

Dated 2008.11.03

Agenda Item 13.2 Meeting of Senior Arctic Officials 19-20 November 2008, Kautokeino, Norway.

Update on PSI Regarding operationalisation of the Project Support Instrument and to enable SAO Progress Report, on the PSI, to the 7th Ministerial Meeting 2009

Action: SAOs are requested to report to the 7th Ministerial Meeting in lieu of the Salekhard Declaration. on the Progress and early 2009 Operationalisation of the PSI; and provide comments on any additional national progress in support of the PSI.

Preamble: The Fourth Ministerial Meeting of the Arctic Council (AC) in Reykjavik (November 24, 2004) requested the Senior Arctic Officials ("SAOs") to establish a pilot phase of the Arctic Council Project Support Instrument ("PSI"). The AC 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 SAO, in Yakutsk (April 7, 2005), decided to establish the 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. On May 8, 2005, the Russian Chairmanship informed the Nordic Environment Finance Corporation (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. NEFCO sent its first invitation to the AC Members, Observers and AC Participants to pledge contributions to the AC PSI on August 31, 2005. The second call was made on March 28, 2008. 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 to the PSI has been the willingness of Russia to contribute to the financing. NEFCO has earlier informed (SAO, Syktyvkar, April 26 -27 2006) that the PSI targeted a minimum of €3 million in its pilot phase.

At Agenda Item 13.1 above, NEFCO has provided the requested Update on the Agreement on Cooperation with the Contributors on the PSI. This segment of NEFCO report¹ to the SAO Meeting of 19-20 November 2008, in Kautokeino, provides the status of operationalisation of the PSI and is especially detailed to enable an appropriate SAO response to the SALEKHARD DECLARATION from the Fifth AC Ministerial Meeting of the 26th of October, 2006 that noted "that the Arctic Council Project Support Instrument (PSI) is not yet operational, [and] **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".

Progress as of 31 October 2008: At the Svolvær SAO Meeting², the Russian Federation announced news of its substantial contribution to PSI and proposed some constructive elements that would enable a successful functioning of the PSI, especially with respect to projects to be implemented in Russia. Since the Svolvær meeting, NEFCO has held a number of negotiations rounds with the willing contributors and is pleased to inform the SAO of the following:

1. **The PSI Agreement:** Consensus has been reached with all the declared Contributors on the main body text of the PSI Agreement on Cooperation as Contributor and NEFCO as Fund

¹ For the chronological milestones and summaries of the PSI initiative, please refer to the 31st March 2008 Revision of the NEFCO Report to SAO Meeting of 23-24 April 2008 in Svolvær, Norway.

² See Final Report of the Senior Arctic Official §12.2 and associated PSI decision; 23-24 April 2008, Svolvær, Norway.

Manager. The relevant annexes governing the technical transfer(s) of funds to the Fund Manager will be tailored to respective contributors' internal administration and budget process. The PSI will be made operational once minimum 5 contributors including the Russian Federation have deposited their contributions in the special PSI Account established for the purpose. The final steps of operationalisation, with respect to the Russian Federation, include the following items:

- a. The Russian Executing Agency's (REA) budget (administration costs and expenses).
 - b. NEFCO's Administration Fee (administration costs and expenses).
 - c. REA's location.
 - d. Clarification, in a RF Governmental Decree, of the identity of the Authorized Governmental Agency's ("AGA"). AGA is to be the RF focal point for the PSI.
 - e. A separate NEFCO-AGA Agreement on the division of responsibilities between NEFCO, AGA and REA.
2. **The PSI Fund Near-term Timeline**: According to the decision of 5th AC Ministerial Meeting, the PSI needs to be made operational by early 2009. In order to do so, the goal is to have all relevant signings in 2008. The RF has started the internal procedure for legal formalisation of a Governmental Decree that will define the AGA and the budget for financing of the PSI.
3. **PSI Financing**: The current PSI pledges, for the period 2009-2013 (5 years), are about EURO 12 million including the Russian Federation pledge of EURO 10 million, NEFCO's pledge of EURO 1.35 million for period 2009-2011 and Finland, Iceland, Norway, Sweden and Saami Council pledges and contributions for 2009, see Table 1 below. The Russian Federation has indicated that their allocations for the period 2010 onwards are conditional to other contributions being comparable to the Russian pledge. PSI financing at start, in 2009, is thereby expected to be about EURO 3 million with respect to the AC agreed to 3 year pilot phase, 2009-2011, as follows:

Table 1 Contributor	EURO (€)	Comment
i. Finland:	200 000	(pledged)
ii. Iceland	10 000	(received ICEK 1 million)
iii. Norway	237 700	(already received)
iv. Russian Federation (RF)	2 000 000	(pledge 2009)
v. Sweden	200 000	(pledged; may increase to about SEK 3 million (ca €300.000))
vi. NEFCO	337 500	(pledge 2009)
vii. Saami Council	12 600	(NOK 100 000 pledged)