

# Water Benefit Certificates



## CMIA Policy Paper

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*A lack of knowledge and understanding of The Gold Standard's Water Benefit Certificates (WBCs) and their potential role in climate policy, as well as in the broader sustainable development agenda, has hindered their marketability to date. This paper provides a brief overview of what WBCs are and how they are generated, using the example of Whave Solution's Safe Water Security programme in Uganda. It also places WBCs in the context of recent shifts in climate finance priorities, illustrating their potential contribution to meeting global goals for climate adaptation and broader sustainable development targets. While, in the absence of a marketable commodity output beyond the water benefit itself, attractiveness of WBCs for private finance sources is perhaps weakened, this document will highlight the pertinence of these certificates in the current climate finance agenda.*

*This CMIA<sup>1</sup> policy paper will begin with a brief background about WBCs, including the need for such a commodity and what they represent, using Whave's Safe Water Security programme as an example. This leads into an explanation of the relevance of WBCs in the current climate finance market, firmly locating these certificates within the contemporary policy landscape.*

### Background

Water-borne disease kills an estimated 840,000 people every year and **two billion people worldwide suffer endemic disability from a lack of clean water and sanitation**, increasing their vulnerability to climate change, reducing economic productivity, hindering educational attainment, and driving the poverty cycle.

In recognition of this global development challenge, drinking water, sanitation and hygiene feature prominently in the Sustainable Development Goals (SDGs), notably in Goal 6 ('ensure availability and sustainable management of water and sanitation for all'). They are also acknowledged for their role in reducing health risks, appearing amongst the targets of Goal 3, the health and well-being SDG.

**Persistent water-borne disease undermines resilience to climate change.** Efforts to eradicate such diseases are eligible for direct support from climate finance – as adaptation measures – particularly in light of outcomes emerging from the COP21 conference<sup>2</sup> last year.

### Introduction

Water Benefit Certificates (WBCs) are issued through the Gold Standard Foundation's Water Benefit Standard (WBS) (see *Box 1*) and are generated by programmes that supply, purify and/or conserve water. They represent a form of results-based financing (RBF), whereby programme disbursements are made according to results achieved, ensuring that money flows on the basis of actual, verified results with increasing sustainability. As with most RBF schemes, the purchase of WBCs generates an annuity revenue stream that is then used to support the project activity.

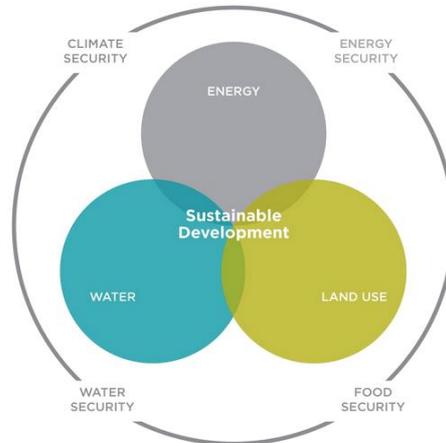
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<sup>1</sup> The Climate Markets and Investment Association (CMIA) is the voice of the international climate finance community. Governments and policy makers across the world recognise and engage with CMIA as a leader amongst progressive trade associations with regards to enabling and incentivising economically efficient climate investment, whether through market mechanisms, direct government and multilateral agency funding or solutions that blend public and private sector finance.

<sup>2</sup> The 21<sup>st</sup> United Nations Conference of the Parties (COP21) was held in Paris in December 2015.

### Box 1: Gold Standard's Water Benefit Standard

The Water Benefit Standard (WBS) is the first globally consistent standard to certify the positive water and socio-economic impacts of projects that supply, purify, and/or conserve water to create pathways for funding to these efforts. It was developed based on Gold Standard's experience in driving finance to clean energy projects that delivered sustainable development benefits to local communities. WBS project types include Water Access and WASH, like the Whave programme, as well as the Sustainable Sugarcane Initiative.



Due to the inexorable link between water security and climate change, Gold Standard is now embedding the key principles and methodologies of WBS into 'Gold Standard 3.0'. This will embed management of water impacts into all relevant projects: from energy to agriculture to forestry. It will also allow developers of these projects to secure funding, not only for WBCs, but also for certified beyond-water SDG impacts, like gender equality, health improvements, poverty alleviation, or food security, to help ensure financial sustainability of these transformative projects.

