

## Climate Bonds Standard sector-specific guidance summary: Agriculture, Forestry and Other Land Uses

This is a summary for the sector-specific guidance for the Agriculture, Forestry and Other Land Uses, ('AFOLU'). This document is intended as a summary and clarification for potential issuers including the Industry Working Group (IWG). It complements the 'Background Paper to Eligibility Criteria' for the AFOLU sectors.

**VISION** As part of the Climate Bonds Initiative's (CBI) goal to accelerate a global transition to a low-carbon, resilient economy, the AFOLU climate bond standard seeks to maximize viable bond issuances with verifiable environmental and social outcomes. This guidance should be recognized as the first set of sector-specific guidance for AFOLU. All groups and individuals involved recognize the breadth and complexity of this sector and emphasize that this guidance be seen as a foundation on which to encourage increased transparency, and consistency in application of scientific best practices and data in the context of bond issuances. Note that CBI expects that the AFOLU guidance may be tightened over time, however any approvals given will not be removed or changed retroactively.

**OBJECTIVE** to create sector-specific guidance for investors, industry and governments that will help drive transparency and better reporting for projects and assets linked to AFOLU Climate bonds.

### 1. Key Features

- ❖ All AFOLU categories are covered, such as crop production, forestry, fisheries and livestock with diverse activities allowed for use of bond proceeds, including trade finance, Research & Development (R&D) and certification.
- ❖ All forms of capital and operational expenditures are included.
- ❖ An issuance in the AFOLU sector may be combined with other CBI sector specific standards, e.g. on transport, and water.
- ❖ Supporting adaptation to climate change, including promoting food security and local resilience to climate change impacts, is valued, not just reducing or preventing Greenhouse Gas (GHG) emissions ('mitigation'). However the mitigation threshold must be met (see Point 2 below). 'Adaptation' and 'resilience' refer to all interventions to help the environment or society respond to dangerous climate change, e.g. food and nutrition security, technology, weather information systems and financial risk management.
- ❖ The Greenhouse Gas (GHG) baseline and mitigation target must be calculated using transparent and scientifically credible methods, references to which are provided in the Background Paper.
- ❖ Adaptation and resilience-related targets must be transparent, use credible and best guidance and be independently monitored.
- ❖ Issues such as biodiversity and human rights including land tenure are to be considered. Issuers are expected to adhere to industry best practice as appropriate for the sector and the region, e.g. certifications and standards. References to relevant programs are included in the Background Paper.

## 2. Eligible Categories under AFOLU

All AFOLU-related sectors are theoretically certifiable under the guidance. Examples are included below. Note that other types of assets may be eligible under other sector-specific guidance with the Climate Bonds Standard guidance:

- ✓ Land assets and real estate, this includes land purchases, leases, investments in improving the land assets such as replacing old planting stock and related infrastructure that can help improve management such as weather stations and storage facilities.
- ✓ Water assets including fishing rights, coastal areas, aquaculture, mariculture, riverine fisheries, mangroves, wetlands - this includes improved management practices of such assets and related infrastructure.
- ✓ Animal and plant management, this may include R&D, breeding, upgrading to improved varieties, certification and post-production supply chain management (e.g. packaging).
- ✓ Information technology, this may include investment in new information and information management systems e.g. precision agriculture technologies.
- ✓ Finance, for example trade finance and working capital programs tied to improved management.
- ✓ Related infrastructure, such as silos and warehouses.

## 3. What are the key eligibility criteria for AFOLU under the Climate Bond Standard?

The following eligibility criteria complement the general requirements of the Climate Bonds Standard, available at: <https://www.climatebonds.net/standards>

Sustainability Area	Criteria
<b>Environmental and social sustainability</b>	<ul style="list-style-type: none"><li>• Adherence to national and local laws, industry best practice (e.g. certifications)</li><li>• Neutral or positive net effect on social issues and on biodiversity and ecosystem services, (e.g. IFC Performance Standards or similar relevant industry best practice, EIB's Statement of Environmental and Social Principles and Standards or Environmental and Social Handbook).</li></ul>
<b>Greenhouse gases GHG (mitigation)</b>	<ul style="list-style-type: none"><li>• A clear GHG baseline with calculations of GHG impact</li><li>• Independently verifiable with impact reporting over the life of the bond</li><li>• Bonds that are primarily focused on adaptation and resilience must at minimum have net positive impact on mitigation (i.e. net reduction in GHG emissions).</li><li>• All certified bonds must at minimum achieve net positive impact relative to their established GHG baseline</li></ul>
<b>Adaptation and resilience</b>	<ul style="list-style-type: none"><li>• Must demonstrate net positive mitigation impacts (i.e. mitigation impact &gt; 0), though they may focus more on adaptation and resilience impacts.</li><li>• These must be relevant according to government priorities and scientifically credible sources and approaches.</li></ul>

