



2021/22 Report on the Climate Cent Foundation's Allocation of Resources

for the attention of

the Federal Department of the Environment, Transport, Energy and Communications (DE-TEC)

in compliance with the agreement dated 29 April 2022

30 September 2022

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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 29 April 2022, 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 CCF's activities from 1 July 2021 to 30 September 2022 and explains that and how the CCF has met its obligations as set out in clause 2 of the aforementioned agreement.

## **2 Conditions to be met by the Climate Cent Foundation**

Prior to signing the agreement currently in force, the Climate Cent Foundation was to use its financial resources solely for greenhouse gas emission reduction measures carried out abroad. To do so, it was 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 was further allowed to support activities aimed at substantiating and applying the possibilities set out in Article 6 of the Paris Agreement after 2020 ("pilot activities"), to which end the Foundation earmarked a sum of at least CHF 20 million. Pilot activities had to meet specific criteria, set out 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 5'385'280, which resulted from the sale to the KliK Foundation of 33'658 tonnes of CO<sub>2</sub> emission reductions generated by its Buildings Programme in 2020. For the last time, the KliK Foundation was able to credit these emission reductions as a so-called "self-realised project" toward meeting its carbon offset obligation. No further revenues are expected.

In the period under review, a total of CHF 11'618'047 were paid out to meet incurred commitments (see table below) and to cover the CCF's operating expenses.

Taking into account investment profits, as per 16 September 2022 the CCF's resources stood at CHF 95'804'326.

Table: Commitments incurred by the CCF and payments made.

	Commitments (in CHF)	Paid out 1.1.2014 to 30.9.2022 (in CHF)	Of which paid out in the pe- riod under re- view (in CHF)	CERs deliv- ered until 30.9.2022 (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)	4'613'095	583'430	92'827
PAF	2'358'000 (2'500'000 USD)	2'358'000	–	1'065'025
TCAF	12'500'000 (12'500'000 USD)	750'083	229'700	–
Micro Energy Credits	15'591'733 (16'200'000 USD)	15'591'733	3'427'930	2'999'657
South Pole	10'971'291 (10'000'000 EUR)	10'971'291	6'196'156	2'000'000
First Climate	8'767'664	8'767'664	3'198'819	2'000'308
Microsol, Tuki Wasi	16'124'000 (15'356'000 EUR)	1'634'251	705'461	–
Total	95'917'661	51'291'090	11'238'496	20'157'817

## 4 Collaboration with the Swiss federal authorities

Due to the pandemic, only one exchange took place in the period under review between the CCF's Foundation Council and the Compensation Directorate. The CCF's Secretariat and the members of the Swiss Interdepartmental Committee on Climate's Field of Activity 6 "Emissions Trading and Flexibility Mechanisms" conferred online as needed.

## 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)*, in operation until the end of 2025. 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 numbers 9 programmes. In the period under review, the CCF received delivery of 23'035 CERs in total from two programmes in the portfolio. Over the fund's operation to date, it received 92'827 CERs at an average price of USD 10.15 per certificate (not including transaction costs).

The Ci-Dev had signed purchase agreements with another four programmes, which in the meantime were terminated because for various reasons the programmes did not make headway or reach implementation. Due to the loss of these programmes, but also to cutbacks in the delivery volumes of existing programmes in the portfolio, the Ci-Dev is currently not fully invested. Negotiations are underway for the admission of two further programmes to the portfolio.

It remains to be seen in what way programmes registered under the Kyoto Protocol can also be certified under Article 6 of the Paris Agreement. One option would be a renewed registration under Article 6.4, yet implementing this approach may well take longer than the fund's operating time (until the end of 2025). A preferred option would thus be the issuance of ITMOs under Article 6.2; however, this presupposes the signing of implementation agreements between Switzerland (resp. Sweden or Great Britain) and a programme's host country. In case this can be achieved, the Foundation expects the delivery of a roughly estimated amount of 0.2 million ITMOs (*Internationally Transferred Mitigation Outcomes*) from the period 2021 to 2024.

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

The low price of CERs, trading at below USD 1 during the entire 2013-2020 period, was threatening the continued operation of many registered CDM projects. The World Bank's *Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)*, <https://www.pilotauctionfacility.org/>, which will close by the end of 2022, tested a way to determine a price for such projects both acceptable from the seller's point of view and efficient from the buyer's point of view.

The CCF and the Swiss State Secretariat for Economic Affairs (SECO) jointly participated 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 had a total endowment of USD 55 million.

Four auctions were carried out in total: three 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 auctions was carried out according to a different design. Overall, bidders acquired put options to deliver a total of 24.8 million certificates up to and including the production year 2020. The net price was USD 2.10 per tonne for the first two auctions and USD 1.80 resp. USD 1.98 per tonne for the third and fourth auctions.

Only just under 40% of the put options purchased at the fourth auction for the delivery of 4.2 million CERs have been exercised, as the Covid-19 pandemic apparently delayed the implementation of projects. In the context of the issued bonds' six maturities, the fund received delivery of 21.3 million CERs in total. The CCF's share amounted to 1'065'025 CERs, of which 80'625 CERs were delivered in the period under review. Taking into account transaction costs, the unit price of CERs thus stood at CHF 2.21.

The dissolution of the PAF is planned for 31 December 2022. The fund's current assets amount to more than USD 5 million. Shareholders will decide in the coming months how to use the assets then remaining.

### **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), in operation since 2017 and until the end of 2028. They hold shares of USD 12.5 million each, thereby in total meeting minimal share requirements for having a say in the selection of funded activities. The other major investors are the governments of Great Britain (GBP 60 million), Norway (USD 80 million) and Sweden (USD 25 million). Germany, Canada and Spain also hold shares.

