



Water Climate Bond Standard

Frequently Asked Questions (FAQ) October 2016

1) What is a bond?

Bonds are a debt instrument or type of loan or IOU that governments, companies and other entities issue to finance or refinance projects. The issuing entity guarantees to repay the bond over a certain time period, plus either a fixed or variable rate of return to the bond buyer.

2) What is a green bond?

Green bonds are a fast-growing type of debt instrument similar in financial structure to a 'vanilla' bond outlined above. They are an instrument for earmarking private financing to fund projects that deliver environmental benefits.

Most green bonds are use-of-proceeds bonds, with the issuer committing to investors that all funds raised will only go to specified projects with positive environmental outcomes.

3) What is a Climate Bond?

Climate Bonds are a subset of green bonds. Use-of-proceeds must be invested in assets compatible with a low carbon future in which water infrastructure or management projects are adaptable and resilient to current and future climate change.

4) What is a water climate bond?

This is shorthand for a climate bond where the proceeds are used for assets and projects which are water infrastructure or water management related and focus on adapting to or mitigating climate change.

Like normal bonds, water climate bonds can be issued by governments, municipalities, multi-national banks or corporations.

As an example, water climate bonds can be used for energy or industrial water efficiency projects reuse, catchment or watershed restoration and/or large-scale water supply infrastructure development.

Where a bond issuer is seeking to ensure their bond offerings for water-related infrastructure, or water systems within industrial and manufacturing processes, or maximise sustainability and environmental factors, a water climate bond provides a standard for assessment of these factors.

5) What is Certification?

A Certified water climate bond is a bond where it has been independently verified that the proceeds have been or will be spent on water infrastructure assets and projects, in compliance with the terms of the Water Criteria of the Climate Bonds Standard, and the Climate Bonds Standard Board has approved the bond certification on that basis.

6) Why is water important in the context of climate change?

The World Economic Forum recently [named water](#) as a major global economic risk. Population growth, increased competition for dwindling supplies, aging infrastructure and water pollution are key drivers, but climate change will exacerbate all these challenges.

Physical risks from climate change very often manifest as water risks. Drought, floods and other extreme weather conditions are likely to increase in frequency and severity, putting pressure on water utilities and infrastructure. Existing systems for water catchment may be insufficient as precipitation patterns shift from more frequent, predictable rain and snowfall to less frequent, more violent storms.

Water infrastructure that is able to cope with and proactively prepare for more extreme and unpredictable weather patterns is a necessary investment for a sustainable future.

In addition, water infrastructure can offer mitigation potential.

Water distribution systems can use large amounts of energy. Similarly, sewage plants and wastewater generate methane emissions, a highly potent greenhouse gas. As we aim to move to a low-carbon development trajectory, it is important that all opportunities are taken to minimize emissions across all sectors, including water.

7) Why do we need to recognize water infrastructure assets as distinct criteria under the Climate Bonds Standard?

Water bonds are issued all the time for financing water infrastructure and water management projects, but without climate screening there is no means for ensuring that the funds will go to sustainable, climate-resilient projects.

Furthermore, before third-party standards were developed for green bonds, many investors were hesitant to invest in the market. One major US investor even likened [parts](#) of the green bonds market to the “wild west,” because of the loose definition of what constituted an “environmental” or “sustainable” project.

Setting a robust standard can allay investor concerns that projects have credible science based credentials and help build a credible market.

Developing Water Criteria under the Climate Bond Standard was therefore undertaken to provide investors with a clear signal that their funding was supporting climate-compatible projects.

It will also open opportunities for corporate, municipal and other bond issuers to raise funds for climate-compatible water-related projects more readily in the future.

8) What kinds of projects and assets are eligible?

All water infrastructure and water management projects and investments are potentially eligible, if they have taken into account climate mitigation, adaptation and resilience opportunities.

The Criteria released in October 2016 relate to built (also known as grey) water infrastructure, and use of proceeds directed towards these assets and projects can now be certified.

This also includes water-related infrastructure, or water systems within industrial and manufacturing processes, where maximising sustainability and environmental factors is part of the design and performance objectives.

Phase 2 of the development of the Water Criteria is currently underway, to develop and incorporate Criteria for green or hybrid water infrastructure.

This could include projects that address issues of water quality, or the potential of water infrastructure to contribute to the resilience of the surrounding ecosystem or watershed.

Specific examples include projects as diverse as industrial water efficiency, reuse, catchment or watershed restoration, and or large-scale water supply infrastructure development.

As an example, the San Francisco Public Utilities Commission was the first to issue a Climate Bond Standard Certified Water Bond. Proceeds from the USD 240 million Waste Water Revenue Bonds will fund eligible sustainable storm water management and wastewater projects from the utility's Sewer System Improvement Program.

