

## GREEN WATER BONDS STANDARD

### Defining Expectations for Water-Related Green Bonds in a Dynamic Climate

#### Context

Climate change and increased hydrologic variability has and will continue to have a profound impact on the water sector through the hydrologic cycle, water availability, water demand, and water allocation at the global, regional, basin, and local levels.

Water-related investments comprise an enormous part of the capital assets of developed and developing economies, and this is set to grow substantially as developing countries move to address the challenges they face in supplying water to cities, economic activity and in maintaining and improving the quality of natural assets.

Given the increased atmospheric levels of greenhouse gas already experienced, the expected climate impacts will be substantial on temperature extremes, rainfall patterns, floods and droughts, hurricanes and cyclones, sea-levels and storm surges and so on, as a result of increased climate volatility.

Substantial adaptation investments will be required to respond to climate change, and new infrastructure will need to be climate change resilient.

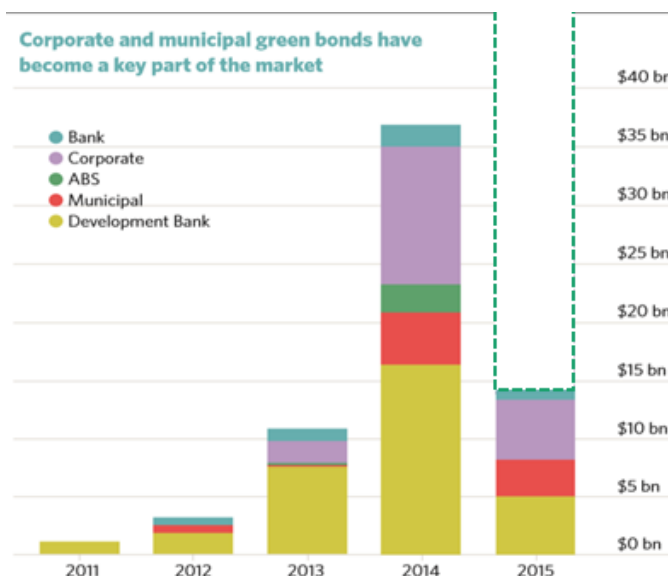
In many cases water investments will also have a mitigation aspect. For example, water infrastructure and the water habits it supports is a major energy consumer - in the US for example, 12.6% of total energy consumption is spent in one way or another directly on water.

#### The Need & Opportunity

The Green Bonds market has been growing rapidly with total issuance growing from \$3bn in 2012 to \$11bn in 2013 and \$36bn in 2014. Total issuance for 2015 is projected to reach \$70bn.

The market has been driven by a strong investor appetite for fixed income products consistent with low carbon and sustainable investment commitments being undertaken by investors with trillions of dollars in collective assets. For issuers, participation in the green bond market has proven to bring with it the advantage of buyer discovery; as a result, most green bond offerings have had more bids than offers.

**For the green bonds market to maintain credibility and to ease investor decision-making, there is a need for verifiable, science-based criteria for evaluating bond offerings.**



Developing a robust framework for bond issuances in the water sector is critical, as it will help to create awareness about the opportunity within the industry, and give investors the confidence that the funds are being used to deliver credible interventions.

For these reasons, Ceres, Climate Bonds Initiative, CDP and the World Resources Institute are embarking on the development of a Green Bond Standard for water investments.

The Climate Bond Standards & Certification Scheme provides assurance for investors about the climate benefit of fixed income investments. It eases decision-making and focuses attention on credible climate change solution opportunities. It's an environmental standard, not a credit standard

## The Output: Clear eligibility criteria for assets that can be used to issue green and climate bonds

The outcome of this work will be a screening tool for investors and governments to support investments in delivering a Low Carbon and Climate Resilient Economy. It will also provide clear definitions and guidelines for issuers on the eligibility of water related investments under the Climate Bonds Standard. Bonds complying with the Standard will be certified as 'Climate Bonds', and will follow both the general guidance set by the Climate Bonds Initiative<sup>1</sup> and the specific Criteria and Guidelines, to be developed by this project.

The specific Criteria and Guidelines will address:

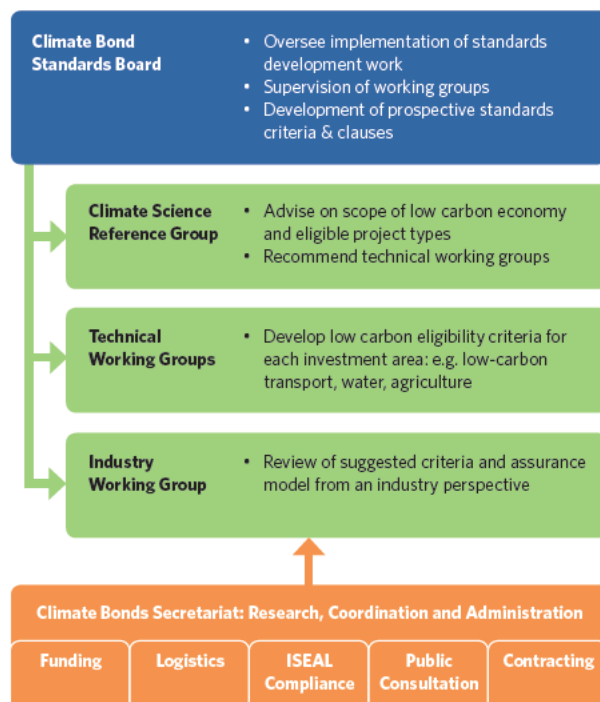
- Eligibility criteria: what type of assets qualify as a low carbon/climate resilient investment that can be widely used across countries, issuers and verifiers
- Specific exclusions: for example, activities that result in high energy consumption and emissions
- Recommended Monitoring and Evaluation (M&E) frameworks, including overlaps with other standards and certification schemes
- Specific Governance arrangements, additional to the existing Governance framework<sup>2</sup>

"Water-related" investments will range from clean water provision and water treatment infrastructure to catchment management, agricultural usage and storm and flood drainage or protection.

## The Process

The Standard will be informed by a Technical Working Group and approved by the Climate Bond Standards Board. The standard will be developed over an 18-month timeframe and released in early 2016.

1. Technical Working Group (TWG) meetings
2. Prepare Background Paper to Eligibility Criteria and Guidelines based on TWG discussions
3. Industry Working Group meetings to test practicality of TWG proposal
4. Public Consultations on the Proposed Eligibility Criteria and Guidelines
5. Revise and publish the Eligibility Criteria and Guidelines



<sup>1</sup> Climate Bonds Standard:

[http://standards.climatebonds.net/wpcontent/uploads/2014/01/ClimateBondStandard\\_Text.pdf](http://standards.climatebonds.net/wpcontent/uploads/2014/01/ClimateBondStandard_Text.pdf)

<sup>2</sup> For existing Governance arrangements, see: <http://standards.climatebonds.net/about-2/governance/>