



2018/19 Report on the Climate Cent Foundation's Allocation of Resources

for the attention of

the Federal Department of the Environment, Transport, Energy and Communications
(DETEC)

in compliance with the agreement dated 19 September 2016

27 June 2019

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1 Purpose of this report

In compliance with the Climate Cent Foundation (CCF)'s obligation under clause 2 of its agreement with the Swiss Confederation dated 19 September 2016, the present report details the Foundation's use of its financial resources in conformity with its goal and purpose. The report takes stock of the Foundation's activities since 1 July 2018 and explains that and how the Foundation has met its obligations as set out in clause 2 of the aforementioned agreement.

2 Conditions to be met by the Climate Cent Foundation

The Climate Cent Foundation is to use its financial resources solely for greenhouse gas emission reduction schemes carried out abroad. To do so, it is to support projects expected to yield emission reduction certificates that can be credited toward the Swiss Confederation's commitments under international law and that, at the time of their purchase, meet the quality requirements set out in the Swiss CO₂ Ordinance. All certificates are to be handed over to the Swiss Confederation.

The CCF may further support activities aimed at substantiating and applying the possibilities set out by article 6 of the Paris Agreement after 2020 ("pilot activities"), to which end the Foundation earmarks a sum of at least CHF 20 million. Pilot activities must meet specific criteria, which have been set down in the agreement signed with the Swiss Confederation on 19 September 2016.

3 Available resources and commitments

In the period under review, the Climate Cent Foundation reported revenues of CHF 6'797'665, which resulted from the sale to the KliK Foundation of 42'485 tonnes of CO₂ emission reductions generated by its Buildings Programme in 2017. The KliK Foundation may credit these emission reductions as a so-called "self-realised project" toward meeting its carbon offset obligation. Until 2021 included, the CCF expects the sale of its Buildings Programme's continued impact to generate further total revenues of CHF 16 million.

In the period under review, a total of CHF 2'549'354 were paid out to meet incurred commitments (see table in section 4) and to cover the Foundation's operating expenses.

Taking into account investment profits, as per 26 June 2019 the CCF's resources stood at CHF 116'827'540.

4 Collaboration with the federal authorities

At an operational level, the Swiss Confederation's obligations under the agreement dated 19 September 2016 are administered by the Swiss Interdepartmental Committee on Climate (IDC Climate), Field of Activity n° 6 "Emissions Trading and Flexibility Mechanisms" (FA6). Over the course of the period under review, three work sessions

brought together members of the FA6 and the CCF's Secretariat. Discussions centred mainly on the further development of selected pilot activities and on the preparation and negotiation of bilateral agreements with relevant host countries (see section 5.5).

A delegation of the Steering Committee set up to serve as the Swiss Confederation's decision-making body attended a meeting of the CCF's Foundation Council as a guest in May 2019.

Table: commitments incurred by the CCF and payments made.

	Commitments (in CHF)	Paid out 1.1.2014 to 25.6.2019 (in CHF)	Of which paid out in the period under re- view (in CHF)
Purchase of 12 million CERs	6'604'973 (6'152'047 EUR)	6'604'973	–
Ci-Dev	23'000'000 (23'000'000 USD)	2'614'050	260'272
PAF	2'358'000 (2'500'000 USD)	2'358'000	–
TCAF	12'500'000 (12'500'000 USD)	409'568	132'409
Micro Energy Credits	10'800'000 (10'800'000 USD)	4'338'760	892'432
South Pole	11'500'000 (10'000'000 EUR)	1'284'604	–
First Climate	14'375'000 (12'500'000 EUR)	738'969	561'569
Pilot activities	–	431'049	247'119
Total	81'137'973	18'779'973	2'093'801

5 Ongoing activities

5.1. Participation in the *Carbon Initiative for Development (Ci-Dev)*

Since early 2014, the CCF has held a share of USD 23 million in the World Bank's *Carbon Initiative for Development (Ci-Dev)*. The fund also numbers among its investors the governments of Great Britain and Sweden, which hold shares of respectively GBP 50 million and USD 23 million. GBP 35 million and USD 40 million are available for the purchase of certificates; the remaining funds go toward activities granting governments, financial institutions, the private sector and civil society improved access to the carbon market. For more information, see <https://www.ci-dev.org/>.

The portfolio currently comprises 13 projects. A purchase agreement has been signed with 12 projects; another project is still being assessed. As things currently stand, prices should average USD 9.00 per certificate. The CCF expects its share to yield around 1.8 million certificates.

In the period under review, an agreement was signed with the following project:

- **KTDA, small-scale hydropower plants, Kenya:** In several regions of Kenya, KTDA Power Company Ltd plans to develop, implement and operate 10 projects for the generation of electricity in run-of-river hydroelectric power plants totalling about 30 MW in power. The parent company Kenya Tea Development Association (KTDA) is carried by 560'000 tea farmers, who through regional cooperatives also own 66 tea processing factories. The power plants facilitate access to electricity resp. increase the reliability of power supply, thereby contributing to improving the productivity of tea processing. Electricity that is not used directly by the tea processing factories is bought by the state-owned Kenya Power and Lighting Company and fed into the national grid.

