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Water and Sustainable Development
From vision to action



Green Bonds

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Short summary

Green bonds have emerged in recent years as a new financial mechanism that offers investors an opportunity to support climate friendly investments. Projects funded by green bonds have been located across the globe and focused on a variety of goals, from increasing the resilience of water systems to boosting energy efficiency. The involvement of multilateral development banks has expanded the interest in green bonds, with governmental agencies, municipalities and, more recently, utilities and corporations finding ways to use the financial instruments.

Water is expected to be a key investment area for green bonds as the market grows. In the United States alone there will be an estimated \$300 billion to \$1 trillion invested in clean water infrastructure by 2030. But to keep this growth, new tools need to be at hand for assisting issuers in meeting investor demand for climate-themed bonds; assisting investors in recognising such bonds; and assisting governments in supporting investments in such bonds. Certified Climate Bonds will provide integrity and reduce reputational risks for all those involved in participating in a new asset class. Meanwhile, 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 climate change solutions.

Key words:

Green bonds, standards, climate change, water risks

Issues addressed:

WASH (inequalities, schools, health centers, refugee camps, women and girls)

Human rights to water will be explored under the Standard on how best it can be addressed in investment decisions.

Water resources management (water-use efficiency, integrated water resources management, transboundary cooperation, sustainable extraction and supply of freshwater)

- Water-use efficiency integrated water resources management
- Sustainable extraction and supply of water

Water resource management will be an inclusion area under the Standard.

Key question: How often water projects are likely to have a strong case for eligibility, on the grounds of whether they can be directly linked to mitigation or adaptation ('climate relevance').

Water quality (pollution, dumping of toxic materials, wastewater management, recycling, reuse, restore ecosystems and aquifers)

Water quality will be an inclusion area under the Standard where projects will be expected -at the minimum -to be able to adapt to climate related degradation.

Risks (mortality, economic losses caused by natural and human-induced disasters)

Water management plans that address risks associated with climate change. Climate change presents huge risks for water resources. Integrating climate adaptation plans, for example, across eligible water investments may be required under the Standard.

Tools for implementation

Financing/economic instruments: debt financing instruments (green/climate bonds).

Governance: Institutions / legal framework: Voluntary principles and standards under the governance of the Climate Bonds Standards Board and other key stakeholders.

Who is involved?:

- Climate Bonds Initiative + partners (World Resource Institute, Ceres, CDP)
- Technical Working Group (global): industry experts, NGOs, academia, development finance institutions, private sector
- Industry Working Group (global): private sector, governments, banks, verification bodies
- Public Stakeholders

What were the objectives of the intervention?: The objective is to develop eligibility criteria for water-related investments under the Climate Bonds Standard. The aim is to provide assurance for investors and governments about the environmental benefits (impact) of these investments. By establishing guidance and trust in the market, new investment opportunities can be realised at scale.

Implementation challenges: Building a standard that is robust and credible but also practical for market uptake is a key challenge. For examples, what type of water projects qualify as low carbon/climate resilient investments that can be widely used across countries, issuers and verifiers.

Main task/activities undertaken: The Standard is in early stage development. The following activities will be carried out:

- Technical Working Group is tasked with defining a set of criteria that can be used to evaluate the quality of water-related green bonds
- Draft proposals from TWG will go through series of consultations with Industry working group to assess practicality
- Draft proposals go through public review period for 90 days followed by Climate Bonds Standard approval process
- Webinars, workshops etc. used to communicate Standard to multi-stakeholder base (end-users)
- Educate market on credible investment opportunities for water

Main outcomes / impacts (what has changed?): Main outcome will be the development of a water green bonds standard that will be operational, transparent, and credible. An easy to use tool that will help guide issuers towards the most appropriate projects across the water domain that will meet the challenges of climate impacts.

Lessons learned

Triggers:

- huge investment requirements needed globally to meet the challenges of climate change.
- debt capital markets can help meet these investment needs; driving the transition to a low carbon and climate resilient economy.
- Development Finance Institutions have led the way for new players to enter the market.
- Water-related investments comprises an enormous part of the capital assets of developed and developing economies, and this is set to grow substantially to address climate impacts and other key challenges.

Drivers:

- Climate relevance is not always clear for some investment areas, particularly complex areas such as water.
- Water infrastructure projects may perpetuate high water consumption or poor water management rather than alleviate climate-related impacts.
- Clear definitions and guidelines needed to build a long term credible green bonds market at scale.
- Need to ensure impact is achieved.

Barriers:

- Lack of awareness in the market on the benefit/need of using the Standard.
- High transaction costs.

What has worked well?: There have been a number of examples where standards and best practices have been established to address water impacts, particularly at the company level (e.g. AWS, CDP). There have also been examples of criteria for water green bonds that have served as a resource to help guide the market in its early developments (e.g. World Bank Green Bond criteria). The Climate Bond Standard will look to leverage proxies wherever possible.

The way forward: The Climate Bond Standard for water related investments is expected to launch in the Spring of 2015.

Links:

<http://www.climatebonds.net/>