

OBSERVER REPORT- NEFCO Cover sheet

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Observer Report

OBSERVER REPORT - NEFCO

The Nordic Environment Finance Corporation (NEFCO) is an international finance institution (IFI) established in 1990 by the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden (Ref. 1). NEFCO provides financing to generate positive environmental effects of interest to the Nordic region. The current priorities for NEFCO include targeting reduction of pollutants affecting the Baltic Sea, the Arctic and Barents regions. NEFCO aims to enhance its existing activities with public and private leveraging of the financial market for interventions related to the promotion of green growth, prevention of climate change, with a focus on renewable energy, energy efficiency and the reduction of short-lived climate pollutants. More on NEFCO's activities and performance can be obtained from its 2017 Annual Report accessible on line (Ref. 2).

NEFCO's particular relevance to the Arctic Council (AC) continues partly in its unique capacity as the Fund Manager of the Arctic Council Project Support Instrument (PSI, Ref 3) and partly as an IFI funding environmental projects in the region (Ref 4).

The Third AC Ministerial Meeting in Inari (2002) recognised the need to reinforce efforts to finance circumpolar cooperation and the Fourth Ministerial (2004) requested the Senior Arctic Officials (SAOs) to establish a pilot phase of an Arctic Council Project Support Instrument to focus on actions against pollution in the Arctic. The SAOs established the PSI and approved its PSI Guidelines in 2005 and appointed NEFCO as the Fund Manager (FM) for the PSI in May 2005. The PSI is a voluntary, non-exclusive mechanism for financing specific priority projects that have already been approved by the AC and can use a broad range of funding arrangements.

The PSI is to give priority to projects related to pollution prevention and abatement and finance project preparation activities, such as project identification and concept development, pre-feasibility studies, feasibility studies, environmental impact assessments, business plans, financing plans, preliminary design, preparation of tender documents tendering and evaluation; and specific measures in the implementation phase of pilot and demonstration projects, including supplies of equipment and services. With the deposit of the contribution of the Russian Federation and in accordance with respective Cooperation Agreements of NEFCO with the PSI Contributors, NEFCO operationalised the trust fund on the 18th of July 2014. The PSI's trial period is up to 18 July 2019 (five years after it became operational) and the PSI funding is available to all AC Working Groups (WG) for projects approved by the Arctic Council and that meet the PSI funding criteria.

The PSI Contributions, deposits, pledges, and available resources are summarised in Table 1 below. Approximately EUR 13 million have been pledged and nearly the whole amount (EUR 12.9) million has been received by NEFCO. The Contributors to the PSI are Finland, Iceland, Norway, Russian Federation, Sweden, the United States, Permanent Participant Saami Council (through the Sami Parliament) and NEFCO.

Table 1 — PSI Pledges and Deposits (22.03.2018). 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 | 949 000 | 813 000 | Received USD 0.857M* |
| 7 | NEFCO | 1 350 000 | 1 350 000 | Received |
| 8 | Sami Parliament | 13 000 | 12 987 | Received NOK 100 000 |
| 9 | Interest | | 28 512 | |
| 10 | TOTAL | 13 030 000 | 12 922 092 | PSI initial target was EUR 3 million |
| 11 | Amount committed | | 4 888 000 | PCOM decisions on investments and admin. |
| 12 | Used Funds | | 1 377 613 | Projects, legal fees, bank costs etc. |
| | Total available | | 8 034 092 | Basis Line 10 (deposited) minus Line 11 |

*Exchange rate (20.2.2018 NEFCO Audit): EUR 1 = USD 1.0541; the US Grant of 7 February 2012 awarded USD 1.00 M and the difference between amount expended (USD 0.86M) and grant not spent is because the award expired on 30 August 2016. ** Up to 22.03.2018 incl. decision taken at PCOM 9, 20.03.2018

Table 2 depicts the tentative allocations from the PSI with NEFCO for the 2014-2019 Work Plan and the actual allocations. About 40 percent of PSI contributions have been allocated hitherto addressing 15 approved projects, see Table 3.

The main sector that has benefited from the PSI funding has been resource efficiency and mitigation of Short Lived Climate Pollutants (SLCP) achieving 19 percent of the 20 percent allocations. Most of the AC projects, that have received PSI financing, have been proposed by Arctic Contaminants Action Programme (ACAP) WG. The ACAP projects deal with mitigation of Arctic contaminant and includes an Aleut International Association project to reduce indigenous community exposure to black carbon and improve public health. The WG Conservation of Arctic Flora and Fauna (CAFF) received PSI funds for the CAFF-AMBI project on bio-diversity and protection of migratory birds' pathways from the Arctic to Australasia and Africa.

