments.

The Nordic Environment Finance Corporation considered that the challenges of the Barents Hot Spots Facility are the hot spots *per se*. Increased engagement from the Russian authorities and successful project management from pre-study to implementation are important factors.

Vnesheconombank pointed out that the economic potential of the Barents Region should be thoroughly investigated prior to establishing a new financing instrument for the region. Moreover, the Barents Region already has several well-functioning financing instruments, the potential of which could be utilised even better.

#### 4.3. Financing Needs and Gaps Identified by Regional and Cross-Border Cooperation Structures

The Northern Dimension Environmental Partnership underlined that the strong commitment of the beneficiary country should be ensured when considering the feasibility of establishing a new financing mechanism for the Barents Region. Grants need to be used as an incentive to secure further funding, i.e. loans, local financing and additional bilateral support.

The Northern Dimension Partnership on Transport and Logistics pointed out that the main challenge in the NDPTL Fund has been to attract sufficient resources. Some initial pledges should have been indicated before the fund was established. The willingness to contribute with financial resources ought to be guaranteed beforehand and the size of the contributions should justify the fund to be opened.

The NDPTL, designated to coordinate transport and logistics projects in the region, is actually competing with other organisations that do not

specialise in the transport and logistics sector. Even though the NDPTL was established to coordinate transport and logistics project initiatives between the Member States and thus promote the priorities of the ministries responsible for transport issues, most of the funding for such projects comes from programmes outside the sphere of influence of the respective ministries.

The Northern Dimension Partnership in Public Health and Social Well-being expressed the view that the ND partnerships need funding to run their core functions, not only for projects. 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.

The Northern Dimension Partnership on Culture mentioned that funding from the EU and the Member States is considered inadequate. The volume of funding is insufficient for launching project competitions in which the cultural industry would be interested. Consequently, calls for proposals do not attract large audiences.

The forthcoming Kolarctic and Karelia CBC Programmes will not include a health and social sector priority area. Finding small-project financing of less than EUR 200,000 will be problematic during the EU Financial Framework of 2014–2020. Actors in the health and social sector are therefore encouraged to cooperate with the Northern Dimension Partnership in Public Health and Social Well-being as well as the Barents Joint Working Group on Health and Social Related Issues.

According to the experiences gained in the ENPI CBC programmes, instead of setting up new structures, dialogue between different financing instruments and inter-regional initiatives is needed. Stakeholders should be encouraged to exchange their experiences and share best practices. If synergy between different programmes is better utilised, there will be a possibility to build larger projects with a greater impact. Coordination between Barents Working Groups and ENPI CBC programmes has been quite good (most of the Barents projects have been financed from the Kolarctic ENPI CBC Programme), particularly in the joint Working Groups, which include both national and regional-level representatives. Across the Working Group level, however, there is room for better coordination and opportunities for joint projects.

The Norwegian Government initiated the Bodø process in March 2013 as a result of broad interest among relevant stakeholders, in the Euro-Arctic and near-Arctic, in establishing a network for regional collaboration. It aims at promoting information sharing, knowledge exchange, project cooperation, project support and capacity-building between ETC and ENI CBC programmes, national and regional programmes and between different regional cooperation frameworks in the north of Europe.



Some EU-funded projects could potentially be further developed into investment projects, but the link between project stakeholders and International Financial Institutions' funding is now missing.

#### 4.4. Financing Needs and Gaps Identified by Civil Society Actors

Financing needs and gaps of civil society actors active in the Barents Region were mapped out in a hearing session in January 2015. An internet survey was launched to complement the hearing session with the aim of covering the civil society sector more widely. The organisations participating in the hearing were the Committee of Organisations functioning under the auspices of the Regional Council of Lapland, the Finland-Russia Society, the Saami Council, the Association for Cooperation with the Baltic Sea countries "Norden" and the Arkhangelsk Centre of Social Technologies "Garant".

The questionnaire for NGOs and other civil society actors was open on the webpage of the International Barents Secretariat for six weeks between December 2014 and January 2015. The questionnaire was available both in English and in Russian. Information about the survey was disseminated through various channels. A total of 22 responses were received, of which five were from Finnish, one from a Norwegian and 16 from Russian civil society representatives, but none from Sweden.

