Agenda Item 12.3 Meeting of Senior Arctic Officials 23-24 April 2008, Svolvær, Norway.

Update on PSI – Project Support Instrument.

2008

NEFCO
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**Update on PSI – Project Support Instrument**

**Action**: SAOs are requested to provide comments on national progress in support of the PSI.

**Preamble**: The Arctic Council Secretariat on the 25th of March 2008, on specific request by the new Senior Arctic Officials (SAOs), has reverted to NEFCO urging an additional historical summary and orientation of the endeavours, hitherto, to establish the Arctic Council Project Support Instrument (PSI). This historical summary, of mutual work since 2003-to date, is for the benefit of the new Senior Arctic Officials (SAOs) who have joined the forum now – e.g. the Russian Federation, Finland and Iceland. Below please find an Update, Revision 31st March 2008 of the 19 March 2008 NEFCO Report to SAO.

**Background**: (including chronological milestones and summaries):

**April 2003**: At their meeting in Reykjavik the Senior Arctic Officials (SAOs) discussed, for the first time, financing of Arctic Council (AC) projects. A particular issue brought up in the context was the proposal presented by ACAP (Arctic Contaminants Action Programme) to consider establishing an AC trust fund to facilitate project financing. The SAOs found the proposal to warrant further discussion. Subsequent to the meeting, the Icelandic AC Chair invited comments by the AC members and compiled a list of issues raised in the replies. The key issues were a desire not to change the *modus operandi* of the AC, modalities of operations of a fund, the choice of projects, the procedures for decision making and the responsibilities of the various stakeholders.

**May 28, 2003**: The AC Chairmanship requested the Nordic Environment Finance Corporation (NEFCO), an international financial institution specializing in the financing of environmental investments, to assist in drafting an outline of a background paper on the issue.

**October 10, 2003**: A discussion paper was prepared by NEFCO and submitted to the AC Chair.

**September 25, 2003**: Board of Directors of NEFCO provide support to NEFCO’s work associated with an AC financial instrument and its administration in accordance with establishment of respective guidelines.

**April 16, 2004**: The AC Chairmanship communicated the discussion paper prepared by the AC Chair in cooperation with NEFCO, to the SAOs, Permanent Participants, Working Group Chairs and Observers. Subsequently the SAOs established an ad hoc Expert Group, coordinated by NEFCO, to review the proposal to set up an AC Project Support Fund (PSF). The task of the Expert Group was to outline and explain the set up of the PSF, develop draft operating guidelines, as well as a template for subscriptions, for demonstrative purposes.

**June 9, 2004 - October 2004**: Deliberations of the AC Expert Group in cooperation with the ACAP Chair. The Report from the Arctic Council Project Support Fund Expert was submitted by the Expert Group Chair to the AC Chair on the 8th of October 2004 for further deliberation and decision at the Fourth Ministerial.

**November 24, 2004**: The Fourth Ministerial Meeting of the Arctic Council in Reykjavik requested the Senior Arctic Officials (“SAOs”) to establish a pilot phase of the Arctic Council Project Support
Instrument ("PSI"). The Member States established the PSI as a financing mechanism for projects carried out as part of the cooperation in the Council. The PSI is to focus on actions against pollution in the Arctic. The Ministers also requested the SAOs to develop the PSI Guidelines, aimed at facilitating the management of the PSI pilot phase, in close cooperation with NEFCO and ACAP. The 2004 Ministerial Meeting also passed the Chairmanship of the Arctic Council to the Russian Federation.

April 7, 2005: The SAO at their meeting in Yakutsk (RF) decided to establish the Arctic Council PSI for a pilot phase with a 3-year time horizon and approved the Guidelines for the PSI, through a per capsulam decision following the SAO meeting.

May 8, 2005: The Russian Chairmanship informed NEFCO that the Chair had received no SAO objections to the appointment of NEFCO as the PSI Fund Manager and requested NEFCO to proceed with the practical establishment of the PSI.

August 31, 2005: NEFCO sent its first call and invitation to the AC Members, Observers and AC Participants to pledge contributions to the AC PSI. Since a major portion of the PSI Projects are expected to be carried out in the Russian Federation (RF), a critical element in stakeholders' contribution the PSI has been the willingness of the Russian Federation to contribute to the financing.

March 14, 2006: NEFCO provides a special note to the RF, to allow momentum in the discussions on a possible Russian participation in the PSI. A precondition from the Russian side, to consider a participation in the PSI, is to have a clear picture of the projects that would obtain financing through the PSI. NEFCO provided an explanatory note with attachments as separate documents and associated clarifying details.

