



CHAPTER 5:

**FUND
OPERATIONS**



Project Selection Criteria

To be eligible for Italian Carbon Fund support, projects must:

Be consistent with the rules and procedures governing emerging regulatory regimes as these may be established, such as the JI, the CDM or International Emissions Trading (IET) under Articles 6, 12 and 17 of the Kyoto Protocol, respectively, and/or the Emissions Trading Scheme of the European Union;

Be consistent with all relevant Italian and Host Country criteria concerning JI, the CDM or IET;

Comply with the operational policies and procedures of the World Bank, including the Bank's safeguard policies, except to the extent these are inconsistent with the Kyoto Protocol or UNFCCC, or the rules developed pursuant thereto, in which case the latter will prevail;

Be consistent with the World Bank's country assistance strategy for the country in which the project is located;

Be consistent with any applicable national sustainable development programs and poverty reduction strategy papers of the host country; and

Be consistent with any strategic direction and advice provided by the participants.

Project Portfolio Criteria

The Government of Italy and the World Bank have set the following criteria for the development of the ICF project portfolio:

Projects will be located exclusively in countries that are Parties to the UNFCCC and are either not included in Annex I of the UNFCCC (non-Annex I Parties) or are countries undergoing the process of transition to a market economy as specified in Annex B of the Kyoto Protocol. The ICF will not support projects in other Annex I countries.

No more than 50% of the contributions of the ICF capital will be committed to projects located in the same country. No more than 50% of the assets of the ICF will be invested in any one project.

In addition, following consultation with the participants in the ICF, the Trustee may consider allocating some of the contributions of the ICF capital to projects involving transactions pursuant to Article 17 of the Kyoto Protocol—"early" or "late" crediting.⁷

⁷ These refer to the possibility that the Trustee may purchase on behalf of Participants, Assigned Amount Units equivalent to emission reductions generated from JI projects in the period prior to or following the commitment period (2008-2012).

FOCUS ON POTENTIAL ICF PROJECTS...

CHINA: Converter Gas Recovery and Cleaning Project

This project in the People's Republic of China would focus on the recovery and use of converter gas which is the secondary energy of the iron and steel industry. By using the recovered gas the project would partly displace the need for an equivalent amount of coal-fired power generation. The project would reduce greenhouse gas emissions through the supply of the secondary energy. The annual greenhouse gas emission reductions for this potential project are estimated at about 80 thousand tons of carbon dioxide reductions.

All projects must meet standard selection criteria to ensure that the due diligence required for all World Bank projects (and therefore for all carbon funds managed by the World Bank) is undertaken. In addition, projects must be consistent with the UNFCCC, the Kyoto Protocol and the Marrakesh Accords, national environmental protection and development priorities of the countries hosting the projects, and the World Bank's country assistance strategies. It is required that various risks should be mitigated, i.e., projects should have manageable technical risk; the technology to be used in a project should be commercially available; and projections of emission reductions over the life of the project should be fairly robust.

ICF Project Cycle

The World Bank's Carbon Finance Business, through the process of developing project portfolios for its pioneer fund, the PCF, and its other carbon funds, has continued to refine and standardize a set of project documents, contracts and procedures. This experience will be utilized to develop a streamlined set of documents, contracts, and procedures for the ICF. While the project cycle is under constant refinement, an initial set of documentation has been developed.

All projects considered by the ICF will go through the following project cycle (see page 22), which is designed to make sure the project complies with the Kyoto Mechanisms rules, the safeguard policies of the World Bank, and the fund objectives and operating principles.

Supervision during project construction and lifetime

The Carbon Finance Business unit will monitor project construction; supervise modification requirements; arrange for initial verification to make sure all data collection and management are in place; and confirm that a satisfactory initial verification report has been received and that the fund is willing to accept delivery of certified emission reductions on behalf of the participants.

The Carbon Finance Business unit will also play a supervisory role during the lifetime of the fund, and will procure carbon-related services for each project; prepare annual business plans and budgets for the carbon assets; maintain project accounts and emission reduction records; administer consultant contracts for the preliminary project verification and ongoing supervision; review project performance against the purchase agreement; and carry out social and environmental assessments as needed.

PROJECT CYCLE

(required ICF documentation in red)

1 PREPARATION AND REVIEW OF THE PROJECT

1. Project ideas reviewed by ICF
 - **Project Idea Note (PIN)**
2. Host country endorsement sought
 - **Letter of Endorsement (LoE)**
3. Advanced project design documentation prepared by project sponsor
 - **Project Concept Note (PCN)**
 - **Project Concept Note (Bank PCN)**—if required
4. Further work authorized by Fund Management Committee and Participants' Committee
5. ICF formally signals intention to purchase emission reductions
 - **Letter of Intent (LoI)**
6. Letter of Approval sought from relevant host country
 - **Letter of Approval (LoA)**

3 MONTHS

2 BASELINE STUDY AND MONITORING PLAN (MP)

1. Baseline study and MP prepared by consultants or project sponsor
2. ICF quality control of results
3. Documents for validation prepared by ICF and project sponsor
 - **Project Design Document (PDD)**
4. Technical, financial, environmental, social due diligence (the World Bank)

2 MONTHS

3 VALIDATION PROCESS

1. ICF contracts the validator and submits documents
2. Validator studies project design, baseline and MP and consults with ICF and project participants
3. Validator issues a report and opinion
 - **Validation report and opinion**
 - **Project Appraisal Document (PAD)**—if required
4. Registration of project as per UNFCCC rules

2 MONTHS

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PROJECT COMPLETION

- 1. At lifetime of valid baseline or useful life of technology
- 2. According to UNFCCC rules, project can earn credits up to 21 years
 - **Project Completion Report**

UP TO 21 YEARS

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PERIODIC VERIFICATION AND CERTIFICATION

- 1. Verifier undertakes first verification and certification, typically one year after start up
 - **Verification and Certification Report**
- 2. ICF pays project sponsor for emission reductions (ERs) certified
- 3. Certified ERs issued as per UNFCCC rules and shared as per distribution agreement
- 4. Verification and certification undertaken annually or as deemed appropriate

1-3 YEARS

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CONSTRUCTION AND START UP

- 1. At construction completion, verifier contracted by ICF
- 2. Verifier checks that specifications of the MP are met ("initial verification")
 - **Initial Verification Report**
- 3. Project implementation starts
- 4. Project entity monitors in accordance with the MP
 - **Monitoring Reports**
 - **Periodic Supervision Reports**

4

NEGOTIATION OF PROJECT AGREEMENTS

- 1. ICF prepares term sheets and draft legal documents
- 2. Pre-negotiations workshop for project participants on market, contracts and the Kyoto Protocol (optional)
- 3. Negotiations
- 4. Project financial closure
- 5. Effectiveness of project agreements
 - **Emission Reductions Purchase Agreement**
 - **Host Country Agreement**

3 MONTHS