Income generated by the sale of certificates is used as an additional collateral to secure external capital needed to fund the power plants. The projects' high investment costs per installed unit of power, which are due to special requirements, constitute a major barrier that has been overcome thanks to the agreement with the Ci-Dev. Several financial institutions have granted loans amounting to USD 55 million in total, covering two thirds of financing. The residual amount is provided by the cooperatives as equity.

The project is scheduled to reduce 440'000 tonnes of CO₂, which will be purchased by the Ci-Dev. The Ci-Dev also holds an option to purchase a further 190'000 CERs. The project has been registered with the UN since 2012. Construction work on the first power plants started in 2016.

For a description of the other eleven projects, please refer to the past three reports to the DETEC. The project under assessment operates in the field of efficient cookers in Laos.

In the period under review, the fund received delivery of its first CERs (delivered by the project "Ethanol cookers, Madagascar"); the CCF's share was 2'780 CERs.

5.2. Participation in the *Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)*

Since 2012, the trading price for CERs has been exceptionally low, threatening the launch or the continued operation of many already registered CDM projects. The World Bank's *Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)* is testing a way to determine a price for such projects that is both acceptable from the seller's point of view and efficient from the buyer's point of view. For more information, see <https://www.pilotauctionfacility.org/>.

The CCF and the Swiss State Secretariat for Economic Affairs (SECO) are jointly participating in the PAF with a share of USD 2.5 million each, thereby in total meeting minimal share requirements. The modalities of collaboration have been set out in an MoU. The governments of the United States, Germany and Sweden have also invested in the fund. The fund has a total endowment of USD 55 million.

Three auctions were carried out from 2015 to 2017 (two for methane reduction projects in the waste management sector and one for projects aiming to reduce laughing gas emissions in the production of nitric acid). Each of the three auctions was carried out

using a different design. Overall, bidders acquired put options to deliver a total of 20.6 million certificates until 2020. The net price was USD 2.10 per tonne at the first two auctions and USD 1.80 per tonne at the third auction.

In the context of the issued bonds' first three maturities, the CCF received delivery of 455'150 CERs, of which 220'775 in the period under review.

A first independent assessment of the PAF was finalised in April 2019. On principle, it confirms the efficacy of the approach, while also emphasising its limited future applicability, due partly to its inherent complexity, partly to the continued uncertainty of the carbon market's future development. Another report investigated to what extent the approach may help countries achieve their declared objectives under the Paris Agreement (NDCs). The reports are available on the PAF's website.

5.3. Participation in the *Transformative Carbon Asset Facility* (TCAF)

The CCF and the Swiss State Secretariat for Economic Affairs (SECO) are jointly participating in the World Bank's *Transformative Carbon Asset Facility* (TCAF) with a share of USD 12.5 million each, thereby in total meeting minimal share requirements for having a say in the selection of funded activities. The modalities of collaboration have been set out in an MoU. Other investors include the governments of Germany (USD 2 million), Great Britain (GBP 60 million), Canada (CAD 3 million), Norway (USD 80 million) and Sweden (USD 25 million). The fund has a total endowment of around USD 210 million.

The countries involved in the TCAF aim to make use of the possibility stipulated in article 6 of the Paris Agreement for signatory states to cooperate on a voluntary basis. TCAF funds are to be deployed so as to encourage countries with low or medium income levels to reduce the greenhouse gas emissions of an entire sector or to put a price on the emission of greenhouse gases. This requires the development of innovative methods for quantifying and crediting effected greenhouse gas reductions.

The focus lies on the traceability and the environmental integrity of certified emission reductions. More particularly, the TCAF aims to contribute to designing the international set of rules required to implement article 6 of the Paris Agreement. Some TCAF investors, including the CCF, intend to credit certified emission reductions toward meeting their national emission targets.

The TCAF has been operational since March 2017. It plans to devote USD 30–50 million to each activity. Of the 9 potential activities presented by the World Bank to date, after partly comprehensive enquiries 4 have been rejected by investors or pursued no further, the other 5 (located in India, Colombia, Morocco, the Philippines and Vietnam) are being followed up on.

In the period under review, notable progress has been achieved only on the programme in India: the World Bank was tasked with undertaking official contract negotiations, which are expected to be concluded in 2020.

5.4. Direct purchase agreements with project owners

Micro Energy Credits

The CCF is buying 2 million CERs from US company Micro Energy Credits Corp. (MEC), to be delivered by 2021. MEC operates a programme registered with the UN as n° 9181 to support microloans for greenhouse gas reducing household devices in India. The programme supports microloans for efficient cookers, solar lamps and water purification devices.

To date, 870'958 CERs have been delivered to the CCF, of which 290'634 in the period under review.

Pure Water

The CCF is buying 2 million CERs from Pure Water Ltd, a subsidiary of the South Pole Group, to be delivered by 2021. The certificates stem from the "International Water Purification Programme" registered with the UN as n° 5962. The programme's implementation partner Evidence Action has fitted 27'000 wells and springs in Malawi, Kenya and Uganda with chlorine dispensers, enabling more than 4 million people to purify their drinking water in a safe and simple manner.