## 4. What do the criteria mean in practice?

The standard is intended to allow a wide scope for potential issuers (e.g., all AFOLU categories; both capital and operating expenditures). For example, use of proceeds under a certified AFOLU bond could be used for:

- Reducing climate footprint across the company's supply chain and related assets (e.g. buildings, factories, warehouses, inventory, equipment)
- Sustainable products (e.g. sustainable sourcing, certifications, eco-labeling, improved yields, reduced inputs)

- Projects and assets that increase regional to global food security by increasing the resilience of food production systems to weather extremes and other climate-related impacts (e.g. Climate Smart Agriculture)
- Improved forest management / sustainable forest management, e.g. moving to better management practices compared to industry / geography Business As Usual (BAU), improved efficiency in processing, or incorporation of set-asides

## 5. Types of issuers

This guidance is expected to be relevant for the following issuers, though other issuers are also possible:

A. Government	<ul style="list-style-type: none"> <li>▪ National</li> <li>▪ Municipality</li> <li>▪ Government Agency</li> </ul>
B. Corporate	<ul style="list-style-type: none"> <li>▪ Retailers</li> <li>▪ Food manufacturers</li> <li>▪ Global commodity trading companies</li> <li>▪ Consumer goods company with large supply chains</li> <li>▪ Global forest companies</li> </ul>
C. Financial Institutions	<ul style="list-style-type: none"> <li>▪ Commercial banks (with AFOLU-related lending portfolios)</li> <li>▪ Development Finance Institutions, Multilateral Development Banks, other development banks and similar institutions</li> <li>▪ Regional financial institutions</li> </ul>

## 6. Potential use of proceeds criteria (examples):

- Investments in sustainable plantations, production buildings, factories, warehouses, inventory, vessels and other transport, and other equipment including in waste reduction and recycling facilities, silos, storage, etc.
- Expenses for local, sustainable and / or organic food and beverage sales formulas, packaging and advertising.
- Expenses related to complying with sustainable certification schemes and supplier standards.
- Expenses related to various demonstration projects (like local farmer support and pilots for drought-resistant crops), as well as R&D, e.g. for new crop varieties or applications.
- Finance for input suppliers and smallholder producers and investments in smallholder support and training, including farmer outreach and extension, and training on climate smart practices.
- For banks, loans to sustainable companies (with good performance in the areas above) and pure play companies (latter defined by industry codes).

Note that the entire expenditure for such an issuance is eligible for the certified bond. The essential requirement is that there is a net positive GHG impact compared to a baseline and that this is

transparently defined and checked by an independent, accredited body. Baselines should be determined based on current BAU scenarios for the sector and geography. Additional sustainability issues (e.g. food security) rely on sensible baselines and metrics (which should also be independently audited, but are not set) and established industry best practices.

## 7. Example of potential issuer

### Commodities trading company

Company invests in various commodities including palm oil, soy, cocoa and cotton. To increase sustainability and security of commodity sourcing, the company invests directly in production and in the supply chains; this includes investments in improved yields (more resource efficient production), local agriculture diversification, nutrition security initiatives, supplier finance, training and extension for farmers on sustainable intensification practices for example. All of these interventions are potentially eligible.

### Forestry company

Company has a portfolio of forestry-related assets, including certified timber production assets (on land that has not been cleared of primary forest, and where there are no tenure disagreements), and timber-related processing equipment (e.g. saw mills). Investments under a climate bond may include changes to forest management systems, new planting on degraded lands, investments in improved efficiency of use e.g. saw mill efficiency and transformation and use of by-products.

For both examples, the company would provide the third party verifier with the following:

- use of proceeds defined according to the eligibility criteria
- management of proceeds (internal tracking method and allocation of funds)
- annual reporting on use of proceeds (GHG and non-GHG impact over the life of the bond)

This guidance covers a wide range of sectors and possible interventions and so will remain flexible, it will be updated on a needs-be basis, and reviewed annually.