April 26-27 2006: NEFCO provided the PSI Update (21.3.2006) to the SAO meeting in Syktyvkar, RF. SAOs are informed that the PSI targets € 3 million in its pilot phase. Until this date initial pledges were made by Norway & the Saami Council. Other States were willing to participate, but the situation was subject to the Russian involvement. Positive signals from the Russian side had been registered, but there was no official response on the amount of the Russian pledge yet. NEFCO clarified that the plan, after NEFCO receives positive response from Russia, is to proceed more actively with other potential pledges from other members and to reach a sufficient aggregated level of the PSI. Subsequently NEFCO will enter the negotiations with all the contributors to agree on the administration contracts between each contributor. Norway confirmed its contribution, of the amount of 300 thousand USD and urged everyone, firstly Russia, to follow the pattern. Russia has expressed its interest in participation as an important tool of cooperation in the Arctic, but referred to the Russian Ministry of Finance which requires many details of future money use in order to make a decision. Another principle issue is that Russia would like to see that PSI money is also used for the project investments, not only for project proposals elaboration. Finland and Sweden confirmed their readiness to participate as soon as Russia determines its pledge. Canada was to decide on its participation in the future.

May 16-18, 2006: NEFCO provided supplementary documentation and had meeting with the RF representatives in Moscow: The supplementary documentations included project description of the ACAP projects, the guidelines for the PSI Guidelines and associated documents.

October 26, 2006: The 5th AC Meeting in Salekhard noted that the PSI is not operational yet and decided to continue to monitor its status with a view to consider ending its mandate at the 6th Ministerial Meeting if it had not become operational at that time and reiterated the invitation to
interested Arctic Council Member States, observers and others to pledge contributions to the Arctic Council Project Support Instrument.

**March 21, 2007:** NEFCO provided PSI Update to SAO in Tromsø, Norway. PSI is not yet operational. The SAO decide to continue to monitor its status with a view to consider ending its mandate at the Sixth Ministerial Meeting if it has not become operational at that time, and reiterate the invitation to interested Arctic Council Member States, observers and others to pledge contributions to the PSI. The key issues facing establishment of the PSI has been the securing of the Russian pledge. In this respect, NEFCO informed that it has held a number of meetings with the Russian Ministry of Foreign Affairs (MoFA) and the Ministry of Finance (MinFin). In the course of negotiations with the Russian Ministry of Finance, they requested information on potential projects and their results (also in terms of calculations), subject to possible PSI funding. Such info was presented to the Ministry during one of the meetings with NEFCO representatives in Moscow in the Spring of 2006. However, MinFin has request additional information that is more developed, concrete and updated. The additional information prepared by NEFCO was provided, together with the MoFA, to MinFin and continue our consultations.

**October 5, 2007:** NEFCO-RF PSI Expert Meeting was held at the RF Ministry for Foreign Affairs, Moscow. RF MinFin requests that project presentations should be in accordance with the NDEP Support Fund format. The format in itself was not the important feature, but rather the financial information required concerning concrete project preparation, project implementation and operational costs, as well as specifications of components, environmental benefits, and timing. Rostechnadzor stated its preference for the concrete AC PCB Fast Track project, i.e. a hazardous waste destruction facility in Russia. NEFCO clarified that realization of the PCB facility so far had not been lack of federal support but rather missing local approval for suggested sites. Rostechnadzor offered assistance as a project partner, ensuring administrative support, including on legal and local matters, so that issues can be overcome to achieve a needed, universally recognized success. It was thus agreed that this project should be included in the main focus for the PSI at the initial tentative stage. NEFCO recommended that at this stage one or two smaller projects, with shorter implementation horizons, should also be included. Such projects could include “cleaner production” projects with synergy effects with other programmes. It was concluded that NEFCO may propose one or two such additional projects, but that focus should be on the PCB Fast Track project. There was a discussion on the initial capitalization of the PSI, figuring 3 MEUR. NEFCO explained that this figure is the estimated minimum amount to make it worthwhile and cost effective to set up the PSI under NEFCO management. NEFCO further reminded the meeting that NEFCO has already pledged a Nordic contribution of 2 MEUR for the PCB Fast Track project outside of the PSI structure. Actual pledged contributions for the PSI have so only come from Norway and the Saami Council. The Norwegian expert explained that the so far about 300,000 USD that has been paid in from Norway. The funds were not earmarked for any specific project but should be used in accordance with the PSI Guidelines. It is up to the future PSI Steering Committee to decide, noting that the PSI is to be a “pool of voluntary contributions”. The Russian side emphasised that in the initial pilot stage all PSI amounts will be spent on already accepted projects in Russia. Any Russian contribution in form of a major share in the PSI should release contributions from other parties aiming at project-related efforts in Russia. NEFCO reminded the meeting that the PSI is open to contributions not only from AC Governments or other AC parties, but also from any other interested parties, potentially including contributors from the private sector. The size of the Russian contribution was not decided. The actual decisions on the Russian participation in the PSI are to be taken by the Russian government on the recommendations of the MinFin. At the meeting, there were no particular issues concerning the operationalisation of the PSI, focus was project identification & commitments expected from the other contributor; the guidelines and the documentation worked out for the administration and functioning of the PSI appeared to be appropriate. The Russian Federation envisaged having one representative on the PSI Steering
Committee. It was decided that NEFCO shall continue work on PSI operationalisation in its initial pilot stage including the PCB Fast Track Project and possibly one or two smaller additional projects as concrete examples of AC Projects.

