



2014/15 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 8 October 2013

30 June 2015

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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 Foundation's activities since 1 July 2014 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 CO<sub>2</sub> 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**

In the period under review, the Climate Cent Foundation reported revenues of 63'198'633 Swiss francs. On the one hand, this amount resulted from the sale to the KliK Foundation of 692'038 attestations converted from CHU1. This transaction took place according to the conditions set out in clause 3.1.1 of the Climate Cent Foundation's agreement with the DETEC, which means the price was established at 77.71 Swiss francs per CHU1 following the arm's length principle and was made available to the public.

On the other hand, the Climate Cent Foundation's revenues resulted from the sale to the KliK Foundation of 58'834 tonnes of CO<sub>2</sub> emission reductions generated by its Buildings Programme in 2013; the KliK Foundation can impute these emission reductions as a so-called "self-realised project" toward meeting its carbon offset obligation. Until 2020 included, the Climate Cent Foundation expects the sale of its Buildings Programme's continuing impact to generate further total revenues of 47 million Swiss francs.

In the reporting period, a total of 3'720'841 Swiss francs were paid out to meet various incurred commitments (see section 5).

Taking into account investment profits, as per 30 June 2015 the Foundation's resources stood at 98'120'229 Swiss francs.

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

Over the course of the period under review, the constructive exchange that had been initiated between the FA6 group and the Climate Cent Foundation was continued at three meetings held in November, February and June. Possible activities to be put in place by the Foundation are continuously discussed and assessed within the group; however, final decision-making authority rests exclusively with the Foundation Council.

The workshop originally planned for the autumn of 2014 to discuss possible activities of the Foundation with a selected audience was in the end held in June 2015 and reconceptualised as a second exchange on the carbon market between the private sector and the administration.

## 5 Ongoing and new activities

In the reporting period, the Foundation – in cooperation with the State Secretariat for Economic Affairs (SECO) – has undertaken an investment in a further World Bank scheme, taking a share of 2.5 million US\$ in the *Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)* (see section 5.2).

The Foundation has also implemented the decision taken last year by the Foundation Council to purchase at the best available market conditions 12 million CER2 that meet the requirements set out in the Swiss CO<sub>2</sub> Ordinance. By doing so, the Foundation has already covered the expected shortfall in Switzerland's achievement of the targets agreed under the Doha Amendment to the Kyoto Protocol (Kyoto II) (see section 5.3).

Finally, the Foundation has concluded agreements with two programme activity owners in India, Malawi and Kenya to purchase a total of 4 million CER2 at prices markedly above market levels (see section 5.4).

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

At the start of 2014, the Foundation took a share of 23 million US\$ 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 50 million £ and 23 million US\$.

Ci-Dev has two components: (i) the *Carbon Fund*, endowed by the 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 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.

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 fund launched on 1 July 2013, more than 200 projects have been assessed in depth. There are currently still 15 projects in the pipeline that meet the fund's criteria and should be signed over the course of the 12 months to come, provided the parties can agree on suitable conditions.

All current projects are located in Africa (Burkina Faso, Ethiopia, Kenya, Madagascar, Malawi, Mali, Nigeria, Ruanda, Senegal, Uganda). They are all programmes of activities (PoAs) in the following fields: biogas production, solar energy, efficient cooking devices, water filtration and power grid extensions. Most programmes are in the process of being set up, though a few have already been registered with the UN.

Due to in-bank rules and procedures, the World Bank's assessment process is extremely comprehensive and lengthy, which is why to date not a single purchase agreement has yet been signed. Another difficulty lies in establishing a fair price in a market devoid of any valid price signal when the aim is to support innovative and mostly as yet untested business models in countries with oftentimes unstable structures. As things currently stand, prices should average 9 to 12 US\$ per CER2. At best, the Foundation can thus expect its share to yield 2 million certificates.

The resources of the *Readiness Fund* on the one hand finance studies that aim to simplify the methods and processes of UN climate protection projects (e.g. standardised baselines) or that deal with possible business models for PoAs within the Ci-Dev's target area. On the other hand, resources are awarded directly to programmes in the pipeline in order to provide assistance for their setup or implementation.

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 DNAs, fund investors, the private sector and the UNFCCC.

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

The collapse of prices on the international market for certificates has brought to a halt new investments in climate protection projects prompted by the CDM and is threatening the launch or the continued operation of many already registered CDM projects. This begs the question as to what method could help establish a price that is both efficient from the buyer's point of view and acceptable from the seller's point of view. The World Bank's *Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)* approaches this question in a novel way.

The idea is that the seller of a certificate – which meets certain predefined requirements – is to be guaranteed a minimum price, while retaining the freedom to forego the sale should the market price lie above the minimum price. In return, the buyer who guarantees the minimum price is to be given the lowest offer acceptable by the seller.

These characteristics can be met by auctioning off put options. The buyer of the option buys the right to sell a specified amount of certificates at strike price at expiry date. He may also choose to let the option expire. When purchasing the option, he will however have paid a premium, which he needs to factor in when deciding whether or not to let the option expire.

Auctioning off the options makes it possible to ensure that bidders go to the limit of what constitutes an acceptable minimum price for the sale of their certificates. The auction either

takes the form of setting the option premium and auctioning the strike price, or the other way around. The put options are issued as tradable bonds. If the holder of a bond no longer wants to operate a project or finds himself unable to do so, he may sell the bond to a third party. The PAF must set aside the resources needed to purchase the certificates until the bonds mature, without knowing for sure that certificates will indeed be delivered and that these resources will thus be required.

