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**Nordic Environment Finance Corporation (NEFCO) Report on the Arctic Council Project Support Instrument (PSI) to the Arctic Council (AC) Senior Arctic Officials' (SAO) meeting 21-23 March 2018, Levi, Finland. Version 19 February 2018**

This PSI Report updates the previous Report<sup>1</sup> to the SAO Meeting, 25-26 October 2017, Oulu, Finland

## **PREAMBLE**

1. The Arctic Council (AC) Project Support Instrument (PSI) is a voluntary, non-exclusive mechanism for financing specific priority projects that have already been approved by the Arctic Council. The PSI can use a broad range of funding arrangements such as grants and revolving instruments. The PSI contributors comprise of Finland, Iceland, Norway, the Russian Federation, Sweden, the United States of America, NEFCO and the Sami Parliament. The Arctic Council PSI Guidelines<sup>2</sup> requires the Fund Manager (NEFCO) to semi-annually present to the SAOs a report on the activities pertaining to the PSI.
2. In accordance with AC requirements, the PSI became operational upon the deposit of a contribution from the Russian Federation, which was made on 18 July 2014 with total pledges of almost EUR 16 million and for a five year pilot phase period until 18 July 2019. The pledges include contributions from Finland, Iceland, Norway, the Russian Federation, Sweden, the United States, the Sami Parliament and NEFCO ("Contributors"). The PSI is open for additional contributions from other AC members, observers and other interested parties upon invitation from the FM. Contributions are made through NEFCO, and formalized by the execution of a cooperation agreement between NEFCO and each contributor. Currently, the governing documents of the PSI include:
  - PSI Guidelines (as agreed by the SAO on 7 April 2005);
  - PSI Rules of Procedure (as taken note of by SAO at its 19-20 November 2008 meeting in Kautokeino, Norway and endorsed by the PCOM on 6 May 2014);
  - Cooperation Agreements executed between NEFCO and the Contributors;
  - Rules of Procedure for the PSI Project Supervising Committee (as approved by the PCOM at its 2nd Meeting on 7 October 2014); and
  - Guidance provided by the PCOM on general policy and strategic guidance on the operations of the PSI, as captured by protocol decisions of the PCOM meetings.

## **STATUS REPORT Q1 2018**

3. Since operationalisation of the PSI on 18 July 2014 and up to the Eight Meeting of the PCOM on 10 October 2017, the PCOM has approved funding for 14 Arctic Council Projects. The approved projects have a number of sub-projects and interventions in line with the PSI Committee decisions. The overall total costs associated with the approved Projects are estimated to be approximately EUR 710 million. The PSI contribution to the approved Arctic Council projects is up to EUR 3,608,000. The 14 approved Arctic Council Projects are in the fields of combating climate change, hazardous waste management, enhancing bio-diversity and for an external evaluation of the performance of the PSI during its pilot phase.
4. Hitherto five ACAP Projects have been completed. Six AC Projects (relevant to ACAP, CAFF and the PSI) are in the stages of implementation including procurement. The associated terms of references (ToR)

<sup>1</sup> Arctic Council SAO Arctic Council SAO Plenary meeting 25-26 October 2017, Oulu, Finland; Meeting code: SAOFI201; Nordic Environment Finance Corporation (NEFCO) Report on the Arctic Council Project Support Instrument (PSI). Version 27 September 2017; SAOFI201\_2017\_OULU\_Info-Doc-2\_Update-and-Progress-Report-from-PSI; <http://hdl.handle.net/11374/1969>; 8-9 March 2017, Juneau, Alaska, U.S.A. [https://oaarchive.arctic-council.org/bitstream/handle/11374/2093/SAOFI201\\_2017\\_OULU\\_Info-Doc-02\\_Update-and-Progress-Report-from-PSI.pdf?sequence=1&isAllowed=y](https://oaarchive.arctic-council.org/bitstream/handle/11374/2093/SAOFI201_2017_OULU_Info-Doc-02_Update-and-Progress-Report-from-PSI.pdf?sequence=1&isAllowed=y)

<sup>2</sup> SAO 2005 Meeting, Yakutsk, Russia, April 6-7, 2005, pp 13. [<http://hdl.handle.net/11374/350>]

for the approved Projects' implementation and further work have been developed by the PSI Fund Manager (NEFCO) as relevant in cooperation with the PSI Committee and SAO, Arctic Council experts, the consultants procured for the Russian Execution Agency (REA-VTB Bank), Project owner(s) and stakeholder(s).

