

SAO Meeting Yellowknife, NT, Canada, 26-27 March 2014 version 2014.02.14

Agenda [7.1] Update on the Arctic Council Project Support Instrument (PSI)
(Presented by NEFCO)

This Report updates the previous PSI Report¹ of 18 September 2013 to the SAO 2013 Spring Meeting.

Background

1. **Mandate:** The PSI is a financing instrument for the purpose of mobilising and channelling financing for prioritised Arctic Council projects. The Fourth Ministerial meeting of the Arctic Council in Reykjavik 2004, inter alia: “Emphasized the need for reinforcing efforts to finance circumpolar cooperation, supported the Project Support Instrument (PSI) concept as a mechanism to enhance the process of identifying, mobilizing and transferring financing for specific priority Arctic Council projects...”.
2. **The PSI response to Arctic Council priorities** is to strengthen its work on environment protection including climate change (e.g. CO2 mitigation, Short Lived Climate Pollutants (SLCP)) and actions in support of the implementation of the Persistent Organic Pollutants (POPs) and Heavy Metals protocol on Long-Range Trans-boundary Air Pollution.
3. The PSI Guidelines (§5.1), as approved by the Senior Arctic Officials (SAO 2005), requires the Funds Manager to semi-annually present to the SAOs a report on the activities pertaining to the PSI.
4. The SAO (2012) decision² inter alia, “...noted that items listed in P1-P10 identified by the Fund Manager in the November 2012 Update on the PSI³ are approved Arctic Council project areas. Projects within these areas are thus eligible for funding consideration if they have followed the appropriate Arctic Council and subsidiary body procedures including bringing the individual projects forward to the appropriate Arctic Council subsidiary body for approval; requested the Fund Manager to proceed with an appropriate assessment and development of these projects for future consideration of the PSI Committee for financing; encouraged the Fund Manager to cooperate with relevant Arctic Council subsidiary body chair(s) to mobilize the Project Support Instrument (PSI).”

Work in Progress

5. PSI pledges, deposits and allocations currently stand at EURO 15.9 million as depicted in Table 1.

Table 1- PSI pledges and deposits as of Q1 2014. Amounts are rounded-off upwards.

	Contributor	EURO (€)	Comment
i)	Finland:	200 000	Received
ii)	Iceland	8 000	Received ICEK 1 M
iii)	Norway	238 000	Received
iv)	Russian Federation	10 000 000	Pledged
v)	Sweden	272 000	Received SEK 3 M
vi)	United States	3 782 000	Award \$5M/1 st action\$1M ^[1]
vii)	NEFCO	1 350 000	Pledged
viii)	Sami Parliament	13 000	Received NOK 100 000
	TOTAL	15 863 800	

¹ NEFCO Update on the Project Support Instrument (PSI), SAO Meeting Whitehorse, October 2013 version 2013.09.18.

² Final Report, Meeting of Senior Arctic Officials, Haparanda, Sweden, 14-15 November 2012.

³ NEFCO Update on the Project Support Instrument (PSI), SAO Meeting Haparanda November 2012 version 2012.10.10.

[1] Subject to US internal routines and clearances; total budget USD 5 million including first period action funding of USD 1 million. Exchange rate ECB (22 Feb. 2012) at 1.3222 USD/EURO. The US 1st Action Award is earmarked for diesel related mitigation of Black Carbon (BC) and requires full disbursement latest by Q1 2015.