This compelling concept has led the State Secretariat for Economic Affairs and the Foundation to jointly take a share of 2.5 million US\$ each in the PAF, thereby in total meeting minimal share requirements. The modalities of collaboration have been set out in an MoU. The governments of the US, Germany and Sweden have also invested in the fund with shares ranging from 15 to 20 million US\$. Investment contracts were signed in May 2015. The first auction will be held on 15 July 2015.

### **5.3. Purchase of 12 million 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 CO<sub>2</sub> Ordinance. In order to keep market impact to a minimum, this demand was to be placed by means of several calls for tenders.

In June 2014, the Foundation launched a first call for tenders to purchase 4 million CER2. Invited bidders<sup>1</sup> had the choice to deliver their CER2 either by the end of July (spot) or by the end of December 2014, June 2015 or December 2015 (forward). Only CER2 originating from projects featured on the Swiss Confederation's "White List" were allowed. Price was the sole criterion: bidders were considered in ascending order of price, until a cumulative amount of 4 million CER2 was reached. The Foundation reserved the right to set a discretionary price limit should price levels become unsustainable before the limit of 4 million CER2 was reached. In this call for tenders, 8 bidders offered a total of 14 million certificates at prices ranging from 0.40 € to 8 €. The call for tenders was won by two bidders. The average price per certificate was 0.51 €. Over 2.5 million of these certificates have already been delivered, originating from around 100 projects.

In March 2015, a second call for tenders was held following the same design in order to purchase 1 million CER2. The latest acceptable delivery date was set as the end of 2016. 8 bidders offered a total of 4.4 million certificates at prices ranging from 0.46 € to 9 €. Once again, the call for tenders was won by two bidders (though not the same as in the first call for tenders). The average price per certificate was 0.49 €.

In addition, three suppliers were specifically invited to procure CER2 up to a maximum limit defined in terms of quantity and price. The certificates were to meet the requirements set out in the Swiss CO<sub>2</sub> Ordinance. The remaining 7 million CER2 were thus purchased at an average price of 0.52 € apiece; their delivery is expected at the latest in 2017.

The full amount of 12 million CER2 was thus purchased at an average price of 0.51 €. In view of the certificates' high quality, this may be viewed as an excellent result.

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<sup>1</sup> Amsterdam Capital Trading, Barclays, Bunge, CF Partners, Climate Change Capital, Dasco, Ecoscurities, ecotawa, First Climate, Ginga, Mercuria, Merrill Lynch, myclimate, Orbeo, PVM, Shell, Sindicatum, South Pole, Statkraft, STX Services, Palmetto, Tricorona, Vitol.

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

### **Micro Energy Credits**

In October 2014, the Foundation signed an agreement with US company Micro Energy Credits Corp. (MEC) for the purchase of 1 million CER2. In June 2015, the agreement was extended to the purchase of 2 million CER2 to be delivered by 2021. MEC operates a programme that was registered with the UN in December 2012 as n° 9181 and supports microloans for greenhouse gas reducing household devices in India. These microloans for efficient cooking stoves, solar systems/lamps and drinking water preparation devices are subsidised with proceeds from the sale of CERs.

Proceeds from the sale of CERs are used mainly to help microfinance institutions set up a distribution network for greenhouse gas reducing household devices. This involves an information and marketing campaign aimed at fostering demand for such products, setting up a distribution and service network, capacity building measures for microfinance institutions, and the distribution of a cloud-based software to process loans. Only around 15% of revenues are used towards actually subsidising products. This ensures that more households are given access to products that reduce greenhouse gas emissions and prevents the large-scale distribution of highly subsidised products that do not meet local needs and requirements.

MEC is currently working with ten microfinance institutions in India and plans to keep developing this network in years to come. Together with its existing partners, MEC has already distributed over 200'000 products in India.

### **South Pole**

Also in October 2014, the Foundation signed a purchase agreement with Pure Water Ltd, a 100% subsidiary of the Swiss South Pole Group. The agreement covers the delivery by 2021 of 2 million CER2 stemming from the "International Water Purification Programme" registered with the UN as n° 5962. Together with implementation partner Evidence Action, the plan is to deploy extensive drinking water preparation schemes in Malawi and in Kenya. In order to prepare drinking water, 12'800 wells (9'600 in Malawi and 3'200 in Kenya) and springs are to be fitted with chlorine dispensers, enabling over 3.2 million people to purify their drinking water in a safe and simple manner.

For many households in developing countries, boiling water is the only available way to prepare their drinking water. Using firewood contributes to deforestation, which – next to other negative ecological effects such as a loss in biodiversity – is one of the main sources of greenhouse gas emissions in developing countries. The programme allows the use of various technologies to prepare drinking water (e.g. chlorination, ceramic water filters or membranes, UV disinfection), thus removing the need to boil water. Chlorination is one of the cheapest and most efficient ways to prepare drinking water. Studies have shown that chlorination lowers diarrhoea rates – one of the major causes of death in developing countries – by more than 40%. At the same time, every installed chlorine dispenser reduces between 40 and 55 tonnes of CO<sub>2e</sub> a year.

The chlorine dispensers are installed only with the approval of the local population. Technicians ensure that they function faultlessly and are regularly restocked. Rigorous and continuous evaluations assess what percentage of households use the chlorine dispensers

(as experience shows: 45%) and what percentage of treated water is safe (as experience shows: 90%)

## **5.5. Other activities**

The Foundation has received various unsolicited offers concerning the purchase of CER2 originating from projects that the Secretariat has assessed in depth on behalf of the Foundation Council. The Foundation Council's decision is either still pending or was negative.

The Foundation Council is still considering purchasing projects at prices above market levels in order to fund new projects or programmes that strongly contribute to sustainable development. However, no concrete efforts are currently being undertaken to procure such projects.

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.

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