

NEFCO **Annotated Agenda** SAO/Haparanda version 2012.10.10

**Ag. X.x November 2012 Update on the Project Support Instrument (PSI)**  
*(presented by NEFCO)*

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Since the previous 28-29 March 2012 PSI Report to the SAO, NEFCO can report the following developments:

1. On June 7, 2012 the U.S. joined the PSI with an initial allocation of \$1 million.
2. NEFCO convened a Preparatory PSI Committee (PPCOM) of the Contributors. The purpose of the PPCOM was to have an informal exchange of views and discuss strategic matters including possible key project criteria enabling projects to be financed from the PSI upon operationalization.
3. The Russian Federation Ministry of Natural Resources and Environment (MNRE) informed that the Russian Execution Agency (REA) for the PSI is expected to be selected by October 2012.
4. The above developments will allow signing of the contract between NEFCO, MNRE and REA and for NEFCO to confirm to Russia the required minimum numbers of PSI Contributors.
5. Once NEFCO has received the Russian contributions, it will proceed to make the PSI operational.
6. The trust fund pledges, deposits and allocations for PSI now stand at EURO 15.9 million.

**Implementation and Eligibility Criteria for PSI Financing of Priority Arctic Council Projects**

7. The 1<sup>st</sup> Meeting of the PPCOM<sup>1</sup> discussed a tentative financial planning for the PSI pilot phase in the context of allocating EURO 15.9 million for [2012-2015]. The strategic business plan resource allocation is depicted in Table 1 below. The PPCOM considered it beneficial to use a focal window type approach to its budgeting and relied upon its understanding of historic project activity within Arctic Council (AC) to estimate the relative distribution of allocations within the future project pipeline. The PPCOM also wishes to stress to the AC, its subsidiary bodies and other stakeholders that the resource allocations are to be considered as a working tool and subject to change and modifications.

Table 1 - PSI Resource allocation [2012-2015] strategic business plans\*. <sup>1</sup>

<b>AC Projects -</b>	<b>[2012-2015]</b>	<b>Total Euro</b>
	<b>Percentage</b>	
Integrated Hazardous Waste Management demo incl. POPs**	[40]	[6 345 200]
Mercury demonstration project***	[25]	[3 965 750]
Clean Production/Energy Efficiency/SLCF-Black Carbon	[20]	[3 172 600]
Other areas	[6]	[951 780]
Standard Costs	[9]	[1 427 670]
Total	100	15 863 000

\*This represents NEFCO's understanding of the priorities of the Contributors

\*\* Persistent Organic Pollutants (POPs) are hazardous substances such as Polychlorinated Biphenyls (PCBs), pesticides and the allocation for demonstration project includes destruction of POPs.

\*\*\* Mercury demonstration project is to address concrete mitigation of mercury release to the environment.

8. The PPCOM also urged the Fund Manager to approach the AC Chair to obtain clarity on AC projects to enable a future smooth supply of PSI projects. The Fund Manager has earlier requested ACAP for a status report on its projects including those which can be considered AC approved.
9. Clarity on already approved AC projects is particularly important taking into account the 3 year pilot phase for the PSI, and the observation that normal AC WG projects development process can entail a much longer period. Hence a PSI "quick start" working Business Plan addressing approved AC Projects is needed for consideration at the next PPCOM to be held on 20-21 November 2012.

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<sup>1</sup> Report of the PPCOM Meeting (Draft), AC/PSI/PPCOM/R1, 2012.06.07

