

**SAO meeting
Reykjavík, 9-10 April 2003**

Financing of Arctic Council Projects

Discussion paper

Introduction

The Inari Declaration 2002, the Report of Senior Arctic Officials (SAOs) to the Arctic Council Ministers 2002 and the SAO Report to Ministers on the review of the Arctic Council Structures 2002, underline the importance of stimulating outside investment in the projects and activities of the Arctic Council and emphasize increased co-operation with International Financing Institutions.

These documents consider, among other things, the role of SAOs in engaging external funding institutions in financing projects endorsed by the Arctic Council. They raise questions such as; how to establish working relationship with the IFI's, what form should the relationship take and how, if necessary, should the organization of work within the Arctic Council be altered to facilitate this.

The voluntary funding system of the Arctic Council has in many cases functioned well. But Working Groups have also faced difficulties in raising funds for Arctic Council projects, including those detailed in mandates from Ministers. The possible funding sources are the Arctic Council member states themselves, the International Financial Institutions, private foundations and private enterprises.

Ways to deal with these difficulties have been discussed within the Arctic Council and have resulted in specific requests to SAOs to take funding into consideration and engage external funding institutions in financing projects, as well as to explore the possibility of raising funds in the private sector, including relevant foundations.

Requests to SAOs

The SAO report to Minister 2002 contains the following requests:

- To develop criteria for prioritizing AC projects of circumpolar relevance.
- Prioritize project proposals that need extensive funding and serve as a clearing-house for the Arctic Council activities that seek funding from the private sector or international and regional financial institutions.
- Consider how to best make professional expertise available in project preparations and funding.
- Explore possibilities of raising funding in the private sector, including relevant foundations.

Some considerations

As regards the first request, concerning criteria for prioritizing Arctic Council projects, it may be useful to bear in mind that criteria and priorities could vary depending on which financial party or private entity is approached. Projects presented

to the IFIs should take into account the mandate of the IFI in question or the business interest of the private enterprise concerned.

The second request, regarding a clearing-house function for the SAOs, may need to be defined more precisely. Should SAOs “rubberstamp” Arctic Council activities that seek funding or engage in real project assessment? If the latter, what should be the division of labour between them and the Working Groups?

Thirdly, SAOs should consider how to make professional expertise available in project preparation and funding. Preparation can be extremely time consuming in order to make projects presentable within the IFI processes. Qualified experts could prepare projects in such a way that project analysis would not need to be repeated by the IFIs. SAOs may also want to consider whether outside assistance from qualified experts in the field of project funding would benefit them in following up on the above requests. This introduces the further question of financing the expert cost.

Approaching the private sector, as detailed in the fourth request, is a neglected but essential aspect of our work. Many industries are interested, not only in oil and gas, but also minerals and precious metals, shipping, fishing and fish processing as well as tourism. For some AC projects, there may be a possibility to develop business plans, which might be of interest to potential investors.

The ACAP Proposal for a Trust Fund

The ACAP report to the SAO meeting in April 2003, contains a proposal for establishing a Trust Fund to act as a facilitator towards project financing with the IFI's. Further information regarding the Trust Fund proposal is contained in the ACAP report. SAOs may wish to discuss the proposal of ACAP in connection with the following up of the above requests.