

## CHAPTER 3:

### BACKGROUND AND OPERATIONAL STRATEGY





The Italian Carbon Fund operates in a similar way to other World Bank managed carbon funds. The fund purchases emission reductions from projects and pays on delivery of the verified reductions. The fund's participants receive a pro-rata share of those emission reductions based on their level of contribution to the fund. The emission reductions purchased by the fund are intended to be certified under the Kyoto Protocol and may be eligible for use towards mandatory or voluntary greenhouse gas reduction commitments under Kyoto or Non-Kyoto regulatory regimes.

### **THE ICF'S OBJECTIVES:**

The objectives of the fund are:

- a) To purchase emission reductions which are or which are likely to become eligible pursuant to one or more of the Kyoto Mechanisms and the EU ETS Linking Directive;
- b) To support projects which promote sustainable development;
- c) To promote international projects in renewable energy, energy efficiency, and carbon sequestration, and

- d) To build knowledge and understanding of the Kyoto Mechanisms and implementation of projects among the participants through their active engagement in the activities of the fund.

### **Fund Structure, Term, Size, and Contribution Level**

Like the PCF, this fund is established as a trust fund maintained and operated by the World Bank in its capacity as Trustee (Trustee) for the ICF on behalf of the Italian public and private sector contributors to the fund (Participants).

At the end of the term of the fund, the fund's remaining assets will be distributed pro rata among the participants, unless they and the World Bank agree otherwise.

### **The Fund's Operational Strategy**

#### ***Operating Principles***

The principles that have guided the carbon finance activities of the World Bank in the past will also apply to the operations of this fund. These principles include: (i) to purchase emission reductions consistent with the requirements of the UNFCCC and/or the Kyoto Protocol; (ii) to equitably



distribute between both the participants and the recipients of the funds the benefits resulting from the projects; and (iii) to disseminate the knowledge gained as a result of the fund development.

In addition to these general principles, the fund will:

- (i) Be constituted on a similar basis to that of the PCF, whereby its principal activity will be to purchase verified and certified emission reductions on behalf of its participants through the entry into emission reductions purchase agreements.
- (ii) Actively seek to reach countries and regions that are of particular interest to the Italian economy, including the People's Republic of China, Central and Latin America, the Mediterranean Region, as well as the Balkans and Middle Eastern countries.

### **Putting it All Together: The Initial Portfolio of Projects**

The Italian Carbon Fund is developing an initial portfolio of projects that will allow it to meet its objectives of efficiently generating Kyoto

compliant-grade emission reductions from projects in developing countries and economies in transition.

In the ICF, projects are to be selected for their ability not only to meet all primary portfolio and project selection criteria but also for the financial credibility of the sponsors, which must have a proven track record and economic depth; for their prospects of achieving financial closure; for their likely ability to generate emission reductions within two to three years from their selection; and for their potential for replication in other countries or sectors.

The ICF also is designed to give preference to projects that will generate at least 60% of contracted emission reductions by 2012. The ICF may however contract to purchase emission reductions generated after 2012.

The ICF portfolio of projects is expected to be technologically diverse, within the context that technologies need to be commercially proven and applicable to specific projects and unique country environments.