For full details on which projects are eligible and under which conditions, please see the Water Criteria document [available here](#).

9) How were the Water Criteria under the Climate Bond Standard created?

The Criteria were drafted through a rigorous science based process undertaken by a [Consortium](#) led by Climate Bonds Initiative in conjunction with the Alliance for Global Water Adaptation, (AGWA) CDP, Ceres and World Resources Institute (WRI).

This process included convening a Technical Working Group (TWG) of global water experts to determine the scope and nature of the Criteria through a consensus-based collaborative approach. An Industry Working Group was also convened to advise on the practicality of the Criteria being developed. A list of members of both these groups is available [here](#).

The Technical Working Group adhered to the Climate Bonds Science Framework, a robust, scientifically grounded analysis on emission mitigation pathways, technology options and impacts.

The Climate Bonds Science Framework is overseen by the CBI Board and implemented by Climate Bonds Initiative secretariat and a network of climate research institutions led by the Potsdam Institute for Climate Impact Research.

Following public consultation, the Criteria were submitted to the Climate Bond Standards Board for approval. The Board provides independent oversight over the implementation and operation of the Climate Bonds Standard & Certification Scheme (CBSCS). The Board members comprise a range of asset owners' civil representatives and NGOs with approximately US\$34tn of assets under management.

10) Why Issue a Climate Bonds Certified Water Bond? Aren't there additional costs?

All certified bonds have some additional transaction cost because issuers must appoint independent verifiers to verify the use of proceeds are compliant with the Water Criteria of the Climate Bonds Standard, and comply with overarching requirements of

the Standard relating to reporting and accounting. In addition, there is a small administration fee to the Climate Bonds Initiative on certification.

However, the many benefits outlined below can offset this cost, especially for repeat certified bond issuers.

- Green bonds generally:
 - Are in high demand and issuances are generally over-subscribed with associated tightening of yields;
 - Are particularly attractive to a growing proportion of investors who are allocating portions of their portfolios to green investment. This enables issuers to tap into new pools of funding and diversify their investment base.

- Certified bonds specifically, with their third-party verification of scientifically robust criteria:
 - Increase transparency and comparability for investors, minimizing their transaction costs in the evaluation of the bond;
 - Minimize transaction costs for issuers as credible external parties have taken the burden from issuers and verifiers for ensuring that their projects are resilient, climate adaptive, most energy efficient;
 - Offer the issuer strong green credentials by demonstrating that they've done their due diligence.

11) Will the Water Criteria be updated over time?

Yes. The Water Criteria are in their first phase and will be reviewed annually for at least the first three years for potential additions and revisions. This is critical because the field of sustainable water infrastructure is expected to evolve significantly and rapidly in the near future as finance mechanisms, financial flows, and policy priorities direct increasing attention to both climate mitigation and climate adaptation.

New developments and insights regarding best practices for climate resilient sustainable water infrastructure and projects will be applied to the criteria in subsequent phases.

12) How does the Water Criteria fit within the broader Climate Bonds Standard?

The Climate Bonds Standard and Certification Scheme is a screening tool that enables the identification of bonds that are positively contributing to a low carbon future, and/or adaptation and resilience to climate change.

Only projects and investments that have been independently verified to meet the requirements of the Climate Bond Standard can be certified and use the accompanying 'Climate Certified' trademark in the market.

The Climate Bonds Standard is made up of two parts:

- A parent standard setting out the common requirements for reporting and fund management that all certified bonds must meet, and
- A suite of sector-specific Criteria, each of which set out what projects or project characteristics in that sector qualify as sufficiently climate compatible. Each one is based on the best scientific knowledge and is developed by a Technical Working Group, consisting of key experts from academia, international agencies, industry and NGOs.
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The Water Criteria are one of many sector-specific Criteria developed under the Climate Bonds Standard. Further information on the parent standard or the suite of sector-specific Criteria is available here [add links to webpage].

13) How big is the market?

The overall green bond market has grown rapidly since the first issuance less than ten years ago, reaching USD 41.8 billion globally in 2015. 2016 growth has already surpassed USD \$50 billion and is expected to reach between USD \$80 -\$100 billion by Dec 31st.

Water bonds are an emerging subset of green bonds and are projected to grow with the release of the Water Criteria of the Climate Bond Standard.

14) Where can I obtain more information?

The Climate Bonds website has additional information on the Water Standard [here](#), and further information on [Standards](#) and [Certification](#) for green bonds.

Ceres has extensive water related resources [here](#).

The AGWA [website](#) contains a wide variety of water related topics here.

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