5. Three of the approved PSI Projects for financing of ACAP proposals on i) Best available technologies' and Practices' (BAT-BEP) based mitigation of Arctic pollution; ii) 3.4 Dudinka Municipal Waste Land-fill project; and iii) Arctic Green Shipping - SLCP Mitigation; continue to be under study reservations from the Russian Federation. The implementation of the three projects will commence when the respective reservations are lifted or as advised by the PSI Committee.
6. The PSI Committee at its Seventh Meeting on 28 March 2017 approved a one-time cost for an external evaluation study for the PSI and subsequently, at the Eight Meeting on 10 October 2017 approved the ToR for the PSI evaluation for presentation to the Arctic Council Senior Arctic Officials (SAOs). The SAO approved the ToR for the external evaluation of the PSI at their Meeting on 24 October 2017. The Project for the external evaluation of the PSI is under implementation with a shortlisting of the external evaluators. The evaluation is expected to be performed during the period [Quarter 1, 2018] - [Quarter 3, 2018].
7. Of the EUR 12.8 million deposited into the PSI Account with NEFCO, the PSI Committee had by 8th Meeting on 10 October 2017 allocated up to EUR 3.6 million (28 percent) for the approved Projects. Total allocations, including administrative costs, amount to EUR 4.6 million (about 37 percent). Up to 6 January 2018, EUR 860,968.31 (6.8 percent) has been disbursed from the PSI account for the approved Arctic Council Projects.
8. The Projects that address climate change mitigation are expected to reduce 6 to 35 Million tonnes of CO<sub>2</sub>-equivalent annually. The large range is due to uncertainty of the GWP value of black carbon. Additional environmental benefits are to result from management of hazardous waste, mitigation of persistent toxic substances, non-methane volatile organic compounds and improved bio-diversity.
9. Annex 1 to this Status Report provides additional details of the Status of Resources and Projects in Tables A1-A3.

**ACTION FROM SAO/PPS:**

10. The SAOs/ PPs are invited to take note of the NEFCO Report on the Project Support Instrument (PSI).

Documentation:

Nordic Environment Finance Corporation (NEFCO) Report on the Arctic Council Project Support Instrument (PSI) to the Arctic Council (AC) Senior Arctic Officials' (SAO) meeting 21-23 March 2018, Levi, Finland. Version 19 February 2018

**Summary of PSI Resources and Allocations**

- PSI Contributions, deposits, pledges, and available resources as of Q4 2017, are summarised in Table A1 below. Of the deposited EUR 12.8 million, about EUR 0.9 million (7 percent) have been used and about EUR 4.6 million (36 percent) has been allocated taking into consideration PCOM decisions up to the 8th Meeting 10 October 2017. EUR 8 096 678 is available to the 9th Meeting of the PSI Committee to be held on 20 March 2018. Table A2 provides an overview of the approved allocations corresponding to the tentative 2014-2019 Work Plan of the PSI.

**Table A1 — PSI Pledges and Deposits as of 1.11.2017. The pledged amounts are rounded-off.**

No	Contributor	Pledges EUR	Deposited EUR*	Comment
1	Finland	200 000	200 000	Received
2	Iceland	8 000	8 299	Received ICEK 1M
3	Norway	238 000	237 729	Received
4	Russian Federation	10 000 000	10 000 000	Received
5	Sweden	272 000	271 565	Received SEK 3M
6	United States	3 782 000	622 359	Received \$.81M. Award \$5M; 1st Act. \$1M
7	NEFCO	1 350 000	1 350 000	Received
8	Sami Parliament	13 000	12 987	Received NOK 100 000
9	Interest		24 239	
10	TOTAL	15 863 000	12 727 178	PSI initial target was EUR 3 million
11	Amount committed**		4 630 500	PCOM decisions on investments and admin.
12	Used Funds		860 968	Projects, legal fees, bank costs etc.
	Total available		8 096 678	Basis Line 10 (deposited) minus Line 11

\*Exchange rate used 4.9.2014: EUR 1 = USD 1.3015; \*\* Up to 10.10.2017 incl. decision taken at PCOM 8, 10.10.2017

**Table A2- Allocation (tentative) for 2014-2019 work plan and actual (1.11. 17). Figures are rounded off.**

Description	Percent	Total EUR	Actual EUR	Percent
Hazardous waste management, POPs	40	6,345,000	1,025,000	8
Mercury mitigation, demonstration	25	3,966,000		0
Clean production, energy efficiency ,SLCP etc.	20	3,173,000	2,483,000	20
Other areas	6	952,000	100,000	1
Standard costs	9	1,428,000	1,022,500	8
Total	100	12,763,000	4,630,500	37

