FAQs on the Agriculture Criteria

What is a bond?

A bond is 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, plus either a fixed or variable rate of return to the bond buyer. A bond is a financial instrument that allows the issuer to borrow funds with the promise to pay them back with interest by a certain date.

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 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 go only to specified projects with positive environmental outcomes.

What is a Climate Bond?

Climate Bonds are a subset of Green Bonds. Proceeds must be invested in assets compatible with a low carbon future in which infrastructure or management projects are adaptable and resilient to current and future climate change. A Climate Bond is used by governments, companies, municipalities, and commercial and development banks to finance (or refinance) projects that address climate change, such as wind farms, solar and hydropower plants, and rail transport and sea walls in cities threatened by rising sea levels.

What is the Climate Bonds Initiative (CBI)?

Climate Bonds Initiative (CBI) is an international investor-focused and not-for-profit organisation working solely to mobilize the $100 trillion bond market for climate change solutions. We promote investment in projects and assets necessary for a rapid transition to a low carbon and climate resilient economy. The strategy is to develop a large and liquid Green and Climate Bonds market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets. Our work falls into three workstreams: market intelligence, developing a trusted standard and providing policy models and advice.

Why is agriculture important in the context of climate change?

By 2050, it is projected that the global population will increase to 10 billion, resulting in a 50% increase in food demand, with global grain demand projected to double. Income growth in low- and middle-income countries is driving changes in diets towards more emissions-intensive animal-based products, much of it grain-fed. While the need to increase crop yields is clear, how this will be achieved is less obvious given the likely negative impacts of climate change and the evidence that yields of major crops have been levelling off in large parts of the major producing countries.

Given agriculture's central role in climate change, sustainable development, and food security, achievement of major international policy targets will be impossible without meaningful action in the sector. The United Nations Sustainable Development Goals call for transformation of our economic, financial, energy, and land use systems. Frontrunner companies have committed to zero deforestation supply chains. Climate change mitigation in the land sector, which is strongly linked to commodity markets (e.g., beef, soy, paper and pulp, biofuels), can build on experience gained through sustainability roundtables and certification schemes.

Sustainable agriculture projects can contribute to addressing climate adaptation needs as defined by the Paris Agreement, but stakeholders must be able to verify their credentials. The Climate Bonds Agriculture Criteria supports investors' decision-making processes on which projects are eligible to help reduce emissions, adapt to climate change, and secure climate resilience. The Criteria also includes metrics, methodologies, and tools to measure and monitor compliance.

Given its role in addressing climate change and its prominent function in feeding the human population, investment in Agriculture is already taking place. In response, CBI has introduced the Agriculture Criteria to enable investors to support projects that truly support the objectives of the Paris Agreement and mitigate environmental and climate risks upfront.

What is an agriculture Climate Bond?

This is shorthand for a Climate Bond where the proceeds are used for agriculture-related assets and projects, and those assets and projects contribute to climate mitigation and adaptation goals.

As examples, agriculture Climate Bonds can be used for agroforestry practices, new low-till agriculture systems, conversion of degraded land for agriculture production, precision agriculture and microorganisms to substitute for or to reduce use of mineral N fertiliser or pesticides.

Like vanilla bonds, agriculture Climate Bonds can be issued by governments, municipalities, multinational banks, or corporations.

Why do we need Criteria for agriculture projects and assets?

The Criteria take a bold new approach by defining rigorous standards for both the reduction of greenhouse gas (GHG) emissions and resilience to climate change. We build on existing protocols, tools, and best practice for good environmental and social performance. There is presently no set standard for agricultural green bonds; some are not aligned with the objectives of the Paris Agreement, whereas others that may contribute to fighting climate change are not labelled 'green'. CBI aims to develop standards that allow investors to identify bonds aligned to the objectives of the Paris Agreement on climate change.

Several bond issuers are using Green Bonds to finance or refinance agriculture projects and assets; however, not all of these Green Bonds have been well received in the market due to investor concerns over climate change-related risks.

CBI is providing a solution by introducing the new Climate Bond Criteria for Agriculture. These Climate Bonds will be subject to robust and transparent screening criteria that will ensure any projects or assets are in line with the goals of the Paris Agreement and adhere to good international and industry practices by aiming to reduce environmental and climate impacts.

Climate Bonds offer investors and stakeholders a way to verify a project's environmental credentials and seek to define the gold standard for projects and assets that advance the goals of the Paris Agreement while reducing negative impacts on local environments and societies.

What kinds of projects and assets are eligible and under what conditions?

Climate Bonds can finance the acquisition and management of agriculture assets and tools developed to improve their carbon mitigation or adaptation and resilience to climate change (e.g., weather forecasting software). Forestry can also be financed via Climate Bonds, but CBI covers them under the Forestry Sector Criteria as this specifically relates to the production of timber. Intensive production – termed protected agriculture – is currently available only in the country of Mexico and is not covered in these Criteria.

The process of producing energy from biodegradable municipal solid waste (MSW), including sewage sludge and food waste, is covered by the Water Infrastructure Criteria and the Waste Management Criteria, respectively, under the Climate Bonds Standard. However, wastes such as manure and wet wastes (farm and crop wastes) are in the scope of the Bioenergy Criteria.

Projects and assets that meet the Agriculture Criteria for Climate Bonds should have a low GHG footprint while enabling climate adaptation and resilience in line with the objectives of the Paris Agreement. Additionally, they will not cause significant negative impacts in respect of wider environmental or social issues.

As a general principle, bonds will meet the requirements of the Climate Bonds Standard if the projects/assets financed by the bonds promote low carbon infrastructure as well as adaptation and resilience to climate change in the systems in which they are located. To meet the requirements of the Agriculture Criteria, each Agriculture project or asset must undergo a two-part assessment:

i) The Mitigation Criteria require Agriculture facilities to have a Climate-aligned % reduction in GHG emissions (tCO_2e) over the investment period compared to emissions at the start of that period or provide evidence of following low-emission agricultural best practices

ii) Second, facilities seeking inclusion in a Climate Bond must meet strict standards for adaptation and resilience to climate change within their local systems. There is no predictive screen through which facilities can pass the "A&R" portion of the Climate Bond Criteria tests; each site must undergo an assessment. This process will identify gaps between the facility's practices and international best practices. If gaps are identified, an Action Plan must be established and implemented.

Projects and assets will not meet the Agriculture Criteria unless they pass both the Mitigation Criteria and A&R Criteria.

What is not covered by the Criteria?

The Agriculture Criteria do not cover other indirect emissions outside of the production unit resulting from activities elsewhere in the value chain, such as fuel and material extraction, sourcing of animals or subsequent production and transport. This choice was made in order to make a start on the agriculture sector and this limitation in scope has been made purely in the interests of pragmatism.

Why has livestock been included given its significant role in emissions?

Demand for animal protein products is increasing as populations grow and income levels rise in developing countries. There is also huge support for agriculture from policy mechanisms for food security, employment, and GDP. Set against this is the enormous contribution, particularly from ruminant animals to GHG emissions.

Whilst it is recognised that collectively we need to eat less meat, the exclusion of certain production systems or commodities from the criteria at this stage is a blunt tool to achieve this. Whilst it may send a clear signal about the end goal, it may not have the desired effect of encouraging the transition towards that, especially amidst strong consumer support. In addition, it is recognised that some animal production systems may positively contribute to climate action though the scope and scale is not yet well understood.

Instead, the approach is to effectively engage with the sector to create a premium product platform for livestock and to realise the mitigation potential within the sector. It is estimated that this could be around 30% just from practices and technologies widely available today by setting ambitious criteria, so that halving emissions by 2030 becomes possible. This develops an engagement platform to reshape the sector more fundamentally over time and move on to a more robust pathway to reduce emissions.

This approach is consistent with other, leading players and movements – e.g., EU Member States (and EU Taxonomy), and development banks who are engaged in investments in livestock across the board.

What is a certified agriculture bond?

A Climate Bonds Certified Agriculture bond is a bond which has been independently verified to see that the proceeds have been or will be spent on Agriculture assets and projects, in compliance with the terms of the Agriculture Criteria of the Climate Bonds Standard. The Climate Bonds Standard Board will approve Certification on that basis. All the detail on this process is at https://www.climatebonds.net/certification/get-certified and is summarised below:

How to verify alignment to the Agriculture Criteria?

Firstly, potential issuers should ensure that the requirements of the parent standard (the Climate Bonds Standard) can be met. Then, the details in the Agricultural Criteria on eligibility should be studied. The Certification team can resolve queries and can be contacted at certification@climatebonds.net. Note that the requirements for both mitigation as well as the adaptation and resilience criteria must be met.

How is compliance verified?

For an issuer to have its bond qualify as a Certified Climate Bond, an approved third party must verify compliance with CBI's Climate Bond Standard. Details on approved verifiers is available at https://www.climatebonds.net/certification/approved-verifiers. Assessments must be carried out by accredited assessors who have expertise in the agriculture and livestock industry. The Climate Bond Standards Board is then responsible for approving the certification. For further information: https://www.climatebonds.net/certification.

What is the timeline and cost to certify an agriculture bond?

There are two types of costs involved with Climate Bonds Certification: Internal and External.

Internal costs are incurred by the Issuer when they establish the required internal processes and controls to meet the requirements of Certification. There may also be costs associated with tracking the performance of the projects and assets tied to the Climate Bond.

External costs include:

1. Engagement of the Verifier for Pre-Issuance and Post-Issuance assurance procedures and reports, and perhaps periodic assurance as well. The cost is based on commercial negotiations between Issuers and Verifiers.
2. A certification fee equivalent to 1/10th of a basis point of the bond principal. For example, on a USD 500 million bond, the certification fee is USD 5,000. Certification fees contribute to funding the development of the Climate Bonds Standard and the operation of the Certification Scheme. This is paid only once and immediately after the Issuance of the bond.

What are the benefits of certification?

FOR ISSUERS

1) **Robust label**: Certification allows issuers to demonstrate to the market that their bond meets best practice standards for climate integrity, management of proceeds and transparency. Assets that receive Certification are aligned with the Paris Agreement goal of 1.5°C of warming, i.e., net zero emissions by 2050 or earlier. The issuer will also manage its bond proceeds properly.

2) **More diverse investor base**: Most issuers find that the range of investors interested in their bond is much broader compared to their usual group of investors. These investors may be more "sticky", i.e., they hold their debt for longer. There may sometimes be pricing advantages / benefits, depending on the circumstances, because of this increased investor demand for their bond.

3) **Easier-to-find**: Certification allows potential investors to quickly find a credible green / climate bond with providers of market information.

4) **Enhanced reputation**: Certification allows an issuer to associate its organisation with efforts to scale up financial flows for delivering the low-carbon economy and securing prosperity for future generations.

5) **International Standard**: This is the only green bond standard / label that is used internationally, by issuers in 30 countries.

The Climate Bonds Standard is innovative in that it allows not only obvious project bonds for renewable energy generation or green portfolio bonds to be labelled as 'Climate Bonds', but also allows corporate bonds to be linked with low-carbon activities, without compromising on the normal credit ratings of the issuer.

A robust and credible standard eases decision-making and focuses attention on credible climate change solution opportunities. The easier it is to use, the faster the market will grow.

FOR INVESTORS

Investors can use the Climate Bonds Standard as a screening tool to assure the low-carbon nature and integrity of their fixed-income investments.

While Certification as conforming with the Climate Bonds Standard does not provide any assurance regarding credit risks or returns, it does allow investors to save time and money in analysing low-carbon credentials of investments across sectors and asset classes. Investors can do less due diligence themselves to screen the bonds, because the Certification is guaranteeing greater transparency and consistency.

A liquid market of Certified Climate Bonds also allows investors to actively participate in the delivery of the Low-Carbon Economy in three ways:

1) **Proactively hedge** against future climate risks by financing a low carbon transition;

2) **Signal to the market** their appetite for suitably risk-adjusted green deal-flow; and

3) **Signal to governments** their willingness to invest in the low-carbon transition subject to stable policy frameworks and risk-adjusted returns.

What is the value of having a green bond certified under the Scheme?

As the green bond market grows, a Certified Climate Bond provides assurance to the market that this investment product is aligned to the Paris Agreement goals and the bond proceeds will be managed appropriately. The costs to the issuer are generally relatively minor. It is different to a second opinion because a Climate Bonds Certified Bond has been checked with a standardised and transparent methodology that is aligned with the Paris Agreement goals and is more rigorous than a Second Opinion.

How have these Criteria been developed and what is CBI's role?

The Agriculture Criteria were drafted through a rigorous science-based process undertaken by a Technical Working Group (TWG) of global Agriculture experts to determine the scope and nature of the Criteria through a consensus-based collaborative approach. An Industry Working Group (IWG) was also convened to advise on the practicality of the Criteria being developed. A list of members of these groups is available at https://www.climatebonds.net/standards/agriculture.

In 2019, the Climate Bonds Initiative launched a TWG to develop the technical Criteria for the eligibility of projects and assets, as well as guidance on the tracking of eligibility status during the term of the bond. Members of the TWG include representatives of CGIAR, The Nature Conservancy (US), Embrapa (Brazil), Several universities (Johannesburg, Helsinki, Edinburgh, Oxford), as well as independent experts. An Agriculture IWG made up of potential bond issuers, investors, financial intermediaries, and verifiers was also convened to provide input to the recommendations.

The TWG 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 the Climate Bonds Initiative Secretariat and a network of climate research institutions led by the Potsdam Institute for Climate Impact Research.

The Agriculture Criteria were approved by the Climate Bonds Standard Board. The Board provides independent oversight over the implementation and operation of the Climate Bonds Standard & Certification Scheme. The Board members comprise a range of asset owners' civil representatives and NGOs with approximately US$34tn of assets under management.

How does the Criteria account for environmental and social responsibility?

The Climate Bonds Standard is focused on climate impacts: climate mitigation and climate adaptation and resilience. The working concept of climate resilience is not limited to the resilience of the agriculture facility itself to climate change but also encompasses the facility's impact on the resilience of affected populations and ecosystems. Defining climate adaptation and resilience can, therefore, be challenging. However, many topics which have been a part of environmental and social (ES) assessments for a number of years overlap significantly with climate adaptation and resilience:

for example, the potential impact of climate change on Agriculture conditions, and consequently water supply and local livelihoods; or climate change exacerbating ecological problems such as impaired species migration and algae blooms. Environmental and social impacts such as these, already complex and interconnected, become more so when climate change impacts and risks are considered, and there is a logic to addressing all key ES factors, rather than trying to separate them out.

Given current climate science, shouldn't all bonds comply with climate standards?

We want to identify bonds that contribute to the achievement of the Paris Agreement, in all relevant sectors. Sector Criteria already developed by CBI include solar energy, wind energy, marine renewable energy, geothermal power, production of biofuels, buildings, land transport, shipping, water infrastructure, waste management, forestry, and hydropower. In addition to Agriculture, sector criteria currently under development include electricity transmissions and distributions systems and we will shortly develop criteria for heavy industry and other key sectors that need to transition to a low carbon economy. We specifically exclude fossil fuels and nuclear energy.