

Instructions for submitting Observer reports

Introduction

This document provides the reporting template and instructions for Observers to report during the 2023 - 2025 **Norwegian Chairship** of the Arctic Council.

The deadline for submission is **1 December 2024**.

Role of Observers

The role and responsibilities of Observers, as well as criteria for admission to the Arctic Council, can be found in the "Arctic Council Rules of Procedure" (Annex 2) and the "[Observer Manual for Subsidiary Bodies](#)."

The primary role of Observers is to observe the work of the Arctic Council. Observers contribute to the Arctic Council primarily through engagement at the level of Working Groups, Task Forces, and/or Expert Groups. Observers are invited to the meetings and other activities of the Arctic Council unless the Senior Arctic Officials decide otherwise. Observers may also propose projects through an Arctic State or a Permanent Participant.

Report submission

Observer reports should include the relevant information described below and in the template.

- (a) A description of the Observer's contributions to the work of the Arctic Council since the time of the Observer's most recent submission, or in the previous two years, with special focus on contributions to the subsidiary bodies through project participation and support, as well as collaboration with Permanent Participants;
- (b) If applicable, a description of the Observer's future plans to contribute to the work of the Arctic Council, with special focus on contributions to the subsidiary bodies through project participation and support, as well as collaboration with Permanent Participants; and,
- (c) If applicable, a description of the Observer's contributions to other aspects of the Arctic Council and its goals not covered in the previous sections since the time of the Observer's most recent submission, or in the previous two years.

Observer reports should be submitted electronically to the **Arctic Council Secretariat** via email: acs@arctic-council.org not later than **1 December 2024**. Please bear in mind while preparing your report that all Observer reports will be published online in the *Observer* section of the [Arctic Council online Library](#) (OAR) following the Chairship transition.

If an Observer fails to submit a report, the Arctic Council will consider this to mean that the Observer **is no longer interested in maintaining its status** as an accredited Observer to the Arctic Council.

Cover sheet

Full name of Observer State or Observer Organization:

Nordic Environment Finance Corporation (Nefco)

Date of submission of regular report:

1 December 2024

Observer's website:

www.nefco.int

Information for appropriate contact person

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Observer Report

Please describe in no more than two pages your State's or Organization's contributions to the work of the Arctic Council's Working Groups, Task Forces, and/or Expert Groups since the time of your most recent report, or in the previous two years. Please highlight contributions to specific projects, such as through proposals, concept development, in-kind and financial support, and hosting of meetings. Please detail any collaboration with Permanent Participants, such as project proposal endorsement and support.

Nefco Background

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. Nefco provides financing to generate positive environmental effects of interest to the Nordic region. Nefco does this by facilitating investments related to green growth and climate mitigation and adaptation globally, with particular focus on Eastern Europe, the Baltic Sea, and the Arctic and Barents regions.

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) and partly as an IFI funding environmental projects in the region. Nefco has been an observer to the Arctic Council since 2004, approved at the [Fourth AC Ministerial Meeting in Reykjavík](#) (2004).

Nefco and the Arctic Council Project Support Instrument

The [Third AC Ministerial Meeting in Inari](#) (2002) recognised the need to reinforce efforts to finance circumpolar cooperation, and the Fourth AC Ministerial Meeting in Reykjavík (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 the PSI Guidelines in 2005 and appointed Nefco as the Fund Manager 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. PSI funding is available to all AC Working Groups (WG) for projects approved by the Arctic Council and that meet the PSI funding criteria. 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 was initially set up with a trial period of five years after becoming operational, until 18 July 2019, and this trial period was extended in 2018 to the end of 2021. At the [Twelfth AC Ministerial Meeting in Reykjavík](#) (2021), the PSI operating mandate was extended until the end of 2023.

