



EUROPEAN COMMISSION

EuropeAid Co-operation Office
Europe, Southern Mediterranean, Middle-East and Neighbourhood Policy
Nuclear Safety

FINANCING PROPOSAL

NORTHERN DIMENSION ENVIRONMENTAL PARTNERSHIP SUPPORT FUND

BENEFICIARY COUNTRY/REGION	Russian Federation		
TITLE	Additional EU Contribution to the Northern Dimension Environmental Partnership Support Fund		
TOTAL COST	€ 10 million (EU contribution)		
AID METHOD	Joint management with international organisation(s)		
LEGAL BASIS	Council Regulation (EC, EURATOM) No 99/2000 of 29 Dec. 1999		
BUDGET HEADING	19 06 01		
DAC-CODE		SECTOR	

1. RATIONALE

1.1. Strategic framework

The Tacis regulation 2000-2006, in its article 2, underlines the "need to reduce environmental risks and pollution including trans-boundary pollution", and the importance of support to "the development and implementation of spent fuel, decommissioning and nuclear waste strategies, including in Northwest Russia in the context of wider international cooperation", and "to contribute to relevant EU supported international initiatives" in this regard.

The Northern Dimension Environmental Partnership Support Fund, managed by the EBRD, is an important instrument in meeting this mandate.

1.2. Lessons learned

In view of the problems in the region, in terms of environmental degradation, potential projects have been studied of which the total amount surpasses the present financial availabilities. These projects are mature and offer the possibility to make a significant impact in improving the environment. Following the Assembly of the NDEP contributors, on 6 December 2004, the Commission agreed to make a further contribution of € 10 Mio to

the non-nuclear share of the fund to support the preparation and the implementation of these projects.

Further to the Decision C(2003) 1301, the Community decided a first contribution of € 50 million to the NDEP Support Fund. Of this amount € 40 million were earmarked for projects in the nuclear area and € 10 million in the non-nuclear area.

For the year 2003, a total of € 30 million was paid: € 10 million for the environmental window of the Fund (budget line B7-520), and € 20 million for the nuclear window of the Fund (budget line B7-524);

Further to the Decision C(5528) of December 30, 2004, and taking into consideration the progress of the implementation of the Fund, the second part of the contribution for the nuclear window of the Fund € 20 Mio (budget line B7-524) will be paid in 2005 or 2006.

Considering on the one hand the progress so far and the positive results achieved by the NDEP mechanism for facilitating the financing of projects, and on the other hand the number of project to be prepared and their impact for the protection of the environment the European Commission will increase its participation to the non-nuclear share of the Fund by €10 million.

1.3. Complementary actions

The Northern Dimension Environmental partnership (NDEP) forms part of the Northern Dimension, an initiative of the European Union, launched in 1999 that aims at bringing together the EU's external policies and instruments operating in a broad geographic area stretching from the Arctic and Sub-Arctic to the southern shores of the Baltic, including notably North-West Russia.

NDEP is a partnership of the European Commission, Russia, the EBRD, the European Investment Bank (EIB), the Nordic Investment Bank (NIB) and the World Bank, strongly supported by EU Member States as well as Norway. It promotes coordination between Russia, donors and international financial institutions and make it easier to raise funds for priority projects.

An important pillar of the initiative is the NDEP Support Fund. The aim of the NDEP Support Fund is to mobilise grant funds from donors to leverage long-term loans from the International Financial Institutions (IFIs) to fulfil important environmental objectives in the Northern Dimension Area, and to address the specific issue of nuclear safety from decommissioned nuclear submarines.

1.4. Donor coordination

The NDEP Support Fund has been managed by the European Bank for Reconstruction and Development. The rules of the Fund foresee that the coordination between the donors is made, on the one hand within the Steering Committee in which the EBRD, the International Financing Institutions acting as Implementing Agencies, the Commission and the Russian Federation are participating. The Steering Committee prepares the work of the Assembly of Contributors, where, on the other hand, the co-ordination is developed on the basis of strategic approaches with bilateral programmes. The Assembly of Contributors takes decisions on grants for the financing of projects.

2. COUNTRY (OR REGIONAL) CONTEXT

2.1. Sector context

Regarding the region's non-nuclear environmental problems, so far work on projects has substantially progressed and a first group of them has been supported with an estimated aggregated investment of 903 Mio € to which loans and grants achieve the overall amount of 632 Mio€. The portfolio covers water supply and wastewater networks, solid waste and district heating. The NDEP Support Fund has catalysed environmental investments by mobilising grant co-financing for leveraging loans from the IFIs. The grant funds have a multiplication effect on environmental investment in the area.

