



2019/20 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

25 June 2020

## Table of contents

Table of contents .....	1
1 Purpose of this report.....	2
2 Conditions to be met by the Climate Cent Foundation .....	2
3 Available resources and commitments.....	2
4 Collaboration with the federal authorities .....	2
5 Ongoing activities.....	3
5.1. Participation in the <i>Carbon Initiative for Development</i> (Ci-Dev).....	3
5.2. Participation in the <i>Pilot Auction Facility for Methane and Climate Change Mitigation</i> (PAF).....	4
5.3. Participation in the <i>Transformative Carbon Asset Facility</i> (TCAF).....	5
5.4. Direct purchase agreements with project owners .....	6
5.5. Pilot activities .....	7
6 Outlook .....	8

## **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 2019 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 CO<sub>2</sub> 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 5'829'946, which resulted from the sale to the KliK Foundation of 36'437 tonnes of CO<sub>2</sub> emission reductions generated by its Buildings Programme in 2018. The KliK Foundation may credit these emission reductions as a so-called "self-realised project" toward meeting its carbon offset obligation. The CCF expects the sale of its Buildings Programme's continued impact to generate further total revenues of CHF 11.2 million.

In the period under review, a total of CHF 8'097'031 were paid out to meet incurred commitments (see table below) and to cover the Foundation's operating expenses.

Taking into account investment profits, as per 25 June 2020 the CCF's resources stood at CHF 114'426'932.

## **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, two work sessions brought together members of the FA6 and the CCF's Secretariat. As was already the case in the previous reporting period, 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).

In January 2020, a delegation of the CCF's Foundation Council attended a meeting of the Compensation Directorate (formerly Steering Committee), set up to serve as the Swiss Confederation's decision-making body, as a guest. At this meeting, the Swiss Confederation announced that Switzerland would most likely not meet its reduction target for the second period under the Kyoto Protocol (2013-2020). A request was made to the CCF to provide an additional 6 million CERs on top of the 12 million CERs requested in 2014. In May 2020, the CCF's Foundation Council decided to comply with this request as far as possible.

Table: Commitments incurred by the CCF and payments made

	Commitments (in CHF)	Paid out 1.1.2014 to 25.6.2020 (in CHF)	Of which paid out in the period under review (in CHF)	CERs delivered until 25.6.2020 (units)
Purchase of 12 million CERs	6'604'973 (6'152'047 EUR)	6'604'973	–	12'000'000
Ci-Dev	23'000'000 (23'000'000 USD)	2'851'169	237'119	46'079
PAF	2'358'000 (2'500'000 USD)	2'358'000	–	706'100
TCAF	12'500'000 (12'500'000 USD)	409'568	–	–
Micro Energy Credits	16'200'000 (16'200'000 USD)	8'184'465	3'845'705	1'453'232
South Pole	11'500'000 (10'000'000 EUR)	3'064'062	1'779'458	552'914
First Climate	14'375'000 (12'500'000 EUR)	2'498'010	1'759'041	567'936
Pilot activities	–	546'834	115'785	–
Total	86'537'973	26'517'081	7'737'108	15'326'261

## 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. As things currently stand, prices should average USD 16.00 per certificate. The CCF expects its share to yield more than 0.3 million CERs as well as a roughly estimated 0.2 million ITMOs (*Internationally Transferred Mitigation Outcomes*) in the period 2021-2025.

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

- **Efficient cookstoves, Laos:** In Laos as in many other countries, air pollution in indoor spaces due to the burning of fuel for cooking purposes is a leading cause of premature death, as it triggers respiratory diseases that especially affect women and children. In the provinces of Vientiane, Savannakhet and Champasak, a government programme implemented by a private organisation plans to distribute highly efficient cookstoves to 50'000 households, thereby reducing pollutant emissions by 99%. Charcoal used for fuel will be replaced by biomass pellets (e.g. made of rice husks); given an annual consumption of 0.75 tonnes of charcoal per household, emissions can thus be reduced by around 3 tonnes of CO<sub>2</sub>.

Proceeds from the sale of certificates are used to lower leasing costs for the cookstoves, provide warranty services for users, and establish a market for the cookstoves' modern burner technology. Close attention will be paid to measuring the positive impact on women, in order to quantify the benefits of the new cookstoves and enable results-based finance for future comparable projects.

The project is scheduled to reduce up to 540'000 tonnes of CO<sub>2</sub>, which will be purchased by the Ci-Dev. The project has not yet been registered with the UN. Implementation is due to start this year.

In the period under review, the CCF received delivery of 43'299 CERs in total from 3 projects in the portfolio.

