



Report on the Climate Cent Foundation's Allocation of Resources

30 June 2014

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1 Purpose of this report

The present report details the Climate Cent Foundation (CCF)'s use of its financial resources in conformity with its goal and purpose. The Foundation thereby complies with its obligation under clause 3.1.2 of its agreement with the Swiss Confederation dated 8 October 2013. The report takes stock of the activities put in place by the Foundation since the agreement was signed and explains that and how the Foundation has met its obligations as set out in clause 3.1.2 of the aforementioned agreement.

2 Conditions to be met by the Foundation

The Foundation is to use its financial resources solely for emission reduction schemes carried out abroad. In doing so, it is to focus its support on projects expected to yield the greatest possible amount of CER2 that meet the quality requirements set out in the Swiss CO₂ Ordinance. These certificates are to be handed over to the Swiss Confederation so it may meet its commitments under international law.

Insofar as, in order to generate CER2, the Foundation invests in the development of its own pilot projects and programmes in line with Swiss negotiating positions under the UNFCCC regime as well as in international initiatives that are complementary to the UNFCCC regime, this is to take place in consultative collaboration with the Swiss Interdepartmental Committee on Climate (IDC Climate)'s Field of Activity n° 6 "Emissions Trading and Flexibility Mechanisms".

3 Available resources

As per 30 June 2014, the Climate Cent Foundation's resources stood at 40'095'164 Swiss francs. All commitments entered over the period 2008 to 2012 have been settled. 586'000 US\$ have already been paid out for newly incurred commitments relating to the period 2013 to 2020 (see chapter 5).

The agreement concluded with the KliK Foundation for the transfer of 692'038 CHU1, scheduled to take place in July and December once they have been converted into attestations, yields revenues of 53'785'193 Swiss francs.

Further revenues are expected from the sale to the KliK Foundation of the continuing emission reduction impact of the Climate Cent Foundation's Buildings Programme. The KliK Foundation plans to impute these emission reductions as a so-called "self-realised project" toward meeting its carbon offset obligation. For the year 2013 alone, the Climate Cent Foundation should collect 9'413'440 Swiss francs, provided the Swiss Confederation validates the verified emission reductions. Until 2020, total revenues should amount to 65 to 70 million Swiss francs.

As things currently stand, the Climate Cent Foundation's financial resources thus amount to roughly 160 million Swiss francs. This figure does not yet take into account investment profits.

4 Collaboration with the IDC Climate's Field of Activity n° 6

Over the course of the period under review, a constructive exchange took place between the FA6 group and the Climate Cent Foundation at three meetings held in January, March and June 2014. To begin with, a common understanding of the collaboration to come was forged between the parties. While the Foundation's investments are to be undertaken in close consultation with the FA6, final decision-making authority rests exclusively with the Foundation Council.

Possible activities to be put in place by the Foundation are continuously being compiled; these options are then discussed and assessed within the group. A workshop is being planned by the Swiss Confederation for the autumn of 2014, at which a selected audience will discuss such possible activities.

5 Activities put in place

In the reporting period, the Foundation – in consultation with representatives of the Swiss Confederation – has undertaken a first investment by taking a share of 23 million US\$ in the World Bank's *Carbon Initiative for Development (Ci-Dev)*.

In addition, the Foundation Council decided in May 2014 to purchase at the best available market conditions, and in strict accordance with the requirements set out in the Swiss CO₂ Ordinance, 12 million tonnes of CO₂ equivalent in order to cover Switzerland's expected shortfall with respect to the targets agreed under the Doha Amendment to the Kyoto Protocol (Kyoto II).

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

In January 2014, the Foundation formally took a share of 23 million US\$ in the World Bank's Carbon Initiative for Development (Ci-Dev). The fund's first tranche was closed on 1 April 2014. The fund also numbers among its investors the governments of Great Britain and Sweden, which hold shares of respectively 50 million £ and 23 million US\$. The World Bank may retain a maximum of 5% of the fund's resources in management fees.

Ci-Dev has two components: (i) the *Carbon Fund*, endowed by the Climate Cent Foundation and by Sweden with 20 million US\$ each, and by Great Britain with 35 million £; it invests directly in the purchase of CER2, (ii) the *Readiness Fund*, endowed by the Climate Cent Foundation and by Sweden with 3 million US\$ each, and by Great Britain with 15 million £; it supports activities that grant governments, financial institutions, the private sector and civil society improved access to the carbon market.

Various criteria have been defined for project admission, as well as for portfolio composition. The fund aims to chiefly support projects that give households access to renewable energy services. Projects that deal with electrification, energy efficiency and waste management are also eligible provided they are innovative and transformative, and contribute to sustainable development. Proceeds from the sale of certificates are to directly benefit mainly low-income households. 80% of the portfolio are to stem from Africa, and three quarters from least developed countries (LDCs).

Since the scheme launched on 1 July 2013, the Carbon Fund has identified a dozen projects in the World Bank's existing pipeline, the fund's management has received unsolicited information about another 40 projects, and 157 project applications have been submitted during an official call for tenders held between December 2013 and February 2014. 5 projects within the first category have been invited to undergo further assessment, as have 4 projects within the second category, and 18 projects within the third category.

All but one of the projects currently being pursued are located in Africa. They are mostly so-called "Programmes of activities (PoAs)" in the fields of biogas production, solar energy, efficient cooking devices and water filtration. Most programmes are in the process of being set up, though a few have already been registered with the UN.

The World Bank's assessment process is extremely comprehensive and lengthy; it is therefore unlikely that a purchase agreement will be signed in 2014. Projects currently under assessment should be ready to be signed in 2015. It remains to be seen whether the current selection of projects will suffice to fully invest available resources. As things currently stand, prices should average 7 to 10 US\$ per CER2. The Foundation can thus expect its share to yield around 2 to 3 million certificates.

To date, the resources of the *Readiness Fund* have financed various studies that mainly aim to simplify methods and processes, as well as studies that investigate the possibility of establishing standardised baselines. Another study deals with possible business models for PoAs within the Ci-Dev's target area.

The fund also finances continuing education workshops for African governmental CDM authorities (DNAs) and a "CDM Reform Working Group" that operates as a platform for exchange between African DNAs, fund investors, the private sector and the UNFCCC.

5.2 Call for tenders to purchase CER2

In May 2014, the Foundation Council decided to purchase at the best available market conditions 12 million CER2 that meet the requirements set out in the Swiss CO₂ Ordinance. In order to keep market impact to a minimum, this demand is to be placed by means of several calls for tenders.

Accordingly, the Foundation launched a first call for tenders on 19 June 2014 to purchase 4 million CER2. This call for tenders ends today. Invited bidders may choose to deliver CER2 by the end of July (spot) or by the end of December 2014, June 2015 or December 2015 (forward). All CER2 must originate from projects featured on the Swiss Confederation's "White List".

Further calls for tenders will be designed and scheduled depending on the results of this first round.

5.3 Other activities

No other concrete commitments have been incurred. The Foundation has received various unsolicited offers to purchase CER2 from projects that the Secretariat is currently assessing in greater depth on behalf of the Foundation Council.

The Foundation Council has further expressed its intention to purchase projects at prices above market levels via further calls for tenders organised at a later point in

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time, in order to fund new projects and programmes that strongly contribute to sustainable development (in a manner comparable to the Ci-Dev).

The Foundation Council is open to supporting other initiatives. However, given the uncertain outcome of international climate negotiations, which should come to a provisional conclusion in Paris in 2015, the Foundation Council is doubtful as to the usefulness of investing in new initiatives ahead of this event.
