

Invitation to propose activities to receive support

Cover Letter

Proposals of Activities to Supply ITMOs

Zürich, 1 November 2019

Dear Madam / Sir:

The Foundation for Climate Protection and Carbon Offset (“KliK”) is the sector-wide carbon offset grouping for fossil motor fuels, established within the framework of the Swiss CO₂ Law. The Swiss CO₂ Law requires mineral oil companies responsible for releasing fossil motor fuels for consumption to offset part of the CO₂ emissions resulting from the use of these motor fuels. The KliK Foundation fulfils this legal obligation on their behalf. To this end, it supports projects that are eligible according to national and multilateral rules. From 2021 the obligation will be extended to international offsets as stipulated by Article 6 of the Paris Agreement.

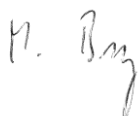
The KliK foundation aims to procure eligible emission reductions in the form of internationally transferred mitigation outcomes (“ITMO”) through a process that leads over several formalised stages to a forward Mitigation Outcome Purchase Agreement (“MOPA”). The current draft of the Swiss CO₂ law implies a total amount of 54 Mt of CO₂e in compliance requirement for the KliK foundation.

Government Agencies may submit their proposals as Mitigation Activity Idea Notes (“MAIN”) outside of competitive tender processes for private organisations. Irrespective, the KliK foundation applies in its pre-selection the same basic criteria, as in the private tenders. Pre-selected proposals are invited to be developed further in a Mitigation Activity Description Document (“MADD”). Pre-selected activities will be awarded with a Letter of Support (“LoS”) and the subsequent preparation of the MADD will be financially supported by the KliK foundation. The preparation of the MADD will involve close consultation with the involved countries. The Mitigation Outcome Purchase Agreement (“MOPA”) is conditional to a binding bilateral agreement between the governments of the countries that governs the transaction and due execution of mutually agreed modalities.

The KliK foundation invites you to prepare and submit your proposals in accordance with the attached annexes (Terms of Reference and Instructions for Government Agencies).

We would be delighted to receive a proposal from your organisation.

Best regards,



Dr Marco Berg
Managing Director

Annex 1:

Terms of Reference

Subject & Overview

The KliK foundation aims to procure with this invitation from Government Agencies a yet undetermined amount of ITMOs from 2021 through 2030. The KliK foundation conducts a staged procurement process, over which the specific requirements of transactions under Article 6 of the Paris Agreement shall be established. The contracting of a Mitigation Outcome Purchase Agreement (“MOPA”) is conditional to the successful conclusion of the procurement process, and involves the mutual agreement between the transferring country and Switzerland and the conclusion of a respective binding agreement between the states and the authorisation of the activity under the bilateral agreement.

In this invitation to submit proposals the KliK foundation aims to pre-select proposals and award those with a Letter of Support (“LoS”). With the LoS the KliK foundation will affirm its interest in eventually purchasing ITMOs from the activity, and offer to financially support the preparation of a Mitigation Activity Description Document (“MADD”).

The KliK foundation will pre-select proposals which match best with the selection criteria set out in Annex 3. Proposals that are not pre-selected will be given guidance for revision and the opportunity for resubmission at a subsequent CfP.

Terms of eventual Purchase

<u>Buyer:</u>	Foundation for Climate Protection and Carbon Offset KliK, Freiestrasse 167; 8032 Zurich; Switzerland.
<u>Seller:</u>	Counterparty to the intended MOPA, to be determined in MADD.
<u>Product:</u>	ITMOs eligible under the revised Swiss CO ₂ Act and in accordance with the Paris Agreement and authorised under a bilateral agreement between the transferring country and Switzerland.
<u>Vintages:</u>	Mitigation Outcomes generated in the years 2021 through 2030.
<u>Transaction types:</u>	Forward deliveries.
<u>Payment:</u>	Payment on delivery.
<u>Upfront payment:</u>	Support for the preparation of MADD. No provision for technical assistance grants, or material upfront contributions to funding structures.
<u>Legal documents:</u>	MOPA, modalities will be determined at a later stage.

