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Background

The attached document contains a proposal by Finland and Sweden on updating the Financing segment of the Baltic Sea Action Plan (BSAP).

Action requested

The Meeting is invited to

- consider and discuss the proposals on updating the Financing segment of the BSAP, and
- agree to organize a short, dedicated meeting of or during the HOD (extra) meeting to consider the drafting of the financing segment.

Updating the Financing segment of the Baltic Sea Action Plan

Introduction

The Baltic Sea Action Plan contains a segment on Financing (**Annex 2**) which should be updated along with the other parts of the Action Plan. With this document we would like to initiate the updating.

Within HELCOM, work on socio economic aspects of protecting the Baltic Sea have progressed in the recent years, and HELCOM has *inter alia* included consideration of socioeconomy in the State of the Baltic Sea report and established the ESA network. The network has compiled data and information and come up with approaches that may be useful in the updating of the financing segment and in providing the background for the actual text on potential sources of financing for implementation.

We find it important to start considering how the updated segment on financing could look like. With this in mind we have drafted an outline for the updated financing segment that we would like to provide as a basis for further discussion and planning of the updating of this segment.

Possible outline for an update

(Introductory parts)

- Economic benefits of protecting the Baltic Sea (from the work of the ESA network)
- Costs of protecting the Baltic Sea (from the work of the ESA network)
- Cost-effectiveness of measures to be included in the updated BSAP (possibly from the work of the ESA network)

(Core piece of the text)

- Explains Contracting Parties' responsibility for the implementation of the updated Baltic Sea Action Plan taking into account the role different stakeholder groups also have.

(Text on possible sources of external funding for the implementation of the BSAP)

- As in the current BSAP, explanation about and possibly a list of existing sources available for the Contracting Parties and stakeholders for implementation.
- Private investors' and contributors' possible role in supporting or taking part in the implementation

About the external financing sources

In the existing BSAP, the inclusion of the private sector is already highlighted "*WE ALSO WELCOME the growing interest of private companies and non-profit foundations to provide funds for the protection of the Baltic Sea on a voluntary basis*".

Many organisations, including civil society, as well as private sector actors are interested in promoting Baltic Sea related work (see also **Annex 1**). Examples of private sector actors actively promoting, as well as funding Baltic Sea related activities include foundations established with private capital (such as the John Nurminen Foundation or Baltic Sea Action Group in Finland and BalticSea2020 or Race for the Baltic in Sweden). These organisations both promote possible solutions and awareness of challenges in the Baltic Sea, as well as fund and implement concrete projects.

Private companies are also active in the work related to the Baltic Sea. There most likely are good examples from different parts of the Baltic Sea region but examples from Finland of which we are aware of include the private bank Ålandsbanken that every year donate money from their activities to various projects addressing the environmental challenges in the Baltic Sea region (donations amount to appr. 2,000,000 over the past 20 years). Another example of a company is Moomin characters, that have launched an initiative to raise EUR 1,000,000 during 2020 for projects addressing the challenges in the Baltic Sea. Such initiatives also receive significant media coverage, in addition to the funds being collected.

Combining public and private funds for joint initiatives and financing solutions for the challenges highlighted in the updated BSAP could have various positive effects, both financial and in respect to

awareness raising. The participation of countries and contracting parties to HELCOM in future initiatives and funding options, could not only attract the interest of organisations already active in this field, but may encourage more private actors to contribute.

The BSAP Fund was set up in 2010 to speed up the implementation of the Baltic Sea Action Plan (BSAP), with funding from Sweden and Finland. It has provided grants for project preparation, technical assistance as well as implementation to projects that support the action plan with projects spread across the Baltic Sea Region from Estonia and Russia to Sweden and Finland as well as the Baltic Sea catchment area in Belarus.

A Fund that provides financing to projects complements other financing sources available, both national and regional, and filling a “financing gap” not covered by existing financing mechanisms (see list of other financing sources, **Annex 1**). It would address one or several of the challenges faced by the Baltic Sea and highlighted in the updated BSAP regardless of national boundaries. Recipients of Funds could be public, private or non-governmental organisations, as well as their partnerships. Examples of the added value of such a Fund, also based on experiences from the existing BSAP Fund and external evaluation conducted include:

1. The Fund can provide public and private financing
 - Funding of projects of public, private and non-governmental organisations as well as their partnerships.
2. It can provide multiyear financing
3. The Fund could provide funding to relevant projects, irrespective of national borders
 - As a result of the cross-boundary nature of many challenges facing the Baltic Sea, projects aiming to address these challenges often require early financing to get them off the ground, as well as being able to test new potential solutions, their potential for replicability and up-scaling, as well as the financial viability of such projects.
 - The current BSAP Fund has provided financing to projects in multiple sectors, including agriculture, bio-gas and recycling of nutrients, deep sea oxygenation and nutrient retrieval from sea beds and lakes, shipping and port load reduction, water, wastewater treatment plants and sewerage, and hazardous waste landfill.
4. It can enable accelerating the implementation of concrete projects
 - Supporting feasibility studies speeds up the preparation of financially viable projects and their implementation.
5. Enables replicating new concepts
6. Provides significant financial leverage
 - The existing BSAP Fund grants have covered only 14% of realized project costs (including investments).

In conjunction with the discussion on the updated financing segment, Finland and Sweden as donors of the current BSAP Fund would like to discuss the feasibility of an updated BSAP Fund involving a broader contributor base, that could be launched with the updated BSAP.

