Bank Guidance

OpMemo - Supervision of Carbon Finance Operations - Attachment 1

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OpMemo - Supervision of Carbon Finance Operations

These Operational Memoranda were prepared for use by World Bank staff and are not intended to be a complete treatment of the subject. They should be read together with the OP/BP to which they relate.

Operational Memorandum

Revised April 2013

File with OP/BP 10.00, Investment Project Financing, on project implementation support, and OP/BP 14.40, Trust Funds, as they apply to Bank-administered trust funds for carbon funds; and it replaces the Guidelines on Supervision of Carbon Finance Operations, as revised in December 2009.

DATE: December 1, 2011

TO: Staff Recipients of the Operational Manual

FROM: Joachim von Amsberg, Vice President and Head of Network, Operations Policy and Country Services, and Rachel Kyte, Vice President and Head of Network, Sustainable Development

EXTENSION: 80454 and 85237

SUBJECT: Supervision of Carbon Finance Operations

1. This Operational Memorandum sets out how Bank staff are to supervise and monitor the carbon finance (CF) operations of World Bank-managed carbon funds. It complements the provisions of OP/BP 10.00, Investment Project Financing, on project implementation support, and OP/BP 14.40, Trust Funds, as they apply to Bank-administered trust funds for carbon funds; and it replaces the Guidelines on Supervision of Carbon Finance Operations, as revised in December 2009.

2. Oversight (supervision and monitoring) of CF operations is conducted in two phases:

   (a) the implementation phase, from effectiveness of the Emission Reductions Purchase Agreement (ERPA) to project completion; and

   (b) the monitoring phase, from project completion to termination of the ERPA.

Between these phases, oversight responsibility is transferred from the Region to ENVCF.

Implementation Phase

3. During this phase, the Region supervises the underlying investment (the CF operation), including Bank safeguard policies. Supervision of CF operations is guided by the provisions of OP/BP...
10.00, *Investment Project Financing*, on project implementation support, with the following exceptions:

(a) When an IFC or MIGA operation is involved, the IFC or MIGA component of the project is supervised by IFC or MIGA, according to their respective requirements; and

(b) The supervision of CF transactions excludes assessments relating to the application of the Bank’s fiduciary (procurement, financial management, and disbursement) policies.  

4. Staff report on the implementation and completion of CF operations in the same way as for any other Bank loan or IDA credit—through Implementation Status and Results reports (ISRs) and Implementation Completion Reports (ICRs). CF operations associated with a Bank loan or an IDA credit do not require ISRs or ICRs additional to those prepared for the loan(s) or credit(s) supporting the project; however, the carbon finance operation is addressed in the ISR and ICR. The ISR is prepared by Bank staff in accordance with Bank procedures, using the ISR template in the project portal, submitting it for clearance to the sector manager and country director, and sending a copy to the ENVCF Manager, the CF manager, the Regional CF coordinator, and the deal manager.

**Project Completion**

5. The project reaches completion upon reaching one of the following milestones:

(a) for Agriculture, Forestry and Other Land Use/Land Use, Land Use Change and Forestry projects, completion of first verification;

(b) for purchases made through a Green Investment Scheme, the later of two dates: the end of the Monitoring Phase as defined in the ERPA, or the termination of the ERPA; or

(c) for all other CF operations, “Project Commissioning,” which is defined in the ERPA General Conditions as “the date on which the Project is fully operational and capable of generating GHG Reductions.”

6. Oversight responsibility for CF operations can be transferred to ENVCF upon completion if all the following criteria are met:

- The latest signed ISR (a) includes a recommendation from the task team leader (TTL) to the country director and sector manager that responsibility for the project be transferred to ENVCF; and (b) states that the project performance for the project is Moderately Satisfactory or higher and is expected to continue as such with no further need for supervision by the Region, as all material environmental and social safeguard and related issues have been addressed in the project; and

- A transfer memorandum for the project, transferring the responsibility for oversight of the CF transaction to ENVCF, has been completed, signed by the country director, and transmitted to the ENVCF Manager, who has signified concurrence by countersigning the transfer memorandum. (A template for the transfer memorandum is attached.)

7. Once the transfer memorandum is countersigned by the ENVCF Manager, the deal manager is then responsible for further monitoring.
8. Programmatic or phased operations. For programmatic or phased CF operations—including bundled Clean Development Mechanism (CDM) or Joint Implementation (JI) projects and project activities under a Programme of Activities (PoAs)—responsibility for monitoring individual phases or a select group of bundled projects, CDM Programme Activities (CPAs) or JI Programme Activities (JPAs) under PoAs can be transferred to ENVCF, but only if the individual project activities (such as the CPAs or JPAs under a PoA) or the individual phases meet all the criteria for transfer set out in para. 6, and if they can be clearly identified and separated from other project activities or phases. To transfer oversight responsibility for such individual project activities or phases, the TTL prepares and the country director approves a transfer memorandum clearly identifying the project activities or phases (template attached). Once the transfer memorandum is countersigned by the ENVCF Manager, the deal manager is then responsible for further monitoring of the project activities or phases. Supervision of those individual project activities or phases not transferred to ENVCF remains the responsibility of the Region.

