

SAO Meeting Yellowknife, NT, Canada, 22-23 October 2014, version 2014.09.16; Update 2014.10.10

Agenda 7.4 Update on the Arctic Council Project Support Instrument (PSI)

(Presented by the Fund Manager, Nordic Environment Finance Corporation (NEFCO))

This Report updates the previous PSI Report¹ to the SAO Meeting in Yellowknife 26-27 March 2014.

Background

1. **PSI Mandate**²: 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**³ 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. **PSI strategic work programming**: PSI is a financing instrument for prioritised Arctic Council projects. Three preparatory PSI committee meetings were held during 2011-2013 to develop possible project criteria and as reported to the Kiruna Ministerial⁴, for 2013–2015, the largest amount of resource allocation, about 40 per cent, is expected to be for projects on integrated hazardous waste management and persistent organic pollutants. Budget allocation for mitigation of mercury and short-lived climate pollutants is expected to be 25 and 20 per cent respectively.
4. **Reporting**: The Arctic Council PSI Guidelines (§5.1)⁵ requires the Fund Manager (NEFCO) to semi-annually present to the SAOs a report on the activities pertaining to the PSI.

STATUS REPORT

Operationalisation of the PSI

5. The Russian Federation, following the effectiveness of its PSI Cooperation Agreement, deposited with NEFCO, the first tranche of EUR 5 million of its total pledge of EUR 10 million, on the 18th of July 2014. NEFCO’s contribution, in accordance with the NEFCO Board’s decision of 16 September 2008, has also been deposited with the PSI account in the aggregate amount of 1 350 000 EUR.
6. In light of the Russian contribution, and in accordance with respective Cooperation Agreements with the PSI Contributors, the Fund Manager made the PSI operational on the 18th of July 2014.

¹ Update on the Project Support Instrument (PSI), SAO Meeting, Yellowknife, 26-27 March 2014 version 2014.02.14.

² Report to Ministers, Kiruna 2013, SAO Report MM08; Section C-10 Task Forces and Other Subsidiary Bodies: Report on Achievements in 2011-2013 and work plans for 2013-2015: Project Support Instrument (PSI), pp 40.

³ Ibid; pp 40.

⁴ Ibid, pp 7.

⁵ SAO 2005 Meeting, Yakutsk, Russia, April 6-7, 2005, pp 13.

7. The PSI Contributions, deposits, pledges, and available resources as of 31.08.2014, are summarised in Table 1 below. The total pledges are about EUR 15.9 million total of EUR 7.5 million is available for allocations. With Final Investment Decisions approved at the 2nd Meeting of the PSI Committee, a total of EUR 1,598,000 of available PSI resources of EUR 7.5 has been allocated up to the 2nd Meeting of the PSI Committee.

Table 1 — PSI Pledges and Deposits as of 31.08.2014. The pledged amounts are rounded-off.

No	Contributor	Pledges EUR	Deposited EUR	Comment
1	Finland	200 000	200 000.00	Received
2	Iceland	8 000	8 298.76	Received ICEK 1M
3	Norway	238 000	237 729.27	Received
4	Russian Federation	10 000 000	5 000 000.00	Received
5	Sweden	272 000	271 565.31	Received SEK 3M
6	United States	3 782 000	404 149.06	Received \$.56M. Award \$5M; Act. \$1M
7	NEFCO	1 350 000	1 350 000.00	Received
8	Sami Parliament	13 000	12 987.26	Received NOK 100 000
9	Interest		24 238.80	
10	Bank cost		15.00	
	Total	15 863 000	7 508 953.46	Target was EUR 3 million

4.9.2014: EUR 1 = USD 1.3015

Summary of the First Meeting of the PSI Committee

8. As informed to the SAO at Yellowknife (March 2014⁶), the First Meeting of the PSI Committee (PCOM) was convened by the Fund Manager on 6 May 2014 in Helsinki, Finland. Highlight of the decisions of PSI Committee are summarised in § 9 - §14 below.