<u>Bid size:</u>	KliK is looking for lots between 0.5 and 2.5 M ITMOs overall. However, there is no required minimum bid size.
<u>Eligible Activities:</u>	This CfP makes no limitations regarding the country and technology, except the following: <ul style="list-style-type: none"> - No REDD+ or LULUCF (biological sequestration) - No activities that include more than one country - No activities that involve nuclear power and fossil fuel power plants
<u>CDM</u>	CDM activities registered or CPAs added to a PoA before the 4 November 2016 will be excluded. Irrespective of a registration under the CDM, mitigation activities must respect the requirements of environmental integrity.
<u>Conditions and delivery:</u>	Swiss national emissions trading registry. In the absence of the possibility for transferring ITMOs into registries alternative point of deliveries have to be determined with the counterparty in the MOPA.
<u>Right of refusal:</u>	KliK may exclude proposals from pre-selection at its own discretion. The rationale for exclusion may not be communicated to the applicants.
<u>Disclaimer</u>	The pre-selection of a proposal does not prejudice neither the conclusion of a bilateral agreement nor a MOPA, and it does not imply any rights for the applicant to sell ITMOs to KliK.

Annex 2: Instructions for Proponent

Structure of Proposals

Proposals are prepared in english, french or german and submitted by using the online account administration accessible under <http://international.klik.ch/login/>. Other formats will not be considered by the KliK foundation.

The proposals shall be accompanied by a Letter of Intent according to the specifications in Annex 4. The respective Letter of Intent is subject to the criteria for pre-selection as set out in Annex 3. Questions and answers compiled in Annex 5 form integral part of the guidance and requirements set out in this tender documentation.

Deadline and Form of Submission

Offers must be submitted by the applicant electronically through the online administration. For Government Agencies there is no specific deadline for submission and such may occur on an ongoing basis. The status of the proposal will be indicated in the online administration.

Designation of a contributor

The applicant may designate contributors in the online administration. Contributors can create, edit and finalise the proposals that are attributed to them. Final proposals must be submitted by the applicant itself, contributors cannot submit.

Questions and communication

Questions regarding the submission can be submitted by email to international@klik.ch. The tender documentation will be updated and made available to all applicants to address the questions raised.

Please consider the clarifications provided in Annex 5 prior to submitting questions.

General Conditions

The KliK foundation will not reimburse any expenses in relation to the submission. Confidentiality will be guaranteed.

Further Information

Details on the KliK foundation are available under <http://international.klik.ch>

Contact: Mischa Classen

Tel. +41 (0)44 224 60 05

international@klik.ch

Annex :3

Criteria for pre-selection

1. ELIGIBILITY OF PROJECT TYPE	yes / no
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Activity does not imply nuclear energy, and does not result in a lock-in of fossil fuels.	
Comment: If the result is “no”, the activity cannot be approved.	

2. AVAILABILITY OF LETTER OF INTENT	yes / no
Type of criterion: No-go	
Data source: Lol	
Scope of assessment: Transferring country has issued a letter documenting the interest in ITMO transactions, in particular the specific activity given, under Art. 6 of the Paris Agreement, and the willingness to apply corresponding adjustments.	
Comment: If the result is “no”, the activity cannot be approved. The evaluation may establish a positive pre-selection conditional to the availability of the Lol at a later stage.	

3. COVERAGE IN NDC	yes / no
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Activity is in a sector covered by the NDC	
Comment: If the result is “no”, the activity cannot be approved. The Paris Agreement rulebook still under development might allow Art. 6 activities outside of the scope of the NDC without requesting a corresponding adjustment. This is considered an undesirable outcome, so to avoid a possible conflict with the rulebook, only activities within the scope of the NDC are eligible.	

4. ENVIRONMENTAL INTEGRITY	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Emission reductions are real (calculation with credible reference levels, avoidance of leakage, inaccuracies from fraud or error are addressed), additional to the NDC and to the BAU emissions scenario, permanent (by ensuring irreversibility, or by formulating measures compensating for possible reversals).	
Comment: If the result is “low”, the activity cannot be approved. Assessment includes a review whether the NDC goes beyond business as usual.	

5. RISK OF DOUBLE CLAIMING	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Risk of double claiming the mitigation outcomes attributed to carbon finance (KliK payments) and possible sources of climate finance supporting the activity	
Comment: If the result is “high”, the activity cannot be approved.	

6. PROMOTION OF SUSTAINABLE DEVELOPMENT	High / medium / low
Type of criterion: Preference	
Data source: MAIN	
Scope of assessment: Contribution to SDGs, notably fostering the low carbon development of the transferring country.	
Comment: –	

7. RISK OF VIOLATION OF HUMAN RIGHTS	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Risk that operating the activity entails violations of international human rights treaties which cannot be adequately mitigated.	
Comment: If the result is “high”, the activity cannot be approved.	