6. As reported to the Arctic Council (2013)⁴, PSI resource allocation for 2013–2015 tentatively is about 40 per cent for demonstration projects on integrated hazardous waste management and POPs, about 25 per cent for mitigation of mercury and 20 per cent for clean production/Energy Efficiency/SLCP including Black Carbon.
7. The Third PSI Preparatory Committee meeting was held at Nordic Environment Finance Corporation (NEFCO), Helsinki, from 17 to 18 December 2013 in response to the invitation sent out by NEFCO as Fund Manager (FM) of the PSI on the 14th of November 2013. The meeting was attended by representatives of the Finland, NEFCO (as a PSI contributor), Norway, Sámediggi, Sweden, the Russian Federation and the United States of America.
8. In general NEFCO is assessing several projects in the context of the above mentioned P1-P10 projects. ACAP communicated to NEFCO on the 9th of December 2013 the status of its projects. The documentation includes projects that are under implementation and others that are being developed. NEFCO is working on the following actions:
 - Mitigation of CO₂ and SLCP (i.e. Black carbon, methane, HFC, ozone depleting substances)
 - Management of POPs (e.g. Dioxins, PCBs and obsolete pesticides)
 - Mercury release reduction (e.g. Non-ferrous smelters, energy lamps, waste management)
 - Integrated Hazardous Waste Management (waste from household, servicing sector, industry)
 - Resource efficiency (cleaner production, energy efficiency).
9. Specifically, regarding climate change initiatives, the FM is working on the following: Three SLCP initiatives with respective sub-projects are under development in cooperation with the SLCF Project Steering Group (PSG) and respective bilateral and project partners:
 - i) Reduction of Methane Emissions
 - ii) Reduction of Black Carbon Emissions
 - iii) Mitigation of HFC (including ODS) Emissions (End-of-Life Equipment).
10. Regarding Diesel Black Carbon Project, the FM is working to define a USD 3.7 million project “2.5-BC-K: Valday Cluster -- Eight Karelian settlements with diesel power”. Some of the sub-projects are also on the NEFCO-AMAP Barents Hotspot list, (as Project Kr 14 & Kr16). The feasibility reports will help NEFCO to develop a detailed Work Plan and budget for the SLCP Projects. Once NEFCO has confidence that these Project(s) are up to the mark, the FM will present them for the PSI financing pipeline. The current allocation from NEFCO to contribute to the development of the above pipeline is about EURO 180.000.
11. Sweden, in December 2013, expanded the scope of its SLCF Trust Fund with NEFCO and has made available about 3.3 million SEK (EURO 377 000/USD 512.000). The scope has been expanded to enable contribution to funding of projects that mitigate climate pollutants (e.g. CO₂, Short Lived Climate Pollutants including black carbon, methane, hydrofluorocarbons (HFC), tropospheric ozone; ozone depleting substances (ODS); heavy metals (e.g. mercury); and persistent organic pollutants (POPs), including dioxins and furans and obsolete pesticides, that transport to, deposit in or otherwise affect the Arctic. Projects identified by the Arctic Council’s ACAP respective project steering groups should be prioritised. The SLCF Trust Fund includes an additional allocation of 772 000 SEK that is expected to be made available for disbursement in 2014. Relevant resource allocations for the Trust Fund are under process for considerations and are to include priority projects through the ACAP-PSGs. The allocation from Sweden includes SEK 500 000, to be disbursed during 2014, for mitigation of dioxins and furans, with priority on actions at the Vorkutinsky Cement Plant or other actions suggested by the ACAP PSG on Dioxins.

⁴ Senior Arctic Officials Report to Ministers, Kiruna, Sweden, Arctic Council Secretariat, 15 May 2013.

12. NEFCO Early Start Projects: 12 million Euro to address SLCFs through district heating and energy efficiency and cleaner production projects in NW Russia. The district heating projects may need installation of filtration equipment for black carbon mitigation which may need PSI co-financing. The "Early Start" projects expected to be implemented within the next 1-2 years.
13. Mercury Mitigation (RF, US, NEFCO): Non-Ferrous Metals/Zinc Smelter Project. Estimated budget Euro 3.5 million. Timeline: about 2 years from start of project. A request to MNRE has been sent on the 20th of Nov. 2013 to facilitate a meeting with the Chelyabinsk Zinc Smelter management. Sweden has allocated SEK 220.000 (through the SLCF Trust Fund) to contribute to a workshop, during 2014, on mercury within the ACAP PSG project on Non-ferrous Smelter Project.
14. PCB Management (RF, US, NEFCO): PCB management and destruction. Budget about Euro 3 million. The Project is on hold awaiting PSI mobilization. A second initiative during Q2 2013 pertains to Franz Josef Land. A NEFCO-BHSF Study is underway for which EUR 30.000 has been allocated by NEFCO and the project is to include development of a Project Proposal for submission to ACAP- PCB PSG. The project is awaiting evaluation of analyses carried out during Q2-Q3 of 2013.
15. **PSI Information Exchange:** NEFCO, the Russian Federation Authorised Governmental Agency (AGA, i.e. the Ministry of Natural Resource and the Environment (MNRE)) and the Russian Execution Agency for PSI Projects in Russia (REA) finally reached consensus in December 2013-January 2014 on the a set of necessary contractual agreements called for by the Russia-NEFCO Agreement on PSI Cooperation and on the 2014 Budget for the REA. The set of documents were sent by AGA to the Russian Inter-Ministerial Commission (IMC) for PSI on 22 January 2014 for approval.
16. As soon as NEFCO receives the information from AGA that the IMC has cleared the agreement package including REA's budget, arrangements will made to sign the necessary contractual agreements. Assuming that once the service agreement package is signed and everything will proceed without complications, and Russia will notify its contribution to the PSI account during early 2014, PSI will formally start-up in 2014. The start-up PSI Committee (PCOM) meeting is expected to be held in Helsinki.

Action:

SAOs may wish to note with appreciation NEFCO's Update on the PSI to the SAO Meeting of March 2014.