

Update on the Project Support Instrument (PSI), October 2014

Meeting of Senior Arctic Officials
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PSI – Key milestones

- **2014 November**: The 4th Ministerial (Reykjavik) decided to establish the PSI
- **2005 April**: The Senior Arctic Officials (“SAOs”) approved the PSI Guidelines
- **2008 November**: Rules of Procedure for the PSI Committee were noted by SAOs
- **2011 May**: The 7th Ministerial SAO reported that all necessary conditions to launch the PSI have been met and that the start of the functioning of the PSI provides significant support for the elimination of contaminants in the Arctic, as well as an important precedent of funding for Arctic Council projects which is conducive to the strengthening of the Council
- **2013 March**: SAO approved the Russian Federation as chair of the PSI Committee
- **2014 May-October**: The Fund Manager (NEFCO) makes the PSI operational on the 18 of July 2014. Convenes two PSI Committee (PCOM) meetings on 6 May and 7 October 2014, respectively and the PSI makes the first set of investment decisions.

PSI Overview

PSI Mandate: The PSI is a voluntary, non-exclusive mechanism for financing specific priority projects that have already been approved by the AC; it may use a broad range of funding arrangements to include grants and revolving instruments to mobilise and channel financing for prioritised AC projects, inter alia reinforcing efforts to finance circumpolar cooperation, enhance the process of identifying, mobilizing and transferring financing for priority AC projects.

Response to Arctic Council Priorities: PSI 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 protocols w.r.t. Long-Range Trans-boundary Air Pollution (LRTAP).

PSI strategic work programming: (Kiruna Ministerial), the largest amount of PSI resources envisage tentative allocations, about 40 per cent, to projects on hazardous waste management and POPs; allocation for mitigation of mercury (Hg) and short-lived climate pollutants (SLCP) is expected to be 25 and 20 per cent respectively.

SAO Fall Meeting Agenda (Ag.) 7.4: Preamble

- Arctic Council PSI Guidelines, requires semi-annual reporting to the SAOs
- Report: ACSAO-CA03 Yellowknife Doc 7.4 Oct 2014 Update on the Project Support Instrument (AC_SAO_CA03_Doc 7-4a_PSI_NEFCO Report_Report_to_SAOs_rev_2014-10-10)

Ag. 7.4 – Developments (1/4)

- The Russian Federation, following the effectiveness of its PSI Cooperation Agreement, deposited the first tranche of EUR 5 million, of its total pledge of EUR 10 million.
- NEFCO's contribution has also been deposited with the PSI account in the aggregate amount of 1 350 000 EUR.
- 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.

Ag. 7.4 – Developments (2/4)

Two Meetings of the PSI Committee (6 May and 7 October)

- Approved the PSI governance documents
- Chair AC State: Russia (2014), to be followed by Sweden (2015) and the United States (2016) (alphabetical order)
- Approved PSI Resource Allocations for the period 2014-2019
- Approved 4 Final Investment Decisions regarding Black Carbon mitigation and 4 Expressions of Interests (EOI) regarding mitigation of BC, mercury and management of hazardous waste

Ag. 7.4 – Developments (3/4)

Other matters

- To strengthen due diligence and avoid conflict of interest, 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 in accordance with the guidance provided by the Arctic Council, PSI governing guidelines, decisions and agreements.
- Regarding co-financing of PSI Projects, the PSI per the Arctic Council Guidelines for the PSI, is to, as appropriate, provide financing in the form of: (i) grants; (ii) contingent grants; 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). **Thus leveraging of PSI monies is an important criteria for PSI projects.**

Ag. 7.4 – Developments (4/4)

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- Rule 38 of the AC RoP 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.
- 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.

Ag. 7.4 – Deliverables to the 9th Ministerial, 2015

PSI deliverables, from the 2013-2015 work to the 2015 9th Ministerial Meeting are expected to include:

- PSI is operational;
- A PSI Primer version that provides information on the PSI to the Arctic Council, its subsidiary bodies, project owners and other relevant stakeholders;
- Several Expression of Interests and Final Investment Decisions 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:
 - Mitigation of black carbon release from diesel sources;
 - Mitigation of mercury releases;
 - Management of hazardous waste including persistent organic pollutants.

Ag 7.4 – Summary (1/3): PSI Pledges and Deposits 31.08.2014. 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 \$0.56M. A\$5M; Act1 \$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

Ag 7.4 – Summary (2/3) PSI Tentative Resource Allocation for 2014-2019 strategic business – work plans

		Total
Arctic Council Projects	%	EUR
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

Ag 7.4 – Summary (3/3): Resource Allocations for PSI Projects (October 2014).

PSI Projects	EUR	PSI EUR
Investment Projects		
Valday Cluster – Diesel BC	4 200 000	1 120 000
Tundra Indigenous Peoples BC	100 000	95 000
Sub-total Investment Projects	4 300 000	1 215 000
Feasibility Studies		
Dolgoschcheli diesel energy conversion BC	70 000	70 000
Substituting solutions for diesel power plants BC	35 000	35 000
Sub-total Feasibility Studies	125 000	125 000
TOTAL	4 405 000	1 320 000

Next Steps

- NEFCO as PSI Fund Manager continues with the outreach work with the AC, its fora, stakeholders and project owners to identify and develop, for PSI financing, concrete measures and projects for mitigation in line with the PSI governance decisions
- Implementation of approved PSI Projects with FIDs incl. agreements with project owners
- Review of the PSI Primer
- Review of PSI projects with Expression of Interest (EOI) approvals
 - For Russian projects, work with the Russian Executing Agency
 - Key challenges: Climate (SLCP), Mercury, Hazardous Wastes
- Prepare and convene the 3rd and 4th Meetings of the PSI Committee on 24 March 2015 and tentatively 15 September 2015, respectively.
- Inform the interested to submit project proposals to the Fund Manager eight weeks ahead of the PCOM. **Deadline for submissions to the 3rd PSI Committee Meeting: Monday 26 January 2014**
- A dedicated internet web-site for PSI meeting documents will be established with NEFCO. The designated address is to be "psi.nefco.org".

Ag. 7.4 – Requested SAO Action

Action: SAOs may wish to

1. note with appreciation the Fund Manager's Update on the PSI to the SAO Meeting of October 2014;
2. 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;
3. welcome the deposit of the NEFCO's contribution in the aggregate amount of EUR 1.35 million;
4. note with appreciation that the Fund Manager made the PSI operational on the 18th of July 2014;
5. 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;
6. note that NEFCO intends to relinquish its role as lead in other working group 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;
7. 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.

Thank You for Your Attention!



QUESTIONS?