Environmental degradation in the Northern Dimension area is of international concern. The main environmental threats relate to the Baltic and the Barents Sea in various forms: quality of drinking water, air pollution. There are also nuclear issues: the Kola Peninsula contains large repositories of spent nuclear fuel and radioactive waste. The storage facilities are obsolete and over-flowing. The disposal of spent nuclear fuel is a key bottleneck for the plans of a safe dismantling of the vessels of the fleet.

Addressing these issues, the European Council endorsed an Action Plan for the Northern Dimension with high priority to environment, including nuclear safety. The International Financial Institutions (IFIs) active in the region, the European Bank for Reconstruction and Development, the Nordic Investment Bank and the World Bank created the Northern Dimension Environmental Partnership, signalling a new approach in promoting and financing environmental investments. The European Investment Bank joined the NDEP, when their mandate was extended to environmental loans in Russia.

3. DESCRIPTION

3.1. Objectives

The overall objective of the Community contribution to the NDEP Support Fund is to reduce environmental risks and pollution, including those brought about by spent nuclear fuel and radioactive waste, in the Northern Dimension area.

The specific objectives are:

- To catalyse investments in selected environmental and nuclear projects in Northwest Russia via the blending of grant funding and loans.
- To establish an integrated strategic framework for addressing the environmental and nuclear hazards in Northwest Russia, that encompasses the multilateral and bilateral actions of donors and lenders, while securing close cooperation with Russian authorities.

3.2. Expected results and main activities

3.2.1. The mechanisms of the Fund

The main features of NDEP can be summarised as follows:

- Focus on Northwest Russia with special efforts towards Kaliningrad

- Strong Russian involvement and ownership
- Special focus on nuclear waste in Northwest Russia
- Coordination of IFI resources through a Steering Group and assigned project leadership by an IFI
- An integrated, long-term programme approach involving investments as well as promotion of awareness, environmental standards and sector reform
- Mobilisation of resources for grant co-financing of key investments through the NDEP Support Fund

There are two main pillars of the NDEP: an organisational structure, the Steering Group, as well as a funding mechanism, the Support Fund governed by the Assembly of Contributors.

The Steering Group coordinates the work of addressing the region's environmental problems, including as regards nuclear waste. It consists of the European Commission, the Russian Federation and the IFIs active in Northwest Russia. The Steering Group has studied and presented to the Assembly for support a portfolio of projects covering water, solid waste, energy efficiency and nuclear waste.

The NDEP Support Fund will catalyse environmental investments by mobilising grant co-financing for leveraging loans from the IFIs. The grant funds will have a multiplying effect on environmental investment in the area as they will make possible larger IFI loans that will finance the major share of the investments. Without a support fund, NDEP would therefore not gain the necessary strength. The urgent need to make progress in the difficult area of nuclear waste management calls for a joint effort. In this area, loans will be of less importance. The NDEP Support Fund will therefore have two windows, one for nuclear safety and one for environmental projects.

The NDEP Support Fund is managed by the EBRD according to the rules of the Fund.

According to the Fund rules, the Steering Group makes proposals to the Assembly of Contributors of the Fund, which decides, on a consensus basis, the allocations of grant funds to specific projects. The Steering Group work closely with the Assembly to oversee the implementation of projects, with the lead of each individual project to be allocated to one of the IFIs concerned.

3.2.2. Operations supported under the NDEP Support Fund

a) The full list of NDEP projects is provided in appendix 1. It shows that the approved agreements amount to € 43 million in favour of 9 projects. The total investment amounts to € 903 million. The ratio of financing is the following:

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|----------------------------------|--------|
| • Equity and local contribution: | 30.1 % |
| • IFIs loans: | 54.3 % |
| • Other loans: | 3.4 % |
| • NDEP grants: | 4.9 % |
| • Other grants: | 7.3 % |

It is important to note that the NDEP contribution has had a substantial leverage effect.

Seven projects are under assessment. It is envisaged that a total amount of € 32 million as NDEP support will be granted for their preparation.

- b) The projects already approved will have a very significant impact on the improvement of the environment as demonstrated by the following examples:
- The St Petersburg Southwest Wastewater treatment plant will treat the waste water of 720,000 residents of the town, handling 300,000 cubic meters of sewage a day. It will reduce the volume of untreated effluents entering the Baltic Sea. This project benefits from several contributions and is also supported by the TACIS programme.
 - The Northern Wastewater Treatment Plant Incinerator will solve the sludge disposal in St Petersburg. This project will reduce the landfill requirement and the pollution by heavy metals.
 - In Archangelsk, a NDEP supported project of € 26 million will upgrade the municipal water treatment facilities, rehabilitating water distribution networks, improving the municipal services and strengthening the financial and operational performance of the town.

3.3. Stakeholders

As of June 2005, pledges and contribution to the NDEP Support Fund total € 225 million, of which € 76 million is not earmarked (non-nuclear).

Apart from the Commission contribution subject of the present decision, new pledges have been made by Russia, Sweden, Finland while Germany and Denmark have given a preliminary positive answer. Some of these pledges extend until 2010 which will require an extension of the Fund. It is particularly important to note the additional contribution of Russia which confirmed the commitment of the Russian Federation to the NDEP.

3.4. Risks and assumptions

The NDEP Support Fund proved to be a successful tool for the implementation of concrete projects benefiting from the improvement of the environment in North-West Russia. However, the development of the projects require long time in order to secure a proper financial framework. Moreover, the financing of these projects receives grants and loans which depend from guarantees to be provided with the authorisation of the Russian Authorities.

Nevertheless, the operations of the NDEP Support Fund benefit from the positive input of the IFIs in their role for preparing the projects. On the Russian side, the Ministry for Finance and Economy assures the co-ordination of the various Russian administrative levels regarding the sound financing framework including the required guarantees for the IFIs.

3.5. Conditionalities

There are no conditionalities as it is an additional contribution to the non-earmarked part of the Fund.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

- 4.1.1. Joint management with international organisation(s).
- 4.1.2. The NDEP Support Fund is managed by the EBRD. The EBRD as manager of the Fund will provide an annual report to the Assembly, and additional reports and technical documentation, when required.
- 4.1.3. The NDEP Support Fund rules contain provisions for the procurement of services and of supplies. Notably, the rules provide that "procurement of contracts financed from the resources of the Fund will be administered by the relevant Implementing Agency, following its own procurement guidelines", whereby the implementing agencies are the international financial institutions that participate to the Fund: EIB, EBRD, NIB and the World Bank Group. The rules further stipulate that, except for special circumstances, "procurement shall be limited to goods and services produced in or supplied from the countries of the Contributors or the Countries of Operations of the Bank."
- 4.1.4. The Community contribution to the NDEP Support Fund will be the subject of a formal Contribution Agreement. The Community contribution will be made in one payment to be made in 2005.
- 4.1.5. The Commission will forward all relevant information to the Court of Auditors and may request from the Bank supplementary information that the Court of Auditors may wish to obtain concerning the financial operation of the NDEP Support Fund, to the extent it is related to the Community's contribution.

The Court of Auditors may also be given the possibility of performing missions to the Bank with a view to verifying pertinent information, to the extent it is related to the Community's contribution and on the basis of practice established in the context of the Northern Dimension Environmental Partnership.

4.2. Budget and calendar

- 4.2.1. The total Community contribution to the NDEP Support Fund over the years 2003 and 2006 decided to date has been € 50 million. Of this amount € 40 million were earmarked for projects in the nuclear area.
- 4.2.2. With regard to payment, a total of € 30 million was paid in 2003: € 10 million for the environmental window of the fund (budget line B7-520), and € 20 million for the nuclear window of the fund (budget line B7-524). In 2005-06 it is intended to contribute another € 20 million in the nuclear area (budget line 19 06 05).

4.2.3. The present decision aims at a further contribution of € 10 million for the non-earmarked part of the Fund to be paid in 2005 (budget line 19 06 01). This grant includes a contribution to the EBRD's management fee for the additional professional and administrative support required to manage the funds.

4.3. Procurement and award of grants procedures

Implementation must be made in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.4. Performance monitoring

The NDEP Support Fund benefits from the management of the EBRD and of the integration within the Steering Group.

The progress of the Steering Group in preparing the projects is regularly followed.

Key indicators for the efficiency of the Fund are

- Availability of good projects prepared for receiving support. The Fund has now a portfolio of good projects to be elaborated in view of their financing;
- Reduced preparation time;
- Definition of a correct financial framework which will facilitate the grouping of the financing resources.

4.5. Evaluation and audit

The activities of the Fund, managed by the EBRD, are supervised by the Assembly of Contributors. The financial statements of the fund are audited on an annual basis by internal and external auditors of the Manager of the Fund in a manner consistent with that applied to the Manager's ordinary capital resources.

The Financial Agreement to be signed between the Commission and the Bank will foresee the possibility that the European Commission undertakes checks related to the actions financed by the Fund, including on the spot.

Annexes

List of projects (status June 2005)