During the period under review, no additional certificates were added to the previously delivered 218'908 CERs. The delivery of 600'000 CERs is scheduled for next semester.

First Climate

The issuance of CERs originating from registered CDM projects aimed at collecting and destroying landfill gas is in sharp decline. Due to low market prices, it is no longer economically viable to operate, service and develop torches and collection systems. Small and medium-sized landfills are particularly affected because they lack access to adequate funding.

In order to make it possible to keep operating such stranded projects in Latin America, the CCF has signed a framework agreement with First Climate (Switzerland) AG with a cost ceiling of EUR 12.5 million. An innovative pricing structure, which follows the marginal cost of methane destruction, lowers risks for project owners and sets incentives to maximise emission reductions. Around 3.1 million CERs are expected for delivery by 2021.

To date, a purchase agreement has been signed with 18 projects, of which 8 in Brazil, 4 in Colombia, 5 in Mexico and one in Chile. Contract negotiations are underway with a further project in Colombia.

In total, the CCF has received delivery of 146'671 CERs to date, of which 112'196 in the period under review.

5.5. Pilot activities

During the period under review, pilot projects selected in 2017 were followed up on.

Tuki Wasi, Peru

Aimed at the country's poorest households, the support programme strives to strengthen and scale up the market for efficient cookers by means of competitive calls for proposals and standardisation. Efficient cookers help reduce the currently non-sustainable use of wood for cooking purposes. The scheme complements the state-led initiative Foncodes, which aims to provide low-income households with access to clean energy sources.

The programme was launched in February 2019 with an online presence (tukiwasi.org). A first call for proposals was carried out in March to select two stove manufacturers tasked with installing 1'500 cookers each according to defined specifications. The support programme offers a five-step compensation scheme; except for an initial advance payment, each instalment is tied to certain requirements.

Among the 17 proposals received, two stove manufacturers were selected to install 2'200 cookers. Only built-in masonry ovens will be installed, as their costs relative to expected emission reductions are lower (EUR 12-20 per tonne of CO₂) than those of mobile ovens (EUR 50-140 per tonne of CO₂), which present a limited service life of only 5 years.

For the trial phase (2019–2021), Microsol was tasked with carrying out calls for proposals, contracting manufacturers, as well as monitoring and reporting emission reductions. In order to avoid massive taxation of payments made to manufacturers, in June 2019 Microsol founded the NGO Ruru Tarpuy under Peruvian law; the NGO is able to forward the CCF's payments free of tax.

June 2019 also saw the 4th round of negotiations begun with Peru in October 2018 to conclude a bilateral agreement settling the details of the pilot activity's crediting under article 6 of the Paris Agreement. A CCF representative sits in on Switzerland's negotiation team. The agreement is expected to be signed in the first half of 2020.

BIOVER, Mexico

The support programme aims to provide landfill owners with an incentive to collect and flare landfill gas containing methane. Owners must also commit to transforming the landfill gas into electricity within a specified time limit, without this being credited as a reduction of emissions. Since the generation of power can be operated profitably as soon as the costs of landfill gas capture are covered, and the risk of unexpectedly low gas formation within the landfill has decreased, the programme is transformative and allows Mexico to contribute to achieving its NDC by producing non-fossil electricity.

The owner of the pilot activity, First Climate (Switzerland) AG, was tasked with drafting a *Pilot Activity Design Document* (PA-DD). This document is to serve as a basis for the Steering Committee to decide whether Switzerland should enter negotiations with Mexico on a bilateral agreement, and for the CCF's Foundation Council to decide whether to start negotiating a contract for the purchase of ITMOs (*Internationally Transferred Mitigation Outcomes*).

A draft of this document, already revised several times, has been submitted for comment to the Mexican government. The change of government in Mexico has caused some delays. Completion of the PA-DD is expected in the second half of 2019.

SHIFT, Thailand

The support programme aims to increase the number of private electric vehicles in Thailand. To this end, it defines measures to foster the installation of charging stations as well as incentives to switch to electric vehicles. Implementation is to be carried out primarily by private fleet operators (taxis, delivery services, etc.).

At the suggestion of the Thai government, the support programme was conceived instead of the originally planned activity to increase power generation with PV installations.

In March 2019, the South Pole Group was tasked with drafting a PA-DD. Various workshops are currently being held to involve groups taking part in the programme as well as the Thai government.

Due to the change of government in Thailand and the likely lengthy process of forming a new government, formal talks with Switzerland are expected to start at the earliest in the second half of 2019.

6 Outlook

Over the coming 12 months, the Climate Cent Foundation will keep focussing on pilot activities. The aim is to conclude an agreement at least with the pilot activity in Peru. In parallel, the CCF will keep analysing available options for the use of its as yet not allocated funds of around CHF 70 million in compliance with the terms of its agreement, should efforts to support pilot activities not prove successful.