According to the hearing session and the internet survey for civil society actors, the organisations use mainly the following sources for financing their multilateral project activities in the Barents Region:

- The Nordic Council of Ministers (NCM)
- ENPI/ENI Cross-Border Cooperation Programmes
- EU Interreg funding (North, NPA, BSR) <sup>24</sup>
- The Norwegian Barents Secretariat
- The Council of Baltic Sea States Project Support Facility
- The EU Strategy for the Baltic Sea Region Seed Money Facility
- The Swedish Institute
- Other EU Programmes (e.g. LEADER Programme)

#### National sources

- Finland's Slot Machine Association's (RAY) funds
- Municipality funding
- The Finnish Ministry of Education and Culture
- The Finnish Ministry of Environment
- The Kone Foundation
- The Finnish Cultural Foundation
- Russian national budget money

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<sup>24</sup> The Interreg North was mentioned as the only EU-funded programme that directly takes into account the Saami population.

- Different Russian charity funds (business-based funding for NGOs)
- Foreign Ministries of the BEAC countries
- The Arctic 2030 Programme

According to the civil society actors, the EU Programmes are not able to meet the needs of NGOs in the Barents Region. The main challenge is that EU funding programmes mainly target bigger organisations. EU Programmes are generally perceived to be too complex for NGOs to apply for. As a result, only a small percentage of all NGOs is capable of applying for EU funding. Requirements for programme management and accounting systems are also seen as too demanding. NGOs have difficulties in adjusting to the financial management regulation of the programmes, in which expenses are reimbursed only afterwards. Another challenge emerges from the fact that the thematic focus of especially the ENI CBC Programmes is on economic cooperation and improvement of border infrastructure, which are not of interest and within the competence of NGOs.

Civil society actors listed several hindrances for multilateral cooperation in the Barents: the existing funding programmes' geographical limitations, NGOs' insufficient language skills, lack of financing for the NGOs' core activities and lack of available information about existing funds. Moreover, financial decision-making procedures are in some cases regarded as non-transparent. Additionally, NGOs expressed their wish to be more involved in the programming phase of the financing instruments in order to safeguard flexibility in the formulation of priorities, a wider range of focuses and a higher priority for "soft" projects.

Many Russian NGOs would prefer to have a common financial support instrument for both BEAC and CBSS areas, in which Russia could be an equal partner. Moreover, local Russian authorities do not have their own resources for supporting international activities of NGOs. The Foreign Agents' National Act hinders to some extent Russian NGOs from multilateral projects. Projects with international donor funding are being scrutinised more closely.

## **5. Analysis**

The scope of this study was quite extensive ranging from the needs for financing of large investments to smaller multilateral cooperation projects in the framework of Barents Cooperation. The funding of cooperation activities of other relevant actors in the Barents Region was also investigated.

At the moment, the financing of multilateral cooperation projects in the Barents Region comes from different sources. The most important financial resources are national and regional budgets, EU Programmes

and the Nordic Council of Ministers. An underlying principle of such joint projects is that they are of mutual interest to all countries involved.

All four Barents countries channel funding for financing multilateral cooperation projects in the Barents Region through different mechanisms. Norway has clearly the most extensive funds supporting projects in the region through various grant schemes and cooperation structures, though this cooperation is mainly bilateral between Norway and Russia. Finland has a national financing instrument supporting multilateral regional cooperation in the Arctic, Barents and Baltic Sea regions. The Swedish national funding is mainly focused on the Baltic Sea Region, but it can also support cooperation in the Barents Region. Russia has no federal or regional budget line for Barents Cooperation, but Barents Cooperation can be financed on an ad hoc basis. The national financing instruments can also support multilateral Barents Cooperation, but in some cases the focus of this funding is on bilateral cooperation or the funding schemes cover a broader region, where Barents Cooperation is only one theme among many. The national funding instruments in the region could be adjusted to pay more attention to multilateral Barents Cooperation in order to meet possible financing gaps in the region.

The Barents Region's vast natural resources and the pristine Arctic nature could provide significant economic prospects. Extractive industry based on the energy and mineral reserves, increasing tourism and new transport routes could open up new opportunities, but would also evoke big challenges. The level of economic development varies in the different parts of the region. Some of the Barents regions are economically depressed and characterised by a falling population trend. Large-scale infrastructure projects could bolster regional economic growth and create job opportunities. Investment projects could be found, for example, in the fields of transport, industry and environment.

A lot of financing is potentially available for the benefit of investments in the Barents Region. Commercial banks and International Financial Institutions offer financing for investment projects. The Barents Region offers many interesting potential investment opportunities, while the study shows a gap between these opportunities and the number of actual bankable projects. Thus, the challenge is to identify and develop such bankable projects. Several reasons, such as institutional restraints, insufficiency of business volume of companies and local municipalities' regulatory framework are partially causing the lack of sound bankable projects.