PSI in the period 2021-2023

The PSI saw active PSI Committee (PCOM) meetings, decisions and implementation in 2021 up until March 2022. Dudinka project was completed. In June 2022, Nefco decided to freeze the PSI, with no PCOM meetings and the majority of projects have been put on hold. Some project activity and disbursements have been made to wind down projects and pay for completed work. Murmansk Ozone Depleting Substances (ODS) Fisheries (Phase 2) has seen activity due to contractual obligations, and the AFFF Phaseout of the Arctic (Phase 2) has seen implementation to complete the project.

The Murmansk Ozone Depleting Substances (ODC) Fisheries (Phase 2) is the biggest PSI project to date and continues active implementation as of August 2023. Nefco as fund manager has engaged with Moscow-based organization International Centre for Scientific and Technical Information (ICSTI) as implementing agency.

PSI in the period 2023-2025

In accordance with Nefco's Board decision, Nefco remains committed to fulfilling its contractual obligations while continuing its role as Fund Manager of the Project Support Instrument (PSI), maintained as a frozen fund until further notice. Nefco has in the time period of 2023-2025 worked on closing down projects. Two projects – the AFFF Phaseout of the Arctic and Murmansk ODS Phase 2 - have completed implementation in this time period.

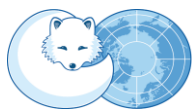
PSI Financing

The PSI Contributions are summarised in Table 1 below. Approximately EUR 15.8 million have been pledged, EUR 15.5 million deposited, and most of the amount (some EUR 12.3 million) has been allocated to PSI projects. 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 – Total PSI Contributions (Dec 2024)

<i>Contributor</i>	<i>Amount</i>
Finland	2,200,000 €
Iceland	8,299 €
Norway	800,029 €
Russian Federation	10,000,000 €
Sweden	499,900 €
United States	683,010 €
NEFCO	1,350,000 €
Sami Parliament	12,987 €
Total, contributions	15,554,226 €

Table 2 below depicts the allocations from the PSI at the time of PCOM 16 (December 2021) and disbursements as of 1 Dec 2024. Majority of the projects that have received PSI financing have been proposed by Arctic Contaminants Action Program (ACAP) WG.



If applicable, please describe in no more than one page your State's or Organization's future plans for contributing to the work of the Arctic Council's Working Groups, Task Forces, and/or Expert Groups. Please highlight intentions to contribute to specific projects and to collaborate with Permanent Participants.