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. Like 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.

In autumn 2020, after lengthy debates, the fund's investors reached an agreement as to how the facility was to present itself to partner countries in view of this particular constellation. So far, however, the TCAF's concretised proposition has not yielded any tangible results. Of the 16 activities assessed in greater detail since 2017, only one (located in Uzbekistan) currently holds the prospect of an agreement to purchase resulting emission reductions, likely to be signed in 2023.

It thus has to be acknowledged that the World Bank's ambition to implement the crediting of transformative climate mitigation activities via the TCAF scheme has for now failed. Methodological challenges, combined with protracted regulatory uncertainty concerning the implementation of Article 6 of the Paris Agreement, have weighed too heavily. The TCAF's contribution therefore lies primarily in technical papers, which present market participants with detailed and in-depth assessments of the issues at hand as well as sketching possible solutions.

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

#### **Micro Energy Credits**

The CCF purchased 3 million CERs from US company Micro Energy Credits Corp. (MEC). MEC operates a programme registered with the UN as n° 9181 to foster micro-

loans for greenhouse gas-reducing household devices in India. The programme supports microloans for improved cook stoves, solar lamps and water purification devices.

The contractual volume of 3'000'000 CERs has been almost fully delivered to the CCF, of which 685'650 CERs in the period under review.

### **Pure Water**

The CCF purchased 2 million CERs from Pure Water Ltd. 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 easy manner instead of boiling it as before using non sustainably obtained firewood.

The contractual volume of 2'000'000 CERs has been fully delivered to the CCF, of which 811'094 CERs in the period under review.

### **First Climate**

Due to low market prices for CERs, it was no longer economically viable to operate, service and develop systems aimed at collecting and destroying landfill gas. Small and medium-sized landfills were particularly affected because they lacked access to adequate funding.

In order to make it possible to keep operating such stranded projects in Latin America, the CCF signed a framework agreement with First Climate (Switzerland) AG with a cost ceiling of EUR 12.5 million. An innovative pricing structure, which followed the marginal cost of methane destruction, lowered risks for project owners and set incentives to maximise emission reductions.

A purchase agreement was signed with 20 projects (9 in Brazil, 5 in Colombia, 5 in Mexico and one in Chile). Overall, the CCF received delivery of 2'000'308 CERs, of which 815'182 CERs in the period under review.

### **Green Development**

The CCF's agreement with the Norwegian company Green Development AS for the purchase of 764'944 CERs stemming from the "Programme for the Reduction of Emissions from Non-renewable Fuels from Cooking at Household Level", registered with the UN as n° 7359, was terminated in March 2022 by mutual consent. The contractually agreed certificates could not be delivered on schedule because their issuance was denied by the competent UN body and the appeal against this decision by the programme owner remained pending to the last.

## **5.5. Pilot activity *Tuki Wasi***

In development since 2017 and in operation since February 2019, the pilot activity "Tuki Wasi, Peru" is aimed at the country's poorest households and strengthens the Peruvian market for improved cook stoves by means of competitive calls for tenders and standardisation ([tukiwasi.org](http://tukiwasi.org)). In 2020, funded by the CCF with CHF 1 million, 1'000 cook stoves were installed according to defined specifications. On-site visits of all households and a survey conducted in the first quarter of 2022 showed that over 80% of households use the stove daily and that the satisfaction rate stands at around 90%.

In November 2021, the CCF signed a purchase agreement for ITMOs with the programme owner Microsol S.A.S. after a legal framework was established for the issuance and transfer of such certificates with an implementation agreement signed between Switzerland and Peru in October 2020. However, to date Peru has not established the national processes needed to guarantee the emission reductions' formal accounting and their transfer to the CCF. The pilot activity's authorisation under the agreement remains pending.

Specifically, the CCF – and in a downstream transaction the KliK Foundation – purchase up to 960'000 ITMOs from Microsol until 2030. Up to 60'000 improved cook stoves are to be installed over the period 2022 to 2025. The CCF will prefinance the scaling of the programme and more specifically the construction of the stoves with over half of the contract value. A first call for tenders for the construction of 4'000 cook stoves was launched in summer 2022.

## **6 Review of mitigation outcomes 2013-2020**

As set out in clause 4 of its agreement with the Swiss Confederation, on 13 September 2022 the CCF transferred the 20'157'817 CERs held on the Foundation's account with the Swiss Emissions Trading Registry onto the Swiss Offset Account (account number CH-100-1000-0).

The amount of emission reduction certificates transferred by the CCF is thus significantly higher than the 12 million tonnes of CO<sub>2</sub> equivalent named as Switzerland's required emission reduction volume in the Swiss Federal Council's Message regarding the approval of the second Kyoto period 2013 to 2020 (BBI **2014** 3455). It also significantly exceeds the delivery volume of 18 million CERs announced to the DETEC on 19 June 2020 upon its request.

For the second Kyoto period (2013-2020), Switzerland had committed to reducing its emissions by an average 15.8% compared to their 1990 levels. With the emission reductions effected abroad by its activities, the CCF has lowered Switzerland's emissions by an average 4.7% in the period 2013 to 2020 compared to 1990 levels. Measured against Swiss emissions in the years 2008 to 2021, it has thus contributed around a third of emission reductions to be achieved by Switzerland in the second commitment period.

## **7 Outlook**

In the 12 months ahead, the Climate Cent Foundation will focus firstly on getting the programme "Tuki Wasi" authorised under the implementation agreement with Peru and supervising the programme's implementation.

Secondly, in the 12 months ahead, it will carry the implementation of the call for proposals to source projects in the fields of CCS and NET far enough to select the activities to be funded and start their detailed development.