PSI Organisational Matters

9. Regarding organisational matters the PSI Committee decided to elect Mr. Nuritin Inamov (Russian Federation) as chair of the PSI Committee for 2014 and agreed that the following Chairs would be elected on the basis of the alphabetical order of the Contributing Arctic Council (AC) States. The Chair of the PSI Committee will be rotated on a one year basis between the Contributing Arctic Council States. The incoming chair shall also function as a Vice-chair of the preceding PSI Committee meeting(s). The Chair is expected to act as a facilitator ensuring the best interest of the PSI as a whole. This implies that the AC State having the PSI Chairmanship in practice would need to have an additional representative on the PSI Committee expressing and representing the individual interest of such AC state. The Committee encouraged appointment, when relevant, of a member and an alternate member to the PSI Committee. It was also agreed that NEFCO, during the PSI pilot phase years, shall act as permanent Vice-chair of the PSI Committee and have secretarial functions to this effect. The PSI Committee also agreed that the PSI Committee could meet up to 2 times annually under flexible conditions in line with the provisions agreed upon in the PSI Rules of Procedure.

⁶ Final Report, SAO Plenary, Yellowknife, March 2014 Version: 02 June 2014; pp 13.

PSI Administrative Matters

10. Pertaining to administrative matters, the PSI Committee took note of the PSI Guidelines for the PSI trial phase of 5 years and adopted the PSI Rules of Procedure for the PSI Committee. The PSI Committee also took note of the draft content of the PSI Primer presented to the meeting, by the Fund Manager, and requested that a draft of the PSI Primer be made available to the PSI Committee for review and finalisation at the Second PSI Committee Meeting.

PSI Resource Allocations and Work Planning

11. The PSI Committee noted that the key governance documents that are to guide the PSI work include the PSI Guidelines, the PSI Committee Rules of Procedure, the agreements on cooperation, function and other relevant documents including decisions of the PSI committee. The Committee also approved the 2014 annual PSI Administration Budget of EUR 282 500. The tentative resource allocation of EUR 15.9 million for the period 2014-2019 was approved as depicted in Table 3 below.

Table 3 – Tentative Resource allocation for 2014-2019 strategic business – work plans (EUR)

		Total
	Percentage	EUR
Arctic Council Projects		
Hazardous Waste Management incl. POPs & pollution prevention	40	6 345 200
Mercury mitigation demonstration	25	3 965 750
Clean Production, Energy Efficiency, SLCP, BC	20	3 172 600
Other areas	6	951 780
Standard Costs	9	1 427 670
Total	100	15 863 000

12. The PSI Committee encouraged the Fund Manager to continue work with the Russian Authorised Governmental Agency, the Russian Executing Agency, other possible bilateral agencies, Arctic Council subsidiary bodies and relevant stakeholders to specify respective planned activity that could align with expected PSI work and encourage that they, in their respective annual work plans, provide for estimates for relevant projects for consideration of PSI financing.
13. Regarding potential PSI project proposals and PSI Work Plan for 2014-2015, the PSI Committee decided on three expressions of interest for the Fund Manager and to move forward as follows:
- i) to approve the Expression of Interest for further development to enable a Final Investment Decision by the PCOM at its future meeting, or inter-sessionally, in 2014-2015 of the Project “Management of PCB and other Hazardous Waste in the Russian Federation”;
 - ii) to approve the Expression of Interest for further development to enable a Final Investment Decision by the PCOM at its future meeting, or inter-sessionally, in 2014-2015 of the Project “Valday Cluster Upgrade for Black Carbon Reduction in the Republic of Karelia, Russian Federation”;
 - iii) to approve the Expression of Interest for further development to enable a Final Investment Decision by the PCOM at its future meeting, or inter-sessionally, in 2014-2015 of the Project “Non-Ferrous Metals/Zinc Smelter Project Proposal- CZP Mercury Removal” in the Russian Federation;
 - iv) to encourage continued work with the Arctic Council, including all its subsidiary bodies to identify, for PSI financing, concrete measures and projects for mitigation in line with the PSI Guidelines, Arctic Minister and SAO decisions.
14. The Second PSI Committee Meeting was held in Helsinki on 7 October 2014. The issues addressed at the 2nd PCOM Meeting included review of the PSI Primer and a first set of final investment