Table 2 – Overview of PSI Projects, Allocations, Disbursements

Row Labels	Project (Country)	PSI AC working groups	PSI Expert group	Disb/alloc	PSI Allocation	PSI Disbursed
1-On-going					4,050,000	3,093,536
PSI 01/18	PSI Communications (Circumpolar)	ACAP	(blank)	60 %	50,000	29,754
PSI 02/19	Murmansk - Ozone Depleting Substances - Fisheries (Phase 2) (Russia)	ACAP	SLCP	77 %	4,000,000	3,063,782
3-Pending					94,592	78,571
PSI REA	REA Consultants (Russia)	(blank)	(blank)	83 %	94,592	78,571
4-Completed					5,955,615	2,597,594
PSI 01/14	Karelia - Diesel Black Carbon (BC) (Russia)	ACAP	SLCP	100 %	392,093	392,093
PSI 01/15	Russian Railways - PCB - Component 1 - Feasibility Study (Russia)	ACAP	Waste	0 %	400,000	-
PSI 01/16	Community-Based BC-Health Assessment (Phase 1) (Circumpolar)	ACAP	IPCAP	100 %	131,587	131,587
PSI 01/19	Mercury Risk Evaluation (Circumpolar)	ACAP	POPs & Hg	100 %	68,000	68,000
PSI 02/14	Diesel BC - Reindeer Farm (Russia)	ACAP	SLCP	100 %	87,973	87,973
PSI 02/16	Obsolete Pesticides - Component 1 - Feasibility Study (Circumpolar)	ACAP	Waste	100 %	96,975	96,975
	Obsolete Pesticides - Component 2 - Demo Testing (Russia)	ACAP	Waste	100 %	31,614	31,614
PSI 02/17	Associated Petroleum Gas Flaring - Phase 1 (Russia)	ACAP	SLCP	100 %	350,000	350,000
	Associated Petroleum Gas Flaring - Phase 2 (Russia)	ACAP	SLCP	100 %	286,400	286,400
PSI 02/18	Arctic Migratory Bird Initiative - Microplastics (Circumpolar)	CAFF	(blank)	100 %	100,000	100,000
PSI 03/14	Mapping Substituting Solutions for Diesel Power Plants (Russia)	ACAP	SLCP	100 %	31,244	31,244
PSI 03/16	Arctic Migratory Bird Initiative - Two Flyways (Circumpolar)	CAFF	(blank)	100 %	95,000	95,000
PSI 03/17	Murmansk - Ozone Depleting Substances - Fisheries (Phase 1) (Russia)	ACAP	SLCP	100 %	156,424	156,424
PSI 04/14	Dolgoshchelie Diesel Energy Conversion (BC) (Russia)	ACAP	SLCP	100 %	70,405	70,405
PSI 04/17	Dudinka Municipal Solid Waste - Arctic (Russia)	ACAP	Waste	100 %	50,000	50,000
PSI 05/17	Green Shipping-Russian Arctic Rivers (Russia)	ACAP	SLCP	100 %	58,000	58,000
PSI 06/17	PSI Evaluation (Circumpolar)	(blank)	(blank)	100 %	75,000	75,000
PSI 01/21	AFFF Phase Out in the Arctic ()	ACAP	Waste	84 %	345,900	290,900
PSI 01/20 SAW	AFFF Phase Out in the Arctic - SAW (Circumpolar)	ACAP	Waste	100 %	10,000	10,000
(blank)	Solid Waste Management in Remote Arctic Communities (Circumpolar)	ACAP	(blank)	0 %	500,000	-
PSI 01/20	ArcticFIRE (Circumpolar)	CAFF	(blank)	0 %	290,000	-
PSI 04/20	Community-Based BC-Health Assessment (Phase 2) (Circumpolar)	ACAP	IPCAP	3 %	1,100,000	29,436
PSI 05/20	Mercury Risk Evaluation II ()	ACAP	POPs & Hg	24 %	789,000	186,544
PSI 03/20	P2 Inventory of Uses of POPs and Mercury ()	ACAP	POPs & Hg	0 %	350,000	-
PSI SAW	Small Allocation Window (SAW) (Circumpolar)	(blank)	(blank)	0 %	90,000	-
Grand Total					10,100,207	5,769,701

Nefco's engagement with the Arctic Council, through its funding and PSI administration work for the period 2014 - 2023, is summarised in Table 2 above. The engagement addresses 26 projects.

In accordance with Nefco's Board decision, Nefco remains committed to fulfilling its contractual obligations while continuing its role as Fund Manager of the Project Support Instrument (PSI), maintained as a frozen fund until further notice.

In the Murmansk ODS project, the contractor has successfully completed its work, while one disbursement remains pending. Efforts to process this payment have faced significant challenges. These difficulties stem from the broader repercussions of Russia's invasion of Ukraine, including the resultant Western sanctions and their cascading effects on the financial sector. Notably, the evolving operational environment within the international banking system has created unforeseen constraints on viable payment channels.

Nefco continues to actively explore possible solutions to address this matter, while ensuring adherence to legal and regulatory frameworks and upholding the commitments within the Arctic Council's Project Support Instrument. We appreciate your understanding and support as we navigate these complexities.

Nefco, as Fund Manager, remains available for any further clarifications wished for.

If applicable, please describe in no more than one page your State's or Organization's contributions to other aspects of the Arctic Council and its goals not covered by the previous sections since the time of your most recent report, or in the previous two years.