

## **Request for Proposals: What is the potential for high-integrity VCMs to help finance resilient water systems, and how can that potential be realised?**

In collaboration with the Sustainable Markets Initiative, WaterAid, HSBC, VCMi and Gold Standard are supporting analysis to explore the potential to unlock voluntary carbon markets (VCMs) investment in resilient water systems.

### **Introduction**

There is an increasing awareness of the need to invest with urgency and at scale into building water security and climate resilience in emerging economies. 90% of climate impacts are related to water and estimates of the funding needed to address all aspects of water services, resources and infrastructure to respond to climate change can be up to \$1 trillion a year through to 2030. At present however the options for funding are falling short, particularly relating to private investment. High quality voluntary carbon markets (VCMs) could play a role in enabling private investment to fill this gap.

In addition, there is no way of reaching 1.5C and net zero without investing in water: water is responsible for around 10% of global emissions (from treatment, distribution, use, sewage etc) and it is also a core part of the energy system, from cooling nuclear power stations and cleaning solar panels, to generating hydrogen and in the manufacture of lithium for batteries. There is therefore a significant opportunity to secure CO<sub>2</sub>e savings from better water management across the whole value chain.

Voluntary carbon markets are poised for potentially significant growth, with some analysis estimating they could grow to up to \$50 billion in 2030. To date, the water sector has not been a significant part of the VCM. There are few examples of where high quality carbon credits are created and used, and so there is little knowledge of the potential for VCMs to deliver finance into GHG impacts and co-benefits into resilient water systems. There is a gap in the supply of good quality projects, as well as demand, and this creates a potential opportunity to shape both and to create a financial flow for investment into improved water resilience.

### **Proposal**

WaterAid, VCMi, HSBC, and Gold Standard request proposals for the delivery of a report that:

1. Scopes the opportunity for VCMs to help finance sustainable water, and estimates the impacts on GHG outcomes and water-related co-benefits
2. Identify a clear pathway to promote this opportunity within the VCM.

Analysis should be unbiased and include all, or a combination of, desk-based research, scenario analysis, expert and policy engagement, and case studies. Case studies relating to Bangladesh and Nigeria would be desirable, as significant countries of interest for the Resilient Water Accelerator's ongoing work on climate related water investment.

### **Scope of work**

The central question to assess is: how can high-integrity voluntary carbon markets help to close the financing gap for sustainable and climate-resilient water services and resources? It will be important to consider the potential to deliver the co-benefits of incentivising a low carbon pathway for water systems, alongside water security goals such as increased access to clean water; more robust water infrastructure, wastewater management; and protection of ecosystems.

The work should:

- Present a short review of similar products for nature/oceans etc
- Develop analysis which results in an estimate (and range) for the annual volume, and projected market size of voluntary purchases of high-quality carbon credits with water co-benefits over the coming decade if all viable opportunities were converted – to give an indication of the potential size of the market in financial terms.
- Break this down into sub sectors or project types – eg efficiencies in manufacturing / industry; wastewater treatment and sewage management; improved agricultural practices; savings from pumping, treatment and distribution of water; nature based solutions including management of mangroves and wetlands; decentralised networks etc. The consultants should suggest a typology.
- Clearly explain methods used in the analysis and basis for results.
- Highlight potential wider benefits from these kinds of projects – economic, social and environmental in line with SDG and climate commitments
- Summarise potential challenges to unlock the projected potential, and options for solutions, including relating to metrics, MRV capacity and integrity, uptake and demand, for example.

The work will be overseen by four partners: WaterAid, HSBC, Gold Standard and VCMI, potentially collaborating with other SMI taskforces such as the Insurance Taskforce. It will be an output of the SMI's Water Taskforce and will be presented to this group, and the report or its preliminary findings will be promoted at a launch event COP28.

### **Outcomes**

This research will:

- Produce an engaging report and publicity pack aimed at the VCM, governments and key investors in the water and climate sector supported by more detailed analysis.
  - The report should be finalised by December 2023 and be accompanied by communications materials (slide pack) and should have a clear and stand-alone executive summary.
- Secure credibility and buy-in by bringing together a range of green finance experts to discuss the specific challenges of water as it relates to climate and investment to test the report's conclusions. Potentially at a roundtable to discuss the next phase of development.
- Generate recommendations and case studies (where possible) to support the mobilisation of finance through water-related credits, considering potential challenges on both the supply and demand side

### **Potential Issues**

1. The global water narrative is not focussed on carbon reduction but is (rightly) focussed on adaptation and disaster risk reduction. The report will need to be clear about which issues it is and isn't addressing, but of course a good outcome would be to incentive both carbon reduction and water investment.
2. Water covers a lot of issues relating to climate and emissions whether from energy required to power water infrastructure, avoided emissions from not having to boil or treat polluted water on site, or methane from wastewater. Similarly, these will need to be captured in the report.
3. Water challenges are often most significant in areas where there is least capacity to monitor and managed them which presents a complex challenge for promoting credits where they may be most needed. Conversely, it may mean that even the pursuit of a suitable framework for credits could bring sufficient benefits in and of itself in terms of understanding the water context.

### **Timeline**

- 12/09/23 – Deadline to receive RFP proposals
- 18/09/23 – Confirm delivery partner and project kick-off
- 30/10/23 – Advanced draft deliverable shared with partners
- 24/11/23 – Final deliverable submitted, having been through peer/ expert review

## COP 28 – Presentation, engagement, and consultation meeting

### Ways of working

To accomplish the objectives, the delivery partner will be expected to work flexibly and with close engagement with the project lead and the other partners to enable ongoing coordination. This may include interaction with other stakeholders, including WaterAid as hosts of RWA and SMI.

### Deliverable style and formatting

The report and deliverables must be objective, non-biased, with transparent methods and assumptions. It must not favour or pre-judge any particular recommendations.

The report should be to a high standard, with appropriate referencing and no longer than 20 pages, including an Executive Summary (Annexes may be provided in addition). As much as possible, it should also use graphics (e.g., tables/ graphs/ infographics) to capture and clearly convey the key results.

### Submission Requirements

- To be considered for this funding opportunity, applicants must include all requested materials, sent to [jonathanfarr@wateraid.org](mailto:jonathanfarr@wateraid.org) by **1159 Wednesday 13 September, copying [info@vcmintegrity.org](mailto:info@vcmintegrity.org) with the subject line: 'FAO Policy & Partnerships: Water Report RFP submission**.
- We will only accept electronic submissions.
- Proposals must be no longer than 4 pages.

### Evaluation criteria

- a. Expertise of the applicant
- b. Overall quality of the proposal, demonstrating wider awareness and insight
- c. Cost-effectiveness
- d. Demonstrated capacity to deliver the analysis in good time, and at a high quality.

### Award and Reporting

- The successful applicant will be notified subject to a discussion either in person or over video call. We will develop a contract agreement to cover schedule of deliverables, payment details, IP and other issues. Prior to finalizing an agreed contract, we will perform a due diligence check on the applicant.
- The contractor will be required to provide brief, periodic status reports to the project lead and partners on the progress of the funded project through a number of contact meetings to be agreed.
- A final report with the last invoice will also be required.

## Background

**The Resilient Water Accelerator (RWA)** is part of the Sustainable Market's Initiative and operates as a multi-sector partnership hosted by WaterAid that brings together governments, business, private finance, and civil society. It aims to boost the resilience of at least 50 million climate-vulnerable people living in water-stressed areas by 2030.

The Resilient Water Accelerator will convene stakeholders in specific locations to develop a shared understanding of their water context and water risk at a broad level, drawing from high quality data and a range of socio-economic, regulatory, financial and environmental perspectives. RWA acknowledges that increasing demands and impacts from agriculture, industry, population changes, and the economy will reduce the quantity and quality of water available and increase water stress, with climate change compounding these impacts. The RWA approach prioritizes data and consultation within specific water contexts, engages with vulnerable communities, and emphasizes the systemic role of water which goes far beyond the water "sector." The outputs of the RWA process are to (a) foster a clear picture of a water system and the threats to that system; (b) work with policy makers, water users, and investors to build a shared water vision; (c) develop a clear plan to address major threats to the resilience of the existing system; and (d) channel significant public and private finance to a bankable set of projects to address threats.

Over the past 2 years work has already begun in Bangladesh and Nigeria, as well as ongoing engagement with Mozambique, Malawi, and Ethiopia to forge dialogues with vulnerable communities and political leaders. In-country support focuses on generating assessments on climate and water vulnerability and devising a stakeholder-led response and compelling water program proposal. Simultaneously, the RWA is engaging global investors in order to generate early buy-in for the RWA approach and to secure a pipeline of funding when project proposals are delivered.

**VCMI** is a multistakeholder platform to drive credible, net zero aligned participation in voluntary carbon markets (VCMs). VCMI's goal is to ensure VCMs make a significant and meaningful contribution to climate action and limiting global temperature from rising to 1.5°C above pre-industrial levels, while also supporting the achievement of the UN Sustainable Development Goals (SDGs). VCMI is developing guidance to ensure demand-side integrity in VCMs. In addition, through the VCM Access Strategies program, offered support to policymakers in low-and middle-income countries where carbon crediting projects are located (host countries) to access high integrity VCMs and channel finance into priority sectors. To learn more about VCMI, we encourage you to read our Consultation Report, Roadmap, and provisional Claims Code of Practice ("Claims Code"), all of which are available on our website here.

**HSBC** (<http://www.hsbc.com/>) serves customers worldwide from offices in 62 countries and territories. Founded in 1865, and with assets of US\$3,041bn at 30 June 2023, it is one of the world's largest banking and financial services organisations.

HSBC is committed to a net zero future and recognises that our planet urgently needs drastic and lasting action to protect our communities, businesses, and the natural environment from the damaging effects of climate change. Our net zero ambition represents one of our four strategic pillars. At the core of it is an ambition to support our customers on their transition to net zero, so that the greenhouse gas emissions from our portfolio of clients reaches net zero by 2050. We also aim to be net zero in our operations and supply chain by 2030. We aim to provide and facilitate \$750bn to \$1tn of sustainable finance and investment to support our customers in their transition to net zero and a sustainable future by 2030. To support our ambition of net zero financed emissions, unlocking transition finance for our portfolio of clients will be crucial.

We understand the need to find new solutions to increase the pace of change if the world is to achieve the Paris Agreement's goal of being net zero by 2050. We are working closely with a range of partners to accelerate investment in natural resources, technology and sustainable infrastructure to reduce emissions and address climate change

HSBC Holdings plc, the parent company of HSBC, is headquartered in London.

### **Gold Standard**

Gold Standard ([www.goldstandard.org](http://www.goldstandard.org), @goldstandard) was established in 2003 by WWF and other international NGOs as a best practice standard to accelerate progress toward climate security and sustainable development for all. Its standard, Gold Standard for the Global Goals, allows climate and development initiatives to manage, measure, and maximise their impacts toward the global Net Zero ambition of the Paris Agreement and the Sustainable Development Goals. Certification against the standard provides the confidence that these results are measured and verified, enabling credible impact reporting. An ISEAL code-compliant standard and backed by a broad NGO Supporter Network, Gold Standard has 2000+ projects underway in over 100 countries, creating billions of dollars of shared value from climate and development action worldwide.