**Current Update March 19, 2008:** At the Narvik SAO Meeting 28-29 November 2007, NEFCO clarified that the Russian Federation assistance to the envisaged Integrated Hazardous Waste Management Strategy (IHWMS) programme would need to be additional to the 3 million Euro threshold for the PSI. The 3 million Euros needed to be a direct contribution from donors into a fund managed by NEFCO. In order to receive contributions from Russia, specific projects are required. Projects should already be approved by the Arctic Council and implicitly the Russian authorities. Subject to a positive response from the Russian Federation, other potential contributors have been approached (NEFCO Letter to SAO HODs 28 March 2008) to indicate pledges in order to fulfil the 3 million Euro goal. So far, there are contributions from Norway and the Saami Council totalling up to 340,000 Euros. Other donors have expressed interest, but have required a Russian contribution as a prerequisite. A critical milestone is thus the willingness of the Russian Federation to contribute to the PSI. At the Narvik SAO Meeting in November 2007, the Russian Federation provided a positive expression of its willingness to respond positively. SAOs agreed that the Russian contribution to the development of the ACAP Integrated Hazardous Waste Management Strategy could be considered as a Russian contribution to the objectives of the PSI. Russia expressed that it will consider further contribution to the PSI but needs an indication of the intended level of participation from other countries.

In order to obtain a mutual understanding of the path forward, NEFCO submitted, on the 18th of February 2008, a proposal to the Russian Federation SAO. The outcome of the constructive exchange with the Russian Federation has resulted in a transmission of a letter from NEFCO to all the Heads of Delegations (HODs) to the Arctic Council on the 28th of March 2008. The NEFCO letter requests for an indication on the amount or range of the amount of the pledge that can be envisaged from member state(s), Permanent Participants(s), Observers and other stakeholders, and what further information will be required for a final decision on their behalf. Such information, as expressed by Russia at Narvik, on contributions to the PSI, is expected to enable the Russian Federation Ministry of Finance to address the balance of contribution that will allow NEFCO to make the PSI operational during the pilot phase.

A response from the Head of Delegations to the NEFCO Letter is awaited by 18th of April 2008. The information on contributions to the PSI to NEFCO is to provide to the Russian Federation the necessary sign of the actual commitment of the Arctic Council member states and others. This information will also allow NEFCO to proceed with the next step of addressing the balance that will be needed to launch of the PSI. NEFCO will revert with status of pledges and next steps at the SAO Meeting in Svolvaer, Lofoten, 23-24 April 2008.

Taking into account that most of the PSI-related projects are expected to be located in Russia, the Russian Federation has also expressed interest in further work on the modalities that will enable better Russia involvement in the management of the PSI. Additional work will indeed include agreeing and finalising the respective Administration Contract, Rules of Procedure of the PSI Committee, and annexes dispatched with the NEFCO of the 28th of March 2008.

Projects envisaged within the realm of the PSI are to give priority to projects related to pollution prevention, abatement and elimination. PSI thereby will be addressing the following projects and programmes of the Arctic Council, including particularly the ACAP work program:
A1: The multilateral co-operation project on phase-out of PCB use, and management of PCB-contaminated wastes in the Russian Federation
A2: Evaluation of Dioxins and Furans in the Russian Federation (including measures to reduce emissions/discharge/release)
A3: Reduction of Atmospheric Mercury releases from Arctic States (including Russia)
A4: Environmentally sound management of stocks of obsolete pesticides in the Russian Federation
A5: Outreach and Implementation of the Cleaner Production Methodology in the Arctic Zone of the Russian Federation
A6: Reduction or Elimination of Sources and Releases of Brominated Flame Retardants (in Russia and the other Arctic States)
A7: Remediation of contaminated area of high priority by the Russian authorities (e.g. rehabilitation of Franz Josef Land).
A8: Programme to fall under the envisaged Hazardous Waste Management Strategy. The projects may include those listed above in A1-A7.

Several of the PSI AC projects are envisaged to relate to the elimination of persistent organic pollutants and other contaminants in accordance with the obligations assumed under Multilateral Environmental Agreements such as the Stockholm Convention, LRTAP, and HELCOM etc.

The above “Projects” are comprehensive initiatives and programmes, which will be implemented through a series of specific (sub) projects. The role of the PSI would be to provide financing for the preparation of such specific (sub) projects and, very selectively due to the limited resource base, to fund some smaller pilot and demonstration activities, which can subsequently be replicated. Successively, as additional resources would be contributed to the PSI, it could have a bigger role also in the implementation phase. Many of the foreseen (sub) projects either directly or indirectly relate to the promotion of the cleaner production concept, which to a large extent is efficient resource management and thereby promoting clean and cost efficiently operated Russian companies and utilities.