8. RISK OF CORRUPTION OR BAD GOVERNANCE	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Risk that operating the activity involves corruption which cannot be adequately mitigated.	
Comment: If the result is “high”, the activity cannot be approved.	

9. PLAUSIBILITY OF BUSINESS CASE	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Plausibility of business case, e.g.: activity is situated in a dynamic market environment with solid prospect of selling the underlying assets (electricity, appliances, goods produced); proposed business is open to including a variety of distribution and/or implementation partners; activity shows potential for replicability and/or scalability that underpins the business case; activity has already been successfully tested in the field; financial close is in reach, or can be assumed to be reached within a reasonable time period. Prevalence of policies that subsidize the use of fossil fuels may critically weaken the business case, which could negatively impact the assessment result.	
Comment: If the result is “low”, the activity cannot be approved.	

10. COMPLIANCE WITH FINANCIAL MODALITIES	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: RBF required within target corridor, if available; business model compatible with RBF; no expected KliK upfront payments, or only an insignificant share of required RBF, if not specified otherwise in tender documentation.	
Comment: If the result is “low”, the activity cannot be approved.	

11. CONVINCING ROLE OF CARBON	High / medium / low
Type of criterion: No-go	
Data source: MAIN	
Scope of assessment: Contribution of RBF payments by KliK to the implementation and sustained operation of the activity (e.g. cash flow).	
Comment: If the result is “low”, the activity cannot be approved.	

12. SELF-SUSTAINABILITY	High / medium / low
Type of criterion: Preference	
Data source: MAIN	
Scope of assessment: Probability that the activity will extend beyond the KliK support (by regulatory means, by transferring country government support, due to improved economic viability, due to a scaling-up of the activity)	
Comment: –	

13. LIMITED AND PREDICTABLE PROJECT RISKS	High / medium / low
Type of criterion: Preference	
Data source: MAIN	
Scope of assessment: Stability of political system, soundness of legal system, good governance practice, business friendliness Activity is not impeded by prevailing or future policies (e.g. fossil fuel subsidies in the case the reference is the continued use of fossil fuels; absence of conflicts of objective between the activity and national priorities in the given sector). The authorities are committed to reaching its NDC through the implementation of respective policies and regulations. The government’s position is positive towards, or at least not opposing to engaging in cooperation under Article 6. For countries that already host pre-selected activities the perceived risks will be smaller.	
Comment: –	

14. SUITABILITY OF COUNTERPARTY	High / medium / low
Type of criterion: No-go	
Data source: Due Diligence check, publicly available information	
Scope of assessment: Track record, standing/reputation of project proponent and implementation partner(s); capability of project proponent to implement, and operate, the activity, and to manage the funding and disburse it to eventual beneficiaries; pending lawsuits against project proponent.	
Comment: If the result is “low”, the activity cannot be approved.	

Annex 4: Letter of Intent

Mitigation Activity Information Notes (“MAIN”) shall be accompanied by a Letter of Intent (“Lol”) issued by either:

- the ministry in charge of the coordination and oversight of the implementation of the transferring country’s NDC, or by the designated national authority competent under Article 6 of the Paris Agreement, if available.
- the ministry responsible for the sector of the proposed activity, provided the letter confirms agreement on the matter with the ministry in charge of the coordination and oversight of the implementation of the NDC.

General Provisions

In the Lol, the issuer affirms the intention to endorse the activity and expresses the willingness of the country to enter into bilateral talks with the Swiss government to establish a binding agreement governing a possible transaction of ITMOs generated by the proposed mitigation activity.

The Lol shall contain the following elements of information:

- 1 Recipient Foundation for Climate Protection and Carbon Offset KliK, Mischa Classen, Freiestrasse 167, 8032 Zürich, Switzerland
- 2 Issuer Designation of the ministry or government entity in the lead for the coordination and oversight of the implementation of the NDC.
- 3 Activity Name of the mitigation activity to which the Lol refers to, using the same designation as in the proposal as to allow for an unambiguous reference.
- 4 Endorsement The issuer states that it endorses the implementation of the related mitigation activity, and confirms that it is aligned with the domestic strategy to implement the NDC.
- 5 Corresponding Adjustments The issuer expresses the willingness of the government to apply corresponding adjustments to its inventory emissions when reporting on the achievement of its NDC for all transferred ITMOs, as stipulated in the Paris Agreement and in accordance with any future decisions.
- 6 Bilateral Agreement The issuer expresses the willingness to establish a binding bilateral agreement with Switzerland that frames the mutual interest in engaging in a cooperative approach under Article 6 of the Paris Agreement and governs the modalities of the transaction of ITMOs.