10. The ACAP September 2012 Meeting, responding to NEFCO's request, discussed the status of its projects with regards to the Arctic Council approval. ACAP decided that the Work Plan as approved by the Ministers indicates AC approval to undertake activities and implement ACAP projects. ACAP is in the process of clarifying which of its specific projects, within the general AC mandate, are considered "Arctic Council approved" and is working to provide this clarification to the Fund Manager as quickly as possible. ACAP has developed a Table of Projects to undergo final review by its project steering groups (PSGs) to ensure accuracy and completion. ACAP also decided to contact its PSG chairs to request that they put forward more detailed project proposals for those projects that they think would be submitted for possible PSI funding in the 2012-20[15] timeframe.
11. Projects to receive financing from the PSI are to address pollution prevention, abatement and elimination. Based on previously approved Arctic Council documents, NEFCO envisages that the PSI will be addressing the following projects and programmes of the Arctic Council<sup>2,3</sup> and ACAP's work<sup>4,5</sup> in the near term. Further refinement is expected as additional information is made available from the AC subsidiary bodies:
- P1: The multilateral co-operation [project] on phase-out of PCB use, and management of PCB-contaminated wastes in the Russian Federation.
  - P2: Evaluation of Dioxins and Furans in the Russian Federation (including measures to reduce emissions/discharge/release).
  - P3: Reduction of Mercury releases from Arctic States (including the Russian Federation).
  - P4: Environmentally sound management of stocks of obsolete pesticides in the Russian Federation.
  - P5: Outreach and Implementation of the Cleaner Production Methodology in the Arctic Zone of the Russian Federation.
  - P6: Reduction or Elimination of Sources and Releases of Brominated Flame Retardants ("BFR" in Russia and the other Arctic States).
  - P7: Remediation of contaminated area of high priority by the Russian authorities (e.g. rehabilitation of Franz Josef Land).
  - P8: Programme to address mitigation of climate change, including projects addressing Short Lived Climate Pollutants ("SLCP" such as black carbon from diesel sources, methane, tropospheric ozone, HFC).
  - P9 Programme to fall under the envisaged Integrated Hazardous Waste Management Strategy (IHWMS). The projects may include those listed above in P1-P8.
  - P10 Projects and subprojects of the Indigenous Peoples Contaminants Action Programme (IPCAP) implemented as a part of the IHWMS or mitigation of release of BFR.

The projects in the placeholder list "P1-P10", above, are overarching initiatives and programmes that would need to be implemented through a series of specific (sub) projects that would be brought forward by AC subsidiary bodies and other relevant stakeholders. The role of the PSI would include financing for the preparation of such specific (sub) projects and, very selectively due to the limited resource base, to fund some pilot and demonstration activities, which can subsequently be replicated. Successively, as additional resources are available 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 cleaner

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<sup>2</sup> SAO Rovaniemi June 2001