decisions for a number of projects addressing black carbon emission mitigation from diesel sources. Highlights of the 2nd PSI Committee are summarised below

Summary of the Second Meeting of the PSI Committee

PSI Primer (“PSI Operational Manual”)

15. The PSI Committee agreed that the PSI Primer (Version 2014.10.07), including the criteria used for evaluation, as contained in document AC/PSI/PCOM/1402-2-4 can be used as a working document and relied upon by interested parties for the interim period up to the Spring PSI Committee meeting in 2015. The document can be uploaded, after certain adjustments discussed and agreed at the meeting, to NEFCO’s internet with the understanding that the Primer is a draft pending PSI Committee approval. The Fund Manager is requested to take into account the views expressed by PSI Committee members on the PSI Primer (Version 2014.10.07) and any additional written comments received from the PSI Committee members, latest by 30 November 2014. The PSI Primer will be reviewed for approval of the updated version of the PSI Primer at the Spring 2015 meeting of the PSI Committee. In the context of the working of the PSI, the PSI Committee also approved the Rules of Procedure for the PSI Project Supervising Committee as contained in document AC/PSI/PCOM/1402-2-5_rev2.

PSI Projects and Work Plan 2014-2015

16. The PSI has approved a number of projects for investments and expressions of interest, summarised as follows:
 - i) Final Investment Decision of up to EUR 4.2 million with a PSI commitment up to EUR 1.120.000, regarding the Project “Valday Cluster Upgrade for Black Carbon Reduction in the Republic of Karelia, Russian Federation”;
 - ii) Final Investment Decision of up to EUR 100 000 with a PSI commitment up to EUR 95.500, regarding of the Project “ Wind-diesel project at Tundra Collective, Murmansk Region, Russian Federation”;
 - iii) Final Investment Decision of up to EUR 30 000 (USD 35 000) from the PSI for the feasibility study “Mapping substituting solutions for diesel power plants in Arctic and North-West Russia”;
 - iv) Final Investment Decision of up to EUR 70 000 from with a PSI for the feasibility study “Feasibility study for energy supply conversion from diesel in Dolgoshcheli, Mezenskiy District”;
 - v) Expression of Interest to finance for the project “Mercury Emissions Reduction Technology Workshop”; and to request the Fund Manager to clarify and develop the project further to enable a Final Investment Decision by the PSI Committee at future meeting, or intersessionally, in the period 2014-2015.

Other Matters for Consideration of the Senior Arctic Officials

17. The SAO may wish to note that in accordance with the Arctic Council PSI Guidelines (§ 4.3), financing may be requested by Project Steering Groups, project owners or other relevant stakeholders. With the operationalisation of the PSI on the 18th of July 2014, the Fund Manager will provide information on the PSI to the Arctic Council bodies, project owners and other relevant stakeholders and shall carry out its PSI obligations in response to guidance provided by the Arctic Council and the PSI Contributors.