Annex 5: Question and Answer

This Annex contains questions already clarified by the KliK foundation in earlier calls.

ELIGIBILITY

1. Do you recommend submitting REDD+ activities, despite them being excluded from the eligible activities?

Indeed, this CfP excludes REDD+ and LULUCF. Hence, an eventual submission of a REDD+ activity in response to this call would be disqualified and not considered.

As soon as there is clarity if and how forest projects can be treated under Art. 6 the KliK foundation will consider launching specific CfPs for REDD/LULUCF activities.

2. Does the occurrence of climate finance in an activities' funding structure render the activity ineligible?

Double claiming may occur if the activity is supported by funds that are accounted towards the committed pledge for climate funding. The occurrence of climate finance itself will water down the mitigation outcomes attributable to the activity to be sold as ITMO. Climate finance per se therefore does not lead to the exclusion of the proposal, but a large share in climate finance as compared to the expected revenues from ITMO sales may impair the evaluation of the proposal.

We recommend attributing mitigation outcomes according to the ¹.

FORMAT OF THE SUBMISSION

3. Can proposals be submitted in other languages than German, English and French as stated in the Instructions for Applicants?

Submissions in other languages than English, German and French are not considered.

4. Can proposals be submitted in the MAIN template document (word, pdf)?

No, proposals are only considered if they are submitted through the online administration. Submissions via email will not be considered. The evaluation also will focus primarily on the content entered in the sections of the online form. The annexes are meant to provide for complementary information and may not be subject to evaluation.

¹ https://cpf.wbcarbonfinance.org/sites/cpf_new/files/Documents/Blending%20climate%20finance%20and%20carbon%20market%20mechanisms_FINAL%28Clean%29_March.2019.pdf

LETTER OF INTENT (LOI)

5. Is the Letter of Intent (LoI) a requirement that a proposal is evaluated?

No, submissions without a LoI attached will be still considered.

The proposals will not be disqualified on the grounds of a missing LoI alone, if evidence is provided, that the LoI is requested and in preparation. In these cases, the proposal is evaluated irrespective of LoI availability.

If the proposal is evaluated positively so it would be pre-selected (conditioned to the availability of the LoI) the KliK foundation might consider pre-selecting on a provisional basis and issue a Letter of Support only later, after that the LoI is received.

Note, that your proposal can be re-submitted at a later CfP when the LoI is available.

6. Is it mandatory to use the exact formulations set out in Annex 4 or may softer formulations be used?

The Letter of Intent is the expression of a sovereign governmental body. The KliK foundation does not intend to prescribe the exact wording to be used by the issuer of the LoI. Annex 4 represents the scope of the letter to provide for a clear reference to the proposed activity and the governmental endorsement of the same.

Since an eventual transaction of ITMOs and their contracting by the KliK foundation is contingent upon a bilateral agreement and the commitment to corresponding adjustments, a pre-selection is only meaningful if the LoI contains a firm formulation. Weaker formulations may impair the evaluation.

METHODOLOGY

7. Is it allowed to use suppressed demand concept to estimate potential emission reductions?

Yes, proposals that account for suppressed demand are allowed.

8. Is there a requirement to apply a methodology that is approved under a certification scheme (CDM, Gold Standard, NAMA, etc.)?

No, there is no need to apply an approved methodology. However, the robustness of the methodology – if available – is subject to evaluation in criteria 4. Therefore, the reference to an approved methodology is recommended. For proposals that employ methodologies that are not common or not approved a reference or brief information on baseline determination, MRV and applicability / eligibility conditions is recommended.

9. What is the earliest eligible starting date for a proposed activity?

The start date of the activity as per the Glossary of CDM terms² must not lay before the entry into force of the Paris Agreement on the 4 November 2016.