<sup>3</sup> SAO Torshavn, October 2010

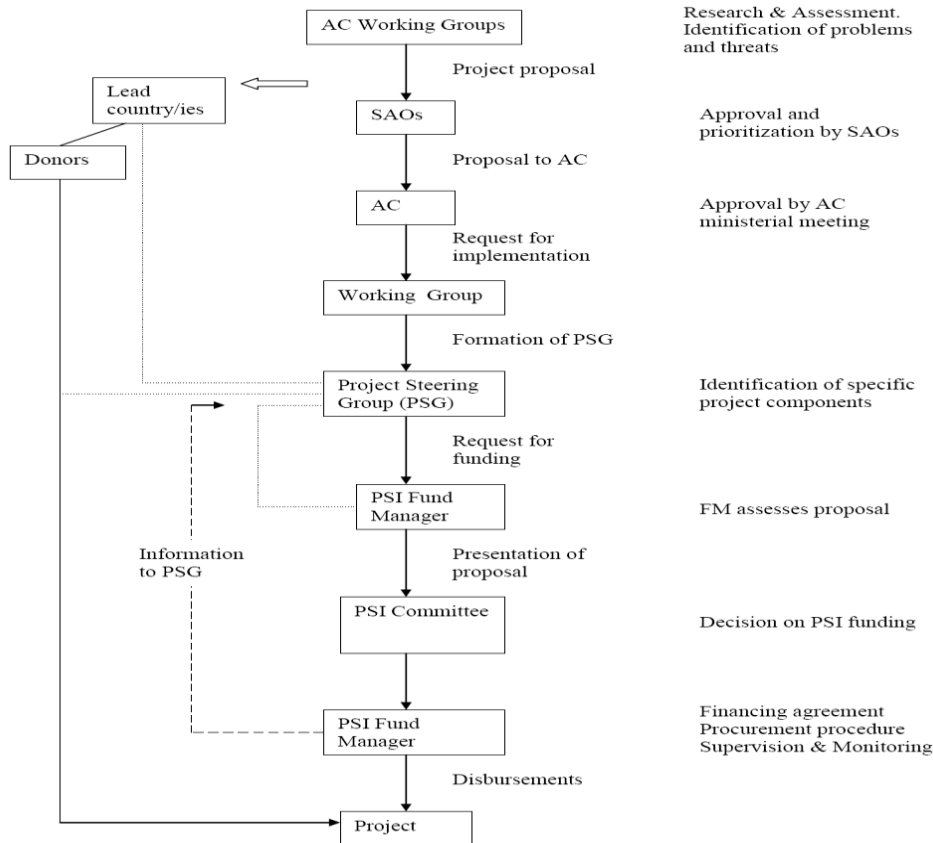
<sup>4</sup> ACAP Work Plans 2009-2013

<sup>5</sup> ACAP Progress Report to SAO, Nov. 2009

production, which translates into more efficient resource management, often with cost savings. Figure 1 below depicts the PSI process in accordance with its established Guidelines<sup>6</sup>.

**Attachment 1 to PSI Guidelines**

**PSI PROJECT FLOW**



12. It may be noted, that SAO initiatives and decisions have historically encouraged cooperation of AC subsidiary bodies, observers, financiers, and regional actors. Some examples are typified by:
- SAOs decision to develop the IHWMS as funding objectives of the PSI<sup>7</sup>.
  - NEFCO's cooperation with ACAP, (WG Work Plans (2011-2013))<sup>8</sup>, with an aim to finance and facilitate implementation of ACAP projects and mobilise the PSI.
  - NEFCO co-operation with ACAP and the Barents Euro-Arctic Council to address the "hot spots" in the Arctic.
  - NEFCO co-chairing of ACAP PCB Project Steering Group<sup>9</sup> together Russia and USA.
  - AMAP/ACAP project within the Barents "hot spots" list "Remediation of contaminated areas of Frantz Josef Land". NEFCO also welcomed the possibility to use the PSI for contributions into the project on Franz Josef Land remediation.<sup>10</sup>

**Criteria for Selection of Project:**

<sup>6</sup> PSI Guidelines, SAO Approved, 5 April 2005  
<sup>7</sup> SAO Narvik Meeting, November 2007  
<sup>8</sup> SAO Report to Ministers, Nuuk, May 2011, § 10, pp 29-30  
<sup>9</sup> SAO Tromsø April 2007  
<sup>10</sup> SAO Khanty-Mansiysk, Russia October 2005

13. PPCOM has also urged the Fund Manager to provide for consideration at the PPCOM Fall 2012 meeting a preliminary proposal for project criteria; and a template for projects which has been circulated to the PSI Contributors for comment. The PSI decision criteria discussed include:

- The project has been approved being an Arctic Council project
- Projects potential to relevant environmental improvement
- Replicability
- Capacity of project partners to manage and implement the project according to plan
- PSI leveraging factor
- Use of PSI financing
- Maturity of project
- Rationale for phased approach
- Local approval

The template and criteria will be further discussed at the next PPCOM meeting based on drafts submitted by NEFCO prior to the meeting. The detailed criteria for selection of AC Projects to be financed from the PSI are to be approved by the PSI Committee (Section 5 of the Rules of Procedures of the PSI) and as decided by the SAO in March 2012 <sup>11</sup> NEFCO shall ask the PSI Committee (when it is established) to clarify and make available the criteria for selection of AC Projects to be financed from the PSI.

**Action:**

SAOs may wish

- 1) To welcome the U.S. contribution to, and joining of, the PSI;
- 2) To invite other members of the Arctic Council that have not yet done so, to consider joining the PSI;
- 3) To note with appreciation the NEFCO's November 2012 Update on the PSI;
- 4) To encourage parties to deposit their contributions with the Fund Manager to enable the PSI to become operational during the earliest;
- 5) To note that that projects coming forward under the P1-P10 list identified by the Fund Manager in the November 2012 Update on the PSI may be considered as approved AC Projects and thus eligible for funding consideration, taking into account that they have followed the appropriate Arctic Council and subsidiary body procedures. Further refinement of the list is expected as additional information is made available to the Fund Manager;
- 6) To request the Fund Manager to proceed with an appropriate assessment and development of sub-projects for future consideration of the PSI Committee for financing;
- 7) To encourage the Fund Manager to cooperate with relevant AC subsidiary body chair(s) to mobilize the Project Support Instrument (PSI).

<i>Documentation:</i> None
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<sup>11</sup> SAO Stockholm, March 2012