



Update on PSI – Arctic Council's Project Support Instrument

Preamble: Arctic Council Project Support Instruments (PSI) Guidelines, approved by the SAOs, on 7 April, 2005, requires that the Funds Manager (NEFCO) shall semi-annually present a report to the SAOs about the activities of the PSI. This Update on PSI (Draft 2009.10.12) provides the progress made to make PSI operational and the status of contributions to the PSI since the presentation of the previous NEFCO report of January 22, 2009.

Background/Orientation: PSI is a circumpolar funding mechanism for projects and actions related to prevention, abatement and elimination of pollutants harming the Arctic. PSI will be addressing projects and programmes of the Arctic Council (AC) including, particularly, the prioritised ones in the context of the following contemporary 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.

The above AC projects address 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. "AC projects" are indeed comprehensive initiatives and programmes that would need implementation through a series of specific (sub) projects. The PSI financing is expected to cover preparation of specific projects and, very selectively (due to the limited near term resource base), fund a number of smaller pilot and demonstration activities which can be replicated. Subject to success and additional replenishment of the PSI, the Instrument can have a bigger role in the future. Many of the PSI projects are expected to promote, either directly or indirectly, cleaner production and energy efficiency and thereby efficient resource management and strengthening clean and cost efficiently operated companies and utilities.

Current Status October 12, 2009: Following the news of a substantial financial contribution by Russia to the PSI, the Sixth Ministerial Meeting of the Arctic Council held on the 29th of April, 2009, in Tromsø, Norway noted with appreciation the establishment of the PSI. The current status of making PSI operational may be summarised as follows:

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 the Fund Manager. The relevant annexes governing the technical transfer(s) of funds to the Fund Manager are tailored to respective contributors' internal administration and budget

routines/process. Most of the PSI projects, in the near term, are expected to be executed in the Russian Federation and the PSI will be made operational once minimum 5 contributors, including the Russian Federation (RF), have deposited their contributions in the special PSI Account established for the purpose.

2. **Signatories:** Contributors' Administrative Agreements have been agreed upon and signed with Finland, Iceland and Sweden. Norway is in the process of finalisation its administrative agreement. Finland, Iceland, Norway, and Sweden have deposited their contributions with NEFCO. Only one additional contributor state deposition remains, that of the Russian Federation.
3. **Russian Federation:** With respect to the Russian Federation, finalisation of the internal process is underway with following key developments:
 - a. The Russian Executing Agency's (REA), for implementing projects in the RF, has been identified to be the Russian Polar Foundation.
 - b. The Russian Authorized Governmental Agency's ("AGA"), that shall be the RF focal point for the PSI, is to be established through a Decree of the Russian Federation. REA is expected to be Ministry of Natural Resources and Environment (MNRE).
 - c. A NEFCO-AGA Agreements, including an agreement on the division of responsibilities between NEFCO, AGA and REA, has been proposed and is to be finalised and signed once the PSI Decree has been signed.
4. **The PSI Budget proposal for 2009 (w.r.t. to RF Projects):** The proposal is to start with a two member REA for the first period of the pilot phase. The annual REA budget is proposed to be EURO 182 500. The NEFCO Fund Manager Fee is proposed to be EURO 100 000. The total estimated PSI Administrative Costs for the first year therewith will amount to EURO 282 500 Euro. This corresponds to about 9 percent of the PSI funds for the first operational year.
5. **The PSI Fund Near-term Timeline:** Operationalisation of the PSI is contingent on the deposit of funds from RF. The RF internal procedure for a Governmental Decree for establishment the authority of AGA and the budget for financing of the PSI is expected to be completed by October 2009. Upon signing of the Contributor's Agreement and deposit of the funds from the RF, NEFCO will proceed with making PSI operational and call for convening the first PSI Committee meeting.
2. **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-up, in 2009-2010, is thereby to be about EURO 3.18 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	(received)
ii.	Iceland	8 000	(received ICEK 1 million)
iii.	Norway	237 700	(received)
iv.	Russian Federation (RF)	2 000 000	(pledge 2009)
v.	Sweden	272 000	(received SEK 3 million)
vi.	NEFCO	450 000	(pledge 2009)
vii.	Saami Council	12 000	(pledge NOK 100 000)

The deposit into PSI, from Finland, Iceland, Norway and Sweden, as of 8 October 2009 stands at a total of EURO 717 593.34. The amount pledged stand at a total of about EURO 2 460 000.00.

End 2009-10-12