18. During the course of work to make the PSI operational, there has risen a need to reconcile the Fund Manager's duties and due diligence called upon by the Guidelines for the PSI, as a subsidiary body of the Arctic Council, and NEFCO's status as an Observer to the Arctic Council. The key issues cover governance and effective co-financing of PSI Projects. For example, regarding NEFCO as a co-chair of the ACAP PCB Project Steering Group (PSG), concern has been expressed ⁷ that all other PSG chairs are country representatives. NEFCO is an observer. The ACAP Chair clarified that NEFCO was doing a parallel project on PCBs, and NEFCO is one of 3 co-chairs for this PSG along with Russia and USA. Although the SAO (April 2007, Tromsø Meeting) decided that NEFCO remains as a co-chair of ACAP PCB Project Steering Group, there may be merit now to revisit NEFCO's engagements as PSG co-chairmanship and project lead(s) in light of the PSI becoming operational.
19. NEFCO, for the sake of integrity and to avoid potential conflict of interest, considers it appropriate to primarily act as an Observer to the Arctic Council and will like to inform the SAO that it is consequently intending to relinquish its roles as co-chairs and project leads in bodies extraneous to the PSI. NEFCO as the PSI Fund Manager shall, however, continue to exercise its leadership and provide due diligence pertaining to PSI as called upon by the Arctic Council, PSI Rules of Procedure, PSI Guidelines and PSI Committee decisions.
20. Regarding co-financing of PSI Projects, the PSI in accordance with the Arctic Council Guidelines for the PSI, is to, as appropriate, provide financing in the form of: (i) grants; (ii) contingent grants (which have to be repaid); and (iii) other revolving instruments such as loans on concessional (soft) terms. Due consideration shall be given to local participation in the projects (e.g. through the provisioning of recipient counterpart funds). The above guidance implies that leveraging is to be one of the important criteria for project selection. Rule 38 of Arctic Council's Rules of Procedures, as amended in Kiruna 2013⁸, however, restricts the total financial contributions from Observers to any given project may not exceed the financing from Arctic States, unless otherwise decided by the SAOs. [sic "... *the total financial contributions from all Observers to any given project may not exceed the financing from Arctic States, unless otherwise decided by the SAOs.*"]
21. To address the above matters and to facilitate good governance, efficient practice and communications, the PSI Fund Manager requests that SAO may wish to provide guidance by welcoming the milestone achievement of the PSI becoming operational as of the 18th of July 2014 and to facilitate optimising PSI leveraging of Arctic Council PSI projects, the SAO may wish to permit the PSI Committee, for any given PSI project proposal under its consideration, to allow total financial contributions from the PSI, project owners or other stake holders, including all observers, to exceed the financing from Arctic States. Finally, to strengthen due diligence and avoid conflict of interest, the SAO may wish to note that the Fund Manager intends to relinquish its role as a lead or co-chair in other working group subsidiary bodies and to participate primarily as a Fund Manager of the PSI and its Project Supervisory Committees and work in accordance with the guidance provided by the Arctic Council, PSI governing guidelines, decisions and agreements.

PSI Primer (Operating Manual) and Criteria for Selection of Arctic Council Project

22. The PSI Primer is to be a working document of the PSI that is updated annually and is intended to provide members of the PSI Committee and Arctic Council members, its permanent participants, subsidiary bodies, observers and other possibly interested stakeholders with a guide on the workings

⁷ Arctic Council Meeting of Senior Arctic Officials, 12-13 April 2007, Tromsø, Norway; 18 November 2007
Doc #: 11/07-6.0; pp 2.

⁸ Arctic Council Rules of Procedure as adopted by the Arctic Council at the First Arctic Council Ministerial Meeting Iqaluit, Canada, September 17-18, 1998; Revised by the Arctic Council at the Eight Arctic Council Ministerial Meeting Kiruna, Sweden, May 15, 2013; pp 9.

of the PSI Fund. The SAO (decision March 2012⁹) have requested the Fund Manager to ask the PSI Committee to clarify and make available the criteria for selection of Arctic Council Projects to be financed from the PSI. The detailed criteria for selection of Arctic Council Projects to be financed from the PSI are to be approved by the PSI Committee in accordance with Section 5, point b) of the Rules of Procedure for the PSI Committee. Criteria for selection and guidance on the workings of the PSI Fund have been drafted by the Fund Manager and included in a “PSI Primer”. The draft content of the PSI Primer was approved by the PSI Committee at its First Meeting and the Committee reviewed the Primer at the 2nd PCOM Meeting. As mentioned above (§15), PSI Primer Version 2014.10.07, including the criteria used for evaluation, was reviewed by the PCOM and will be used as a working document for the interim period up to the next PSI Committee meeting in Spring 2015. The PSI Primer will be uploaded to NEFCO’s internet with the message that the Primer will be regularly revised. The Fund Manager will revise the Primer taking into account comments received and any additional comments received from the PSI Committee members, latest by 30 November 2014.