Table 2- PSI allocations (tentative) for 2014-2019 work plan and actual (20.03.18). Figures are rounded off.

| Description | Percent | Total EUR | Actual EUR | Percent |
|--|---------|------------|------------|---------|
| Hazardous waste management, POPs | 40 | 5 169 000 | 950 000 | 7 |
| Mercury mitigation, demonstration | 25 | 3 231 000 | 0 | 0 |
| Clean production, energy efficiency ,SLCP etc. | 20 | 2 584 000 | 2,483,000 | 19 |
| Other areas | 6 | 775 000 | 225,000 | 2 |
| Standard costs | 9 | 1 163 000 | 1,230,000 | 10 |
| Total | 100 | 12,922,000 | 4 888 000 | 38 |

Glossary: POPs = Persistent Organic Pollutants; PCB = Polychlorinated biphenyls; SLCP = Short Lived Climate Pollutant (Black Carbon, HFC (Hydrofluorocarbons) Methane, Tropospheric Ozone)

Since operationalisation of the PSI and up to the Ninth Meeting of the PSI Committee (PCOM) on 20 March 2018, funding has been provided for 15 projects (see Table 3). The approved projects have a number of sub-projects and interventions in line with the PSI Committee decisions. Five projects have been completed or commissioned to a large extent. The total costs associated with the approved AC Projects are estimated to be approximately EUR 710 million. The PSI contribution to the approved projects is up to about EUR 3.7 million. The 15 projects are in the fields of combating climate change, hazardous waste management, enhancing bio-diversity, communication (raising AC visibility) and for an external evaluation of the performance of the PSI during its pilot phase. The projects that address climate change are expected to mitigate up to 35 million tonnes of CO₂-equivalent annually.

Near Term Plans

NEFCO's engagement with the AC, through its funding and PSI administration work for the period 2014-2019, is summarised in Table 3 below. The engagement is addressing approximately 15 projects. NEFCO will continue its outreach to the AC, its Working Groups (ACAP, AMAP, CAFF, EPPR, PAME, and SDWG) and subsidiary bodies on the activities being funded through PSI and the possible additional investment financing from NEFCO if deemed relevant.

As outlined above, five ACAP Projects have been completed and will need follow-up monitoring and reporting. Seven projects (ACAP, CAFF and the PSI) are in the stages of implementation. The associated terms of references (ToR) for the projects benefitting from PSI financing, implementation of the projects and further work have been developed (and continue to progress) by NEFCO in cooperation with the stakeholders (PSI Committee, the Senior Arctic Officials, AC experts, consultants procured for the Russian Execution Agency (REA-VTB Bank), and the project owners. 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) Dudinka Municipal Waste Land-fill project; and iii) Arctic Green Shipping - SLCP Mitigation; are under study reservations from the Russian Federation. Implementation of the three projects will commence when the respective reservations are lifted or as advised by the PSI Committee.

Table 3 — Overview of PSI Project work plan (2014-2019) including approvals, allocations and total costs.

| No | PSI Project No. | Project with PSI Approved Financing | Sector | AC-WG/PSI | DEC | PCOM | TOTAL EUR | PSI Allocation, EUR | 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 | Dolgoscheli 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 | |
| 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-1/18 | PSI Communications | Outreach | PSI | FID | PCOM 9 | 50 000 | 50 000 | WIP - Under implementation |
| 13 | PSI 1/17 | Decreasing Arctic Pollution by BAT-BEP | Cross Media | ACAP | FID | PCOM 7 | 3 680 000 | | Study reservation - Russia |
| 14 | PSI 4/17 | Dudinka Municipale Solid Waste - Russian Arctic | Waste | ACAP | FID | PCOM 7 | 50 000 | | Study reservation - Russia |
| 15 | PSI 5/17 | Arctic Rivers Green Shipping | Climate | ACAP | FID | PCOM 8 | 47 500 000 | | Study reservation - Russia |
| | | Total | | | | | 708 122 500 | 3 658 000 | |

Progress is also underway regarding an external evaluation of the PSI in line with the AC/SAO approved terms of reference. The inception report is expected to be ready by the beginning of May 2018. The interim report by 21 June 2018 and the draft final report are to be ready by 31 August 2018. The delivery of the final report on the PSI Evaluation (including an Executive Summary) is expected to be no later than 31 October 2018.

Other aspects:

Based on PCOM approval at the 9th Meeting of the PSI Committee on 20 March 2018, supplement financing has been allocated in the 2018 budget of NEFCO to fund communication and dissemination of information regarding the Arctic Council PSI and its financing of projects and lessons learnt. An outreach has been initiated on how to enhance the visibility of the PSI financed projects and initiatives, e.g. at the upcoming (Fall 2018) Arctic Biodiversity Congress and the Arctic Environmental Ministers' meetings to be held in Finland. Furthermore, NEFCO continues a dialogue with the AC subsidiary bodies on improving the assessment, effectivisation and mobilisation of relevantly needed financing for priority AC projects.

References

Ref. 1: <https://www.nefco.org/who-we-are>

Ref. 2: https://www.nefco.org/sites/nefco.org/files/pdf-files/nefco_annual_report_2017.pdf

Ref. 3: <https://www.nefco.org/work-us/our-services/grants/arctic-council-project-support-instrument>

Ref. 4: <https://www.nefco.org/news-media/news/nefco-finance-green-investments-outside-eastern-europe>