



2017/18 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

28 June 2018

## 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 .....	3
5 Ongoing and new activities .....	4
5.1. Participation in the <i>Carbon Initiative for Development</i> (Ci-Dev).....	4
5.2. Participation in the <i>Pilot Auction Facility for Methane and Climate Change Mitigation</i> (PAF).....	5
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 2017 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 are imputable to 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 7'211'375, which resulted from the sale to the KliK Foundation of 45'071 tonnes of CO<sub>2</sub> emission reductions generated by its Buildings Programme in 2016. The KliK Foundation may impute 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 continuing impact to generate further total revenues of CHF 23 million.

In the period under review, a total of CHF 5'110'373 were paid out to meet incurred commitments (see section 5) and to cover the Foundation's operating expenses.

Taking into account investment profits, as per 25 June 2018 the CCF's resources stood at CHF 109'532'474.

The following table summarises commitments incurred by the CCF and payments already made:

	Commitments (in CHF)	Paid out 01.01.2014 to 25.06.2018 (in CHF)	Of which paid out in the period under review (in CHF)
Purchase of 12 million CER2	6'604'973 (6'152'047 EUR)	6'604'973	–
Ci-Dev	23'000'000 (23'000'000 USD)	2'353'778	1'101'728
PAF	2'358'000 (2'500'000 USD)	2'358'000	–
TCAF	12'500'000 (12'500'000 USD)	277'159	29'702
Micro Energy Credits	10'800'000 (10'800'000 USD)	3'446'328	1'902'645
South Pole	11'500'000 (10'000'000 EUR)	1'284'604	1'284'604
First Climate	14'375'000 (12'500'000 EUR)	177'400	177'400
Pilot activities	–	183'930	183'930
Total	81'137'973	16'686'172	4'680'009

#### 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, five work sessions brought together members of the FA6 and the CCF. Discussions centred mainly on the acquisition and selection of potential pilot activities, on the definition of the requirements placed on pilot activities by the Swiss Confederation, and on the definition and sequencing of processes governing the selection and implementation of pilot activities (see section 5.5).

In December 2017, the Steering Committee set up to serve as the Swiss Confederation's decision-making body welcomed a delegation of the CCF's Foundation Council for an exchange of views. In May 2018, a delegation of the Steering Committee attended a meeting of the CCF's Foundation Council as a guest.

## 5 Ongoing and new activities

No new contractual commitments to purchase emission reduction certificates were entered in the period under review.

### 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/>.

There are currently 13 projects in the pipeline. A purchase agreement has been signed with 11 projects; an agreement should be concluded by the end of 2018 with one further project, and one 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:

- **KSL, solar power, Kenya:** The project aims to provide rural households with access to electricity in 14 regions in Kenya. The following measures are planned: i) Construction of 120 solar-diesel stand-alone systems, ii) Sale of 250'000 solar home systems, iii) Electrification of 1'000 public buildings such as schools or hospitals using a solar system, iv) Installation of 380 solar water pumps.

The proceeds from the sale of certificates are used firstly toward reducing connection costs to the solar-diesel stand-alone systems for poorer households and secondly toward providing warranty coverage for solar home systems. Thirdly, in order to make possible the electrification of public buildings and the installation of solar water pumps, revolving funds are set up to guarantee the timely payment of operating and maintenance costs.

Kenya's Rural Electrification Authority was established in 2006 to accelerate the pace of rural electrification. Kenya has set itself the goal to provide its entire population with access to electricity by 2020.

The project is scheduled to reduce 330'000 tonnes of CO<sub>2</sub>, which will be purchased by the Ci-Dev, with an option to acquire almost another 100'000 CERs. The project application is currently being drafted and should be registered by the UN in 2019. The implementation of first measures is scheduled for 2018.

For a description of the other ten projects, please refer to the past two reports to the DETEC. The project awaiting an agreement operates in the field of small-scale hydropower in Kenya, the one still under assessment in the field of efficient cookers in Laos.

## **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.

Two auctions took place in July 2015 and May 2016 for methane reduction projects in the waste management sector. In January 2017, another auction was carried out 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 supply 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 two maturities, the CCF received delivery of 234'375 CERs, of which 168'175 in the year under review. A comparative analysis of the auctions as well as an assessment of the way the minimum price guaranteed by the PAF has impacted projects are in preparation.

## **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 ensuring the traceability of certified emission reductions and their environmental integrity. 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 impute certified emission reductions toward meeting their national emission targets.

The TCAF has been operational since March 2017. Individual activities should each receive around USD 50 million in funding. Of the 9 potential activities presented by the World Bank to date, 3 have been rejected by investors, one was pursued no further following additional enquiries by the World Bank, and the other 5 (domiciled in India, Colombia, Morocco, the Philippines and Vietnam) are still being processed.

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

### **Micro Energy Credits**

The CCF is buying 2 million CER2 from US company Micro Energy Credits Corp. (MEC), to be delivered by 2021. MEC operates a programme that was registered with the UN as n° 9181 and supports microloans for greenhouse gas reducing household devices in India: microloans for efficient cookers, solar lamps and water purification devices are subsidised with the proceeds from the sale of CER2.