Note, that activities registered under a carbon scheme will need to be adapted to the context of the Paris Agreement to reflect in the crediting baseline the pledges made in the NDC. Activities will require a renewed authorization under the bilateral agreement, irrespective of registrations under a carbon scheme.

10. The documentation refers to NDC. Does this also means INDCs in cases where no NDC is submitted?

Yes, in the absence of an NDC you may refer to the INDC.

COUNTRIES

11. Can proposals span multiple countries?

A proposal is always specific to a single country. Regional activities must be submitted as multiple proposals, one for each country, accompanied with a Lol. In any case the country of implementation is relevant for the Lol. This holds true also for new CPAs that shall be included into a multi-country PoA.

12. Does the KliK foundation discriminate proposals depending on the country?

No, the KliK Foundation does not limit the choice of countries. However, aspects will be evaluated that are specific to a country, such as the readiness of the country in the implementation of climate change related regulation and measures (criteria 11), the ease of doing business (criteria 13) and NDC coverage (criteria 3).

13. Can an activity be submitted under the Swiss domestic offset scheme and at the same time as an ITMO activity in this CfP?

Yes. Note, that the Swiss Domestic Offset scheme is governed under a separate regulation. Proposals for Swiss offsets need to be submitted to the competent authority³.

COSTS

14. Do you fully fund the MADD and how much will it cost to conduct an ITMO project?

The KliK foundation is prepared to fund, if required, the full amount of the MADD work. However, there is no fixed amount of costs covered. Also note, that there is no obligation for

² https://cdm.unfccc.int/Reference/Guidclarif/glos_CDM.pdf

³ <https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/climate-policy/compensation-for-co2-emissions/compensation-projects-in-switzerland.html>

the KliK foundation to contract the MADD development, if no agreement regarding to the scope of work or the costs to be covered can be established.

Contracting of the MADD development follows a specified process. Pre-selected activities will be notified and receive – after having complied with eventual forward action requests – a Letter of Support (LoS) from the KliK foundation. In the LoS the KliK foundation will reassure its willingness to purchase eventual ITMOs and financially support the development of the MADD. Only after receipt of the LoS the foundation will define the Terms of Reference (ToR) for the MADD development.

The scope of work of the MADD development depends on the concrete proposed activity. The financial support is negotiated based on the ToRs and may vary on the complexity and the availability for own funding of the applicant or the country. The KliK foundation may also decide to stage the MADD work into subsequent smaller work packages, retaining the option to discontinue the work before finalizing the MADD.

Costs for the preparation of the submitted MAIN will not be covered by the KliK foundation and cannot be reclaimed through the compensation of the MADD development.

The modalities for implementing and operating the activity will be determined on the basis of the final MADD. Eventual costs incurred to the applicant that are not compensated need to be reclaimed through the sale of ITMOs.

COMMERCIAL TERMS

15. Will mitigation outcomes that are generated before 2021 be purchased by the KliK foundation?

No. The KliK foundation will most probably not be able to use mitigation outcomes generated before 2021 for its compliance under the Swiss CO2 law. It therefore will not consider respective offers, irrespective of volumes contracted post 2020.

16. When in the process would the applicant sign a MOPA?

The MOPA may be established after the finalization of the MADD and the endorsement of the activity by the countries under the bilateral agreement.

17. What possibilities does the KliK foundation have to provide upfront investment?

As a base case the KliK foundation is not prepared to provide material upfront investments into underlying assets or financial structures. However, there may be specific proposals that will depend on upfront investments. The KliK foundation will consider these cases and assess its exposure against the risks as captured in the evaluation criteria 10.

The applicant may want to seek for upfront investments through another institution, or structure the proposal such, that upfront investments may be developed after implementation.

18. Is there a maximum price?

The KliK foundation does not give indications about a price range.

At this stage the information in the proposal that refers to price is not meant to be competitive, but merely reflects the relation between the expected ITMO volume divided by the financing needs.

19. Can a project propose partial deliveries or bundle activities in a country to comply with the bid size set out in Annex 1?

The indication for bid size lots refers to the aggregate mitigation outcomes of the proposed activity during 2021-2030. Bundling or partial deliveries shall not be considered at this stage.

Activities that are expected to exceed the volume of 2.5M ITMOs may limit the vintages contracted or scale the activity. The expected volume of mitigation outcomes may be subject to changes in the course of the MADD development and as well through the provisions under the bilateral agreement.