Glossary: POPs, PCB = Persistent Organic Pollutants, Polychlorinated biphenyls; SLCP, BC = Short Lived Climate Pollutant, Black Carbon

**Status of the Approved PSI Projects**

- The PSI Committee, since operationalisation of the PSI on 18 July 2014, has approved funding for 14 project initiatives of the Arctic Council under the Working Groups ACAP (Arctic Contaminant Action Programme), CAFF (Conservation of Arctic Flora and Fauna) and for the PSI Committee and SAO approved project on an external evaluation of the performance of the PSI during its pilot phase. Table A3 depicts an overview of approved projects and the status of implementation / work in progress (WIP).

**Table A3 - Overview of PSI project approvals and allocations (EUR) up to 10 October 2017 (PCOM 8 Meeting)**

No	PSI Project No.	Project with PSI Approved Financing	Sector	AC-WG/PSI	DEC	PCOM	TOTAL EUR	PSI Allocation	Status
1	PSI-1/14	Valday [Cluster] – Diesel Black Carbon (BC) - IP	Climate	ACAP	FID	PCOM 2	4 200 000	1 120 000	WIP - Commissioned 5/8
	PSI-1/14	Reboly - IP	Climate	ACAP					WIP
	PSI-1/14	Justozero - IP	Climate	ACAP					Completed - Commissioning
	PSI-1/14	Kimovaara - IP	Climate	ACAP					Completed - Commissioning
	PSI-1/14	Lindozero - IP	Climate	ACAP					Completed - Commissioning
	PSI-1/14	Polga - IP	Climate	ACAP					WIP
	PSI-1/14	Voinitsa - IP	Climate	ACAP					Completed - Commissioning
	PSI-1/14	Vozhmozero - IP	Climate	ACAP					Completed - Commissioning
2	PSI-2/14	Tundra diesel BC Indigenous Peoples-Reindeer farm - IP	Climate -Hg	ACAP	FID	PCOM 2	100 000	95 500	Completed
3	PSI-4/14	Dolgoschcheli diesel energy conversion (BC) - TA	Climate	ACAP	FID	PCOM 2	90 000	70 000	Completed
4	PSI-3/14	Mapping substituting solutions for diesel power plants - TA	Climate	ACAP	FID	PCOM 2	30 000	30 000	Completed
5	PSI-1/15	PCB Project - Component 1 - Feasibility Study - TA	Waste	ACAP	FID	PCOM 4	32 000 000	400 000	WIP - Letter MNRE - RR
6	PSI-1/16	AIA Community-Based BC-Health Assessment -TA	Climate-Health	ACAP	FID	PCOM 5	137 500	137 500	WIP - Under implementation
7	PSI-2/16	Pesticides SCWO - Component 1 Feasibility Study - TA	Waste	ACAP	FID	PCOM 5	100 000	100 000	Completed
	PSI-2/16	Pesticides SCWO - Component 2 Demo Testing - IP	Waste	ACAP	FID	PCOM 8	450 000	450 000	WIP - Under implementation
8	PSI-3/16	Arctic Migratory Bird Initiative Actions - for two flyways -TA	Biodiversity	CAFF	FID	PCOM 6	100 000	100 000	WIP - Under implementation
9	PSI-2/17	Arctic Oil and Gas APG - Flaring; Phases 1 and 2	Climate	ACAP	FID	PCOM 7	608 200 000	850 000	WIP - Under implementation
10	PSI-3/17	HFC-ODS in Fisheries and Food Enterprises - TA	Ozone-Climate	ACAP	FID	PCOM 7	11 360 000	180 000	WIP - Under implementation
11	PSI-6/17	PSI Evaluation	Evaluation	PSI	FID	PCOM 7	75 000	75 000	WIP - Under implementation
12	PSI 1/17	Decreasing Arctic Pollution by BAT-BEP	Cross Media	ACAP	FID	PCOM 7	3 680 000		Study reservation - Russia
13	PSI 4/17	Dudinka Municipale Solid Waste - Russian Arctic	Waste	ACAP	FID	PCOM 7	50 000		Study reservation - Russia
14	PSI 5/17	Arctic Rivers Green Shipping	Climate	ACAP	FID	PCOM 8	47 500 000		Study reservation - Russia
		Total					708 072 500	3 608 000	

End 2018-02-19