In principle, funding of feasibility studies for potential bankable projects should be provided by the potential investors themselves, but in some cases public grants can be motivated for this purpose in order to speed up the development in areas of common interest for more than one country. The Northern Dimension Environmental Partnership has been a good example of combining grant financing from interested countries

with financing from International Financial Institutions and providing shared benefits for all contributing countries, in particular in the form of environmental improvements of the Baltic Sea.

The Kolarctic and Karelia Cross-Border Cooperation Programmes are perceived as important funding sources for Barents Cooperation projects. These programmes have been modified to encompass the whole Barents Region. In addition to this, the Kolarctic and Karelia Programmes have integrated Barents objectives and strategies into the programme priorities significantly better now than during the previous EU funding period. However, these CBC Programmes cannot address all the needs vocalised by some stakeholders in the different sectors of Barents Cooperation. Another outcome of the study was that some CBC projects could potentially lead to bankable investment projects, but in the present situation the link between the project stakeholders and International Financial Institutions is missing.

Many other EU Programmes also have a role in the financing of Barents Cooperation. The scope of the priority areas of the 2014–2020 programmes was narrowed down to address the most important regional challenges. As a result, in pursuit of greater impact, EU Programmes are compelled to be more thematically focused, which may result in some essential themes, like health, culture and social welfare, not being prioritised.

One of the findings of the study is that awareness of EU financing programmes and other funding sources in the region is not always on a sufficient level among civil society actors, the Barents regions and the Barents Working Groups. In conclusion, it is indispensable to raise the awareness on the ample opportunities that the existing mechanisms have to offer and accordingly build capacity of the Barents actors.

Barents civil society actors, as well as the Barents regions and Working Groups call for seed money for project preparation and funding for small projects that is predictable and not complicated to apply for. The quality of projects could be improved if funding was available for project preparation. The outcome of the study indicates that the greatest need among these actors is for grants of less than EUR 100,000. In some cases, grants of EUR 20,000-50,000 would be sufficient for cooperation activities. The availability of financing for small-scale projects and project preparation could be improved by adjusting the relevant EU and other existing financing programmes while preparing for their next financial period. Managing a separate fund for small-scale projects would require professional administration leading easily to low cost-effectiveness.

The Bodø process started from the need to enhance cooperation between different programmes implemented in the same area in order to promote information sharing, knowledge exchange, project cooperation and capacity building. Increasing the collaboration, synergy

and complementarity between various EU Programmes and other funding sources in the region is recommendable, since these programmes have many common strategic objectives, priority themes and overlapping geography.

The political circumstances since 2014 have had an impact on EU-Russia cooperation in many sectors and have affected several of the previously available multilateral financing sources. Also the Russian NGO legislation has diminished the possibilities for project cooperation. Under these circumstances mutual interests to establish a new financial mechanism for the Barents Region can be difficult to find. To conclude, the key task in the near future is to improve information dissemination of the existing financing sources for Barents cooperation among the Barents actors as well as to enhance collaboration between relevant stakeholders and different financing instruments.

## **6. Recommendations**

Based on the outcomes and the analyses of this study, the Ad Hoc Working Group on Financial Mechanism Study recommends the following:

- 1) Given the abundance of financial instruments available for cooperation in the Barents Region, capacity building and information dissemination of the existing financial sources for Barents cooperation should be improved amidst the Barents actors. To attain this, collaboration between relevant stakeholders should be enhanced. The International Barents Secretariat in cooperation with the relevant bodies of the Barents Euro-Arctic Council and the Barents Regional Council could facilitate contacts between the managing authorities of the various financial instruments and the Barents actors. Such initiatives as the Bodø process could also potentially contribute to this effect.
- 2) The possibility of adjusting existing financing programmes should be examined in order to improve the availability of funding for small-scale projects, seed money and technical assistance for project preparation and civil society cooperation in the Barents Region. Cooperation projects and international financial institutions' funding should be interlinked more strongly.
- 3) In the light of the gathered information and the conducted study, there do not, at this stage, seem to exist a common interest or justifiable reasons for establishing a new financial mechanism for the Barents Region.

One member of the Ad Hoc Working Group on Financial Mechanism Study proposed that the following sentence be added to the recommendations, but this was not unanimously adopted by the Working Group:

However, the Barents Euro-Arctic Council may revisit the matter, should there be new developments leading to such common understanding among the BEAC Member States.