The programme is operated by MEC with great success. To date, 11 CPAs have been admitted to the programme and 192'000 cookers, 811'000 solar lamps and 86'000 water purification devices have been installed. 580'324 CER2 have been delivered to the CCF, of which 436'448 in the period under review.

### **Pure Water**

The CCF is buying 2 million CER2 from Pure Water Ltd, a 100% subsidiary of the Swiss company South Pole Group, to be delivered by 2021. The certificates stem from the "International Water Purification Programme" registered with the UN as n° 5962. Together with implementation partner Evidence Action, the plan is to set up drinking water purification schemes over a large territory in Malawi, Kenya and Uganda. 27'000 wells and springs have been fitted with chlorine dispensers, enabling more than 4 million people to purify their drinking water in a safe and simple manner.

To date, 218'908 CERs have been delivered, of which 200'000 substitute CERs stemming from another project, sourced to bridge an acute liquidity shortage at Evidence Action.

### **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 CER2 are expected to be delivered by 2021.

To date, a purchase agreement has been signed with 13 projects, of which 5 in Brazil, 4 in Colombia, 3 in Mexico and one in Chile. Contract negotiations are underway with a further 4 projects in Brazil. The first 34'475 CERs were delivered in the year under review.

## 5.5. Pilot activities

During the period under review, as a result of the call for proposals carried out at the turn of the year 2016/17 for pilot activities, the following projects were followed up on:

- **Peru, cookers:** The scheme aims to enable the country's poorest households to purchase an efficient cooker that reduces the hitherto non-sustainable use of wood for cooking purposes.
- **Mexico / Colombia / Peru, landfill gas:** The aim is to provide the landfill gas sector with an incentive not only to collect and flare landfill gas, but to also use it to generate electricity.
- **Thailand, renewable power:** By expanding feed-in tariffs for renewable power, the aim is to increase the nationwide installed PV capacity by 1.2 GWp compared with today's target.

In the abovementioned countries, a second call for proposals was carried out in July 2017 for further pilot activities, for which the selection criteria were defined jointly by the FA6 and the CCF. By the closing date (end of 2017) and since then, no such proposals were submitted, even though the prospect had been raised by at least two of the countries.

### Peru, cookers

Microsol S.A., the likely owner of the pilot activity, was tasked with drafting a *Pilot Activity Design Document* (PA-DD) by October 2017. On the basis of this document, the Steering Committee decided that Switzerland should enter into negotiations regarding a *Memorandum of Understanding* (MoU) with Peru in order to settle the details of the pilot activity's imputability under article 6 of the Paris Agreement. For its part, the CCF's Foundation Council decided to start negotiations for an agreement to purchase the resulting international attestations (*Mitigation Outcome Purchase Agreement*, MOPA).

As there is as yet no sufficient basis to negotiate a purchase price, in April 2018 Microsol was tasked with further elaborating the concept for implementing the pilot activity and running a small-scale trial.

### **Mexico / Colombia / Peru, landfill gas**

In June 2018, First Climate (Switzerland) AG was tasked with drafting a PA-DD for Mexico. In December 2017, the Steering Committee had requested for the scheme to be restricted to one of the three countries, as the Swiss Confederation's personnel resources did not allow for an adequate follow-up of the activity in all three countries.

The Steering Committee also noted potential conflicts of interest in pilot activity selection by the CCF, inasmuch as a member of First Climate's management team is also a member of the CCF's Foundation Council. However, an internal legal opinion issued by the Federal Office for the Environment (FOEN) confirmed that any conflicts of interest were satisfactorily addressed by applying the abstention rule set out in the CCF's Organisation Regulations.

### **Thailand, renewable power**

South Pole Group has offered to draft a PA-DD. However, the go-ahead will only be given if and when the Thai government signals its fundamental willingness to add any emission reductions imputed by Switzerland under the pilot activity to Thailand's emissions.

### **Processes and criteria**

The CCF and the Swiss Confederation have set out relevant processes, covering the acquisition, the selection and the implementation of pilot activities, in a joint document (*"Procedure for Approval and Implementation of Pilot Activities Supported by the Climate Cent Foundation"*).

However, the attempt to operationalise the selection criteria for pilot activities set out in the appendix to the agreement between the Swiss Confederation and the CCF was abandoned, as it proved impossible to reach a consensus. The criteria therefore remain binding as formulated in the appendix to the agreement.

In consultation with the FA6, the application form (*Project Idea Note*, PIN) and the template for generating a PA-DD were revised once more.

## **6 Outlook**

Over the coming 12 months, a first area of focus for the Climate Cent Foundation will be to work on pilot activities and on allocating the CHF 20 million that have been earmarked for them. The aim remains to reach an agreement with at least one of the projects currently being pursued; however, based on currently available information, this is unlikely to occur before 2020. Achieving this aim will require Switzerland to enter into official negotiations on an MoU with a host country.

In a second area of focus, the CCF will analyse available options for the use of as yet not allocated funds within a useful timeframe and in compliance with the terms of its agreement. Based on this information, it might also start making investment decisions.