Whave Solutions is a Ugandan-based non-profit social enterprise whose Safe Water Security programme (see Box 2) is one of a handful of projects worldwide to have generated WBCs. WBC initiatives vary greatly in terms of scale, approach, technologies, and geographical location<sup>3</sup>, such that, while all generate the same certificates and signify sustainable development results, the environmental and socio-economic impacts that they have are different. This can influence buyers who are interested to purchase WBCs in terms of deciding which project to support.

<sup>3</sup> The Whave WBCs improve clean water supply reliability, hygiene and sanitation (WASH) conditions in order to address endemic water-borne disease, which afflicts two billion people globally. Other WBC generating projects range from a sustainable sugar cane initiative in India to a school sanitation project in Mongolia.

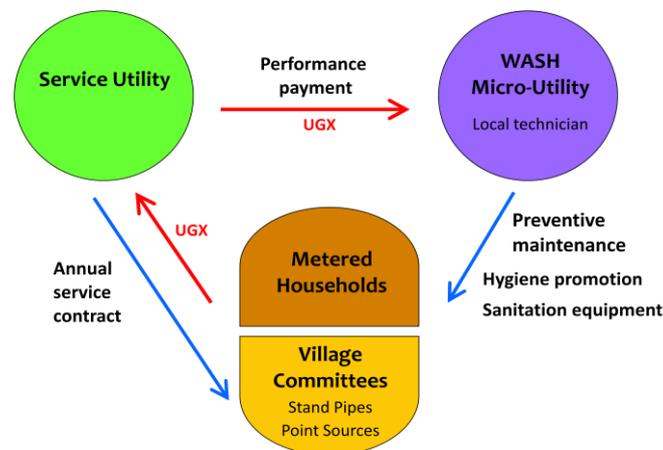
## Box 2: Whave's Safe Water Security Programme

Water-borne disease is a fundamental barrier to climate resilience: the majority of populations in rural areas remain vulnerable to climate change because persistent disease lowers their capacity to adapt. Water-borne disease persists due to poor functionality of clean water sources and unhygienic handling of clean water, both issues which the aid industry has failed to find sustainable solutions for to date.

A particular type of Water Benefit Certificate is the "WASH" WBC – that is a WBC devoted to solving the worldwide Water, Sanitation and Hygiene epidemic. The WASH WBC is a certificate assuring preventive health benefits and self-sustaining public health solutions.

### Whave Solution's Safe Water Security programme generates WASH WBCs.

At the heart of the programme is a public-private partnership (PPP) structure (see diagram below), under which rural WASH service utilities sign reliability assurance service contracts with community committees, and performance-pay local technicians to act as franchisee private sector micro-utilities. The PPP includes government regulation; continuous independent monitoring of supply reliability, water quality and hygiene levels, and data sharing through phone networks to assure financial accountability and willingness to pay.



Representing a key feature of both the WBC and broader Verified Emission Reduction (VER) market, buyers are attracted to co-benefits as much as the focal impact itself (i.e. safe water). This illustrates a subjectivity of demand, which can be problematic if all projects are providing at least some benefits. It also raises challenges in terms of access to markets, with many established routes to market concerned with the risk of cannibalising sales of their carbon tonnes with WBCs.

## WBC Certification and what WBCs Represent

WASH WBCs are issued according to independent verification of:

- **Quality:** water must meet World Health Organisation (WHO) drinking water quality guidelines at point of consumption.
- **Quantity:** there must be enough water to meet basic daily consumption needs (WHO guidelines).
- **Reliability:** clean water must flow every day of the year.
- **Hygienically handled:** water must be transported and stored in such a way so as to avoid contamination prior to consumption, e.g. safe storage in the household.

### Box 3: Whave's WBC Experience to Date

Whave has been working in five districts of Uganda since 2013 and has generated a total of 248,000 WBCs to date, with annual verification by international audit firm SGS and certification by the Gold Standard Foundation. Programme expansion to a further three districts will increase this volume to around 400,000 by 2017.

