





CHAPTER 1:

THE ICF OPPORTUNITY

The following are some of the important reasons behind the development of the Italian Carbon Fund by the Ministry for the Environment and Territory.

An Opportunity to Demonstrate Commitment to Greenhouse Gas Reductions

The Ministry for the Environment and Territory of Italy has established the Italian Carbon Fund explicitly for Italian companies and public entities to provide a government-endorsed *alternative to obtain emission reductions which may be used to help meet Italian emission reduction targets* (quoted from the ICF brochure, November 2003).

An Easier “Make or Buy” Decision

As companies face carbon compliance obligations, many are also facing a “make or buy” decision on managing their carbon risks. Companies can buy greenhouse gas emission reductions from projects on their own but to do that they would have to develop in-house capabilities. Experience to date indicates that very few companies have developed the capacity needed to complete carbon emission reduction purchases cost-effectively as the risks and transaction costs are too high for most companies to handle on their own. Many are choosing

to outsource at least part of the process initially, with a view to gaining experience. The World Bank-managed Italian Carbon Fund is designed to provide an opportunity to develop such in-house expertise and to acquire needed emission reductions (see Ensuring Success, Sharing Knowledge, page 28).

The Chance to be out of the Starting Blocks Early

The Italian Carbon Fund became operational in March 2004 with a portfolio of eligible activities already under development. The ICF therefore should help participants maximize the volume of emission reductions generated by 2012, since the Fund is expected to begin to deliver emission reductions in 2005-2006, with up to 60% of the total emission reductions generated by 2012.

This early project advantage accrues to ICF participants joining the ICF prior to its closing—projected for the end of 2006. The projects proposed for the fund are drawn from the large number of project proposals which continue to be submitted to the World Bank in its role as Trustee for a number of carbon funds, and as a buyer on their behalf of greenhouse gas emission reductions from project activities under the CDM and JI. Throughout its

FOCUS ON POTENTIAL ICF PROJECTS...

TUNISIA: Cogeneration Plants

Cogeneration has recently been included by the Tunisian government as a priority for its energy and environmental strategy because of the high efficiency of the technologies involved. This proposed project would focus on the implementation of cogeneration plants, supplying electricity and thermal energy for the installations targeted by the project. The surplus of produced electricity would then be sold to the national utility to maximize the revenues from the cogeneration plants. The plants would include gas turbines or gas reciprocating engines connected to a heat recovery system from the exhaust. Over a period of 14 years 561,400 tons of carbon dioxide equivalent (tCO₂e) would be reduced.

years of operations in the carbon finance business, the World Bank has acquired experience in the identification, development and delivery of carbon assets to the market. Through shorter project preparation time, lower transaction costs and higher success rates, the World Bank expects to reduce the time of first delivery of emission reductions to fund participants. This is important since participants are concerned to maximize the delivery of emission reductions prior to the end of the first commitment period of the Kyoto Protocol.

Participating in the ICF Portfolio

Italian Carbon Fund participants will receive a *pro rata* share of emission reductions generated by projects within the ICF portfolio. ICF corporate participants can participate in the Italian Carbon Fund with a minimum contribution of US\$1 million.¹ The fund participants may either pay the full contribution upfront, or by signature of a promissory note, drawn over approximately 10-12 years, as payments are made upon delivery of reductions. The World Bank fund managers anticipate a draw-down schedule of approximately 10%-12% in the first year, followed by a similar schedule thereafter.

¹ All dollar references are US dollars.



Based on the World Bank's previous experience in managing other carbon funds, the costs of generating emission reductions are expected to be in the \$4-5/ton range with an eventual outcome price, including costs, of about \$6/ton (more information on markets and pricing is contained in Chapter 2).

International Network

Access to emission reductions from projects in developing countries and economies in transition can provide an opportunity for Kyoto governments and industry to meet their commitments flexibly, cost-effectively and credibly. The World Bank's carbon finance business (CFB) unit works closely with



major international climate change bodies and companies active in the emerging carbon market. In addition, the CFB unit often provides comments, lessons from practical operations and other feedback to the UNFCCC international negotiating process.

Reputation as a Good Corporate Citizen

All of the World Bank's carbon funds buy emission reductions from projects that not only reduce global greenhouse gas emissions but also seek to maximize local environmental, social and economic gains. This provides participants with an opportunity to demonstrate social and environmental leadership

through active engagement in the activities of the fund. In order to emphasize that the message from participants reaches the public, the World Bank has appointed a senior communications specialist to coordinate public relations of all funds and with fund participants.