Summary

23. The Fund Manager has operationalised the PSI and has embarked to address Arctic Council projects in response to the SAO decision of November 2012¹⁰ and as reported in its March 2014 Report to the SAO. The Fund Manger’s near term PSI work (2014-2015) shall focus on the projects approved by the PSI Committee for further development or implementation.
24. The approved PSI projects are addressing management of hazardous waste, mitigation of climate change (e.g. abatement of short lived climate pollutants like black carbon) and mitigation of mercury. The above work, for the Arctic Council PSI projects in Russia, includes streamlining of action with the Authorised Governmental Agency (PSI Focal Point), i.e. the Ministry of Natural Resources and Environment, (and through it, the Inter-Ministerial Commission for the PSI) and ensuring a functional relationship with the Russian Executing Agency for PSI projects that are to be implemented in Russia, project owners and relevant stakeholders.

Deliverables to the 9th Arctic Council Ministerial Meeting in 2015

25. Deliverables, from the 2013-2015 work, to the 2015 Ministerial Meeting are expected to include:
 - i) The Arctic Council Project Support Instrument (PSI) is made operational;
 - ii) An approved PSI Primer version that provides information on the PSI to the Arctic Council, its subsidiary bodies, project owners and other relevant stakeholders;
 - iii) Approval of several Expression of Interest and / or Final Investment Decision for PSI Projects. The approved PSI Projects, including implementation of one or several of the projects, will address the following Arctic Council priority projects and items:
 - a) Mitigation of black carbon release from diesel sources;
 - b) Mitigation of mercury releases;
 - c) Management of hazardous waste including persistent organic pollutants.

Action from SAO:

SAOs may wish to

⁹ Meeting of Senior Arctic Officials Stockholm 28-29 March 2012 Final Report ACSAO-SE02, pp 3.

¹⁰ Final Report, Meeting of Senior Arctic Officials, Haparanda, Sweden, 14-15 November 2012, Section 3.9, The Project Support Instrument (PSI); pp 6.

- i) note with appreciation the Fund Manager's Update on the PSI to the SAO Meeting of October 2014;
- ii) welcome the deposit of the first tranche of the Russian Federation contribution, an amount of EUR 5 million, of its total pledge of EUR 10 million;
- iii) welcome the deposit of the NEFCO's contribution in the aggregate amount of EUR 1.35 million;
- iv) note with appreciation that the Fund Manager made the PSI operational on the 18th of July 2014;
- v) thank the Russian Chair of the PSI for his leadership in steering the first year of the PSI Committee and welcome Sweden to serve as Chair of the PSI Committee for 2015, and the United States of America as Vice Chair, for one year beginning from January 2015;
- vi) note that NEFCO intends to relinquish its role as lead in other working group subsidiary bodies and will be focusing primarily as the Fund Manager of the PSI in accordance with PSI governance guidelines, agreements and decisions of the Arctic Council and the PSI Committee;
- vii) agree upon that the PSI Committee for any given PSI project proposal under its consideration can allow total financial contributions from the PSI, project owners or other stake holders, including all observers, to exceed the financing from Arctic States.

Documentation: Fund Manager's Update (version 2014.09.16; Updated 2014.10.10) on the Arctic Council Project Support Instrument (PSI) to the SAO Meeting Yellowknife, NT, Canada, 22-23 October 2014.