Proposed way forward with updating the financing segment

Further consideration and drafting of the financing segment of the updated BSAP would need to be done in cooperation among those responsible for implementation of the future updated BSAP. We consider it necessary to dedicate some time specifically for this subject and we would therefore like to propose the HOD, possibly in an extra meeting for BSAP update, to consider dedicating either a small separate meeting or specific meeting time to work on the Financing segment.

Annex 1 - External financing sources (examples, non-exhaustive list)

- National sources of financing
- Cities and regions within the nation
- EU programs financing projects related e.g. to the EU Strategy for the Baltic Sea Region (EUSBSR)
 - o Key financing sources for the EUSBSR:
 - European Social Fund
 - European Regional Development Fund
 - Cohesion Fund
 - European Agricultural Fund for Rural Development
 - European Maritime and Fisheries Fund
 - o Other sources
 - Horizon 2020
 - BONUS Joint Baltic Sea Research and Development Programme
 - LIFE programme
 - Education and Culture programmes
 - Interreg Baltic Sea Region Programme
- Foundations (e.g. John Nurminen Foundation, Baltic Sea 2020, The Baltic Sea Conservation Foundation, Baltic Sea Action Group, etc. and probably many others from other countries)
- Private sector actors (e.g. Ålandsbanken, Moomin Characters, sector specific initiatives such as Zero Vision Tool and probably many others from other countries)
- Multi-country initiatives
 - o Baltic Sea Action Plan (BSAP) Fund

Please also see, for example

- <http://funding.balticsea-region.eu/>
- <https://www.ubc.net/funding-categories/baltic-programmes>
- <https://www.cbss.org/sustainable-prosperous-region/funding-opportunities/>
- https://helcom.fi/media/documents/BSAP_Final.pdf pages 32-34

Annex 2 Baltic Sea Action Plan - Financing

WE AGREE that a cost benefit analysis of projects, including the cost of non-action and unit abatement cost (UAC) calculation, should be the basis when deciding on implementation taking into account NEFCO's findings that

–all projects with a UAC for reduction of phosphorus that is below € 150,000 per tonne reduced are examples of cost-efficient actions and should be implemented as soon as possible;

–based on current information the nutrient reduction needs indicated by HELCOM to meet the objectives for eutrophication would be met if all these cost-efficient investments were implemented together with relevant EU Directives,

–particularly cost-efficient projects for phosphorus reduction are

- proper manure management at large animal installations;
- addition of chemical phosphorus treatment in existing waste water treatment plants;
- construction and upgrading of wastewater systems in larger and smaller cities/municipalities;
- reduction/substitution of phosphorus in detergents,

WE STRESS THE NEED for using adequate and comprehensive financial resources for environmental investments for actions according to the Baltic Sea Action Plan in particular within the new EU countries e.g. through sector programmes. The main sources of funding are state budgets and EU's structural funds including the Cohesion Fund, which are made available to the new EU Member States also for implementation relevant EU directives;

WE ALSO FIND that non-EU Member States can benefit from financing in the context of the EU Neighbourhood and Partnership Instruments,

WE ENCOURAGE Contracting Parties that are EU Member States as well as regional and local governments and others concerned to identify projects and apply for financing through e.g. the objective "Territorial Co-operation" under the EU Regional Fund or the Cohesion Fund.

WE ALSO ENCOURAGE Contracting Parties to take additionally into account bilateral sources as well as the European Neighbourhood and Partnership Initiative (ENPI) and Northern Dimension Environmental Partnership (NDEP) which are offering grant financing for high priority environmental projects in Russia.

For this reason WE AGREE that all Contracting Parties shall investigate how to make better use of available funding for the financing of the implementation of the HELCOM Baltic Sea Action Plan, taking especially into account the need to connect priorities within the different sectors in which projects are being chosen for financing, and the need during this process to make use of transparent parameters, such as unit abatement cost,

WE ALSO WELCOME the growing interest of private companies and non-profit foundations to provide funds for the protection of the Baltic Sea on a voluntary basis,

WE AGREE to start in 2008 to identify and list projects based on e.g. results of the Fifth Pollution Load Compilation (PLC-5) and document "Background paper on financing and cost-efficiency" elaborated by NEFCO with a UAC for reduction of phosphorus below € 150,000 per tonne which could be addressed by initiating joint initiatives in the Baltic Sea catchment area in co-operation with non-profit foundations and private companies. In order to overcome bottlenecks in already approved projects and in the development

of new ones, and to speed up and increase investments within municipal infrastructure for wastewater treatment and within the agricultural sector, including environmental investments in large animal farms,

WE RECOMMEND the following actions:

- providing adequate resources for training for project preparation and implementation
- providing additional support for training and advice for farmers
- training of central and regional environmental authorities for proactivity in project development and support to applicants
- conducting information seminars for commercial banks regarding unit abatement cost calculations in environmental projects
- increased focus on the dialogue with Russia concerning institutional development in particular with a view to creating a higher number of bankable projects within municipal infrastructure such as water supply and wastewater treatment, food industry such as large animal farms, and other industry for cleaner production processes.

To urgently start the actions required to enhance investments to achieve the goals of the HELCOM Baltic Sea Action Plan , WE AGREE to arrange a “pledging conference” - this time pledging not only monetary resources, but also pledging to give priority to solving the above-mentioned bottlenecks through concrete actions, within an agreed time frame and thus trying to ensure that projects within the environmental sector, rather than other sectors with larger and less complicated project structures, will be given priority in the final project selection stage.