## **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 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 according to 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 March 2020, a fourth auction was carried out, once more targeting methane reduction projects and similar in design to the first auction: the option premium was initially set at USD 0.30 per tonne with a strike price for the put option starting at a maximum price of USD 5 per tonne and auctioned downward. The premium was continuously integrated into the available auction budget, increasing it from initially USD 7 million to USD 8.25 million. The auction closed with a strike resp. net price of USD 1.98 per tonne, making it possible to acquire put options for the delivery of almost 4.2 million CERs. These CERs must correspond to emission reductions generated in the period from 3 March to 31 December 2020.

In the context of the issued bonds' first four maturities, the CCF received delivery of 706'100 CERs, of which 250'950 in the period under review.

### **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, operational since March 2017) 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. Other investors include the governments of Germany (USD 2 million), Great Britain (GBP 60 million), Canada (CAD 3 million), Norway (USD 80 million), Sweden (USD 25 million) and Spain. The fund has a total endowment of around USD 210 million.

The countries involved in the TCAF aim to make use of the possibility set out in Article 6 of the Paris Agreement for signatory states to cooperate on a voluntary basis. Along with Norway and Sweden, the CCF plans to use the certified emission reductions toward fulfilling national emission targets. Great Britain and the SECO, on the other hand, plan to use their resources toward climate finance, which explicitly precludes counting certificates toward national emission targets. Amid these diverging approaches, the facility's ability to take action has to date proven rather limited.

International disagreements over the implementation rules of the Paris Agreement are not conducive to the willingness of partner countries to transfer emission certificates, which means the facility also has to face issues on the supply side. Of the dozen potential activities presented by the World Bank to date, 6 (located in Mexico, Colombia, Morocco, the Ivory Coast and Vietnam) are being followed up on.

Given these manifold internal and external issues, it is currently unclear whether the TCAF will ever bear fruits in form of usable ITMOs.

## **5.4. Direct purchase agreements with project owners**

### **Micro Energy Credits**

The CCF is buying 3 million CERs from US company Micro Energy Credits Corp. (MEC), to be delivered by February 2022. 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.

In June 2020, the CCF increased the contractual delivery volume by 1 million CERs in order to contribute to extending the programme's exceptional success. In return, MEC commits to investing the proceeds from the sale of certificates into developing the programme beyond 2020. Additionally to the 2.5 million households already reached by the programme, another 0.5 million households will take part with one of the products on offer.

To date, 1'453'232 CERs have been delivered to the CCF, of which 582'274 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.

334'006 CERs have been delivered in the period under review, bringing the total to 552'914 CERs.

### **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.

To date, a purchase agreement has been signed with 20 projects (9 in Brazil, 5 in Colombia, 5 in Mexico and one in Chile). The projects are expected to deliver around 2.64 million CERs until 2021.

In total, the CCF has received delivery of 567'936 CERs to date, of which 421'265 CERs in the period under review.

## 5.5. Pilot activities

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

### **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](http://tukiwasi.org)). In spring 2019, the CCF tasked the company Microsol with carrying out a first call for proposals, in which two stove manufacturers were selected to install 2'200 cookers according to defined specifications. In a contract with Microsol, the CCF arranged for payment for the stoves to be tied to the achievement of certain milestones. In order to process payments to stove manufacturers, Microsol established an NGO in Peru. Microsol was also tasked with monitoring and reporting emission reductions. No stoves have been implemented to date. A new contract is necessary for further implementation after 2020, which will tie Tuki Wasi's funding to the delivery of ITMOs.

June 2020 also saw the 7<sup>th</sup> round of negotiations begun with Peru in autumn 2018 to conclude a bilateral agreement settling the transfer and the crediting of emission reductions under article 6 of the Paris Agreement. A CCF representative sits in on Switzerland's negotiation team. The agreement is expected to be ratified in the course of the current year.

### **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.

On behalf of the CCF, First Climate (Switzerland) AG has compiled a programme documentation that has been available to Mexico for comment since early 2019 and is still awaiting completion. Nonetheless, in February 2020 official negotiations began on a bilateral agreement similar to the one signed with Peru. The outbreak of the Covid-19 pandemic has since halted further advances.

### **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.).



On behalf of the CCF, South Pole finalised a programme documentation in May 2020. The CCF's Foundation Council formulated a series of questions that are currently being processed.

In June 2020, the Swiss embassy in Bangkok entered formal talks with the Thai government on opening negotiations on a bilateral agreement following the example of Peru.

## **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 current pilot activities not prove successful.

---