9. Once oversight responsibility for the CF operation, or all of the individual project activities, has been transferred to ENVCF, or if oversight responsibility for the CF operation has not been transferred to ENVCF prior to termination of the ERPA, the Region proceeds to close the project according to OP/BP 10.00, Investment Project Financing.

10. Implementation Completion Report. After project closing, the TTL draws on inputs from ENVCF staff in preparing the ICR according to OP/BP 10.00, Investment Project Financing, and associated guidelines. However, for stand-alone CF operations (those not associated with a Bank loan or an IDA credit), the content of the ICR is different from that set out in the relevant provisions on implementation completion reporting of OP/BP 10.00; instead, the ICR covers the following points:

- addresses the performance of the project, including, to the extent possible, the role and value of carbon finance in improving the overall sustainability of the project;
- measures, to the extent possible, the project’s success in meeting its implementation and development objectives;
- reviews and records the lessons learned from the experience;
- identifies any key issues or events that may arise in the future that could affect the project’s ability to deliver the contracted emission reductions; and
- assesses the project’s potential to deliver the contracted emission reductions.

Staff complete ICRs for CF operations as soon as possible after project closing, and no later than six months after project closing. Extensions of ICR completion dates may be granted by the Regional Vice President in exceptional circumstances.

Monitoring Phase

11. From the time responsibility for oversight of the CF transaction is transferred to ENVCF until termination of the ERPA, oversight is limited to monitoring compliance by the party to the ERPA with its obligations to deliver emission reductions, and related obligations. The relevant provisions of OP/BP 10.00, Investment Project Financing, on project implementation support do not apply during this phase, even if Regional involvement is required as described in paragraph 15. Bank oversight during this phase relies on the verification reports submitted by an independent auditor and
annual reporting from the project entity as required under the ERPA. ENVCF may conduct spot-checks of this information as needed.

12. For projects for which an Environmental Management Plan (EMP) is prepared in accordance with OP/BP 4.01, Environmental Assessment, the standard obligations under an ERPA include a requirement for the project entity to set out in an annual report evidence satisfactory to the Bank that the project is in compliance with the EMP. Bank oversight during the monitoring phase includes verifying this evidence.

13. For CF transactions that integrate specific and measurable social co-benefits with emission reductions (such as the projects financed by the Community Development Carbon Fund), monitoring during this phase also includes verifying compliance with the community benefit obligations included in the ERPA.

14. During the monitoring phase, ENVCF may conclude that there is a need for Regional knowledge and expertise, particularly in relation to environmental and social safeguards. In such instances the mechanisms for Regional involvement, including logistical and financial mechanisms, are agreed between the ENVCF Manager and the relevant sector manager and country director.

Attachments (1 and 2)

1. A carbon finance (CF) transaction refers to the commercial transaction involving delivery of and payment for emission reductions between a project entity and the Bank as Trustee of carbon funds (e.g., an Emission Reductions Purchase Agreement or ERPA). A CF operation refers to the investment activities that generate the corresponding emission reductions. The CF operation is typically part of a larger underlying investment. For further details, see Application of Bank Safeguard Policies to Carbon Finance Transactions, March 14, 2006; Guidelines on Due Diligence Aspects of Carbon Finance Operations, November 2007; Carbon Finance Operational Processing and Review Guidelines, November 2007; and Application of Bank Policies to Carbon Finance Activities (R2011-056), March 2011.

2. This Operational Memorandum does not apply to the supervision of grants provided as part of the readiness mechanism of the Forest Carbon Partnership Facility (FCPF) or the Carbon Asset Development Fund of the Carbon Partnership Facility (CPF). Unless a two-phase approach to supervision as described in paragraph 2 is subsequently agreed, it does not apply to payments made under the Carbon Fund of the FCPF. If a CF operation involves IFC financing, this Operational Memorandum applies only to the World Bank part, and not to the IFC part, of the CF operation.

3. These fiduciary policies do not apply to CF transactions, which involve only the purchase of greenhouse gas (GHG) emission reductions generated by CF operations.

4. If such extensions add cumulatively to more than six months from the original ICR completion date, the exception is reported to the Board as stated in Review of Operational Policy Waivers (R2011-0184), July 26, 2011.