Unlike the Certified Emissions Reductions (CERs) generated under the Clean Development Mechanism (CDM), **WBCs cannot be used as 'offsets'**. All water issues are inherently local, such that a reduction in the use of water in one watershed, for example, does not affect water availability in another. In addition, for water projects that use carbon methodologies the main outcome is still the carbon and the focus remains largely on mitigation. However, WBCs quantify the actual impact being delivered – the supply, purification and/or conservation of water resources – and can therefore be seen as more tangible in terms of creating impacts on the ground. **WBCs signify proven environmental and socio-economic benefits or outcomes, representing verified 'results' in terms of climate adaptation and enhanced resilience.** For example, Whave WBCs ("WASH WBCs") measure transformation from disability caused by insufficient water volume reliability and quality and inadequate hygiene/sanitation, to lives where the basics of health and productivity are assured.

### Relevance of WBCs in the Current Climate Finance Market

Communities cannot adapt to climatic stressors if they are persistently afflicted by water-borne disease. At the same time, climate change exacerbates challenges to water access, representing a vicious cycle that can be broken by interventions like Water Benefit projects. Initiatives which contribute to water security and reduce the prevalence of water-borne diseases thus help to build resilient communities, and purchase of WBCs generates revenue to support such initiatives.

### The Paris Agreement

Recent shifts in the climate finance world have amplified the significance and relevance of WBCs, notably the outcomes of COP21 in Paris, where water was discussed with greater depth and detail than at any previous UN climate conference<sup>4</sup>. Purchase of WBCs can help the public and private sector to respond to a number of calls that emerged from this meeting.

#### 1. Adaptation

A strong message to come out of the Paris negotiations was the need for a more holistic approach in terms of activities that seek to address climate change. Notably, while mitigation efforts have taken centre stage until now, **an increased focus on adaptation** emerged.

Article 6 of the Paris Agreement outlines a new sustainable development mechanism, which will operate more widely and hopefully at a greater scale than the CDM. Affirming and strengthening the Cancun Adaptation Framework<sup>5</sup>, this mechanism recognises the importance of approaches which promote mitigation *and* adaptation ambition. The Agreement also invites non-Party stakeholders to scale up efforts and support actions to 'build resilience and decrease

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<sup>4</sup> Walton, B. (2015) Water Gained Stature at Paris Climate Talks. Available at: <http://www.circleofblue.org/2015/world/water-gained-stature-at-paris-climate-talks/>

<sup>5</sup> The Cancun Adaptation Framework was adopted in 2010 and affirms that adaptation must be addressed with the same level of priority as mitigation. It states that enhanced action on adaptation should seek to reduce vulnerability and build resilience.

vulnerability to the adverse effects of climate change' – a clear call to the private sector to engage more enthusiastically in adaptation activities. **Purchase of WBCs represents one direct way in which non-Party stakeholders can support verified resilience-building and adaptation.**

## **2. Additional Benefits and Multiple Impacts**

The Paris Agreement emphatically communicates that the global response to climate change should be framed within the broader context of sustainable development and efforts to eradicate poverty, recognising the 'intrinsic relationship' between these activities. By meeting the stringent sustainability criteria and passing the mandatory verification and certification steps laid out in the WBS methodology, **programmes generating WBCs inherently promote the 'climate-resilient development' extolled in the Agreement.**

For example, by reducing incidence of water-borne disease through reliable daily provision of clean water and improvement of hygiene and sanitation conditions, Safe Water Security fosters a range of socio-economic benefits, including enhanced rural productivity, reduced household expenditure, increased school attendance, female empowerment, and improved resilience to climatic variability. Whave's WBCs represent these impacts, which span multiple SDGs and assure a potential buyer that they are anchoring their (climate finance) investment within broader development frameworks.

### **The Green Climate Fund**

The Green Climate Fund (GCF) was established as the primary financial mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) to mobilise public and private support for projects in low carbon, developing countries. It was heavily reinforced at COP21, with an aim to raise US\$100 billion per year by 2020, and a target to invest \$2.5 billion in 2016. The GCF has a mandate to fund both mitigation and adaptation projects, with an equal focus on each.

A challenge facing the GCF is the mobilisation of private sector finance for the transition towards low-emission and climate-resilient development pathways<sup>6</sup>. **WBCs could help to galvanise private sector action**, offering a new climate finance instrument through which to channel funds, and providing solutions to current financing challenges. For example, while climate-resilient projects typically involve investments in new technologies and geographies – presenting unfamiliar risks – the results-based approach offered by WBCs significantly reduces such risks for the investor.

### **Results-based Financing (RBF)**

As larger sums of climate finance are expected to become available in the near future, efficient tools are needed for its disbursement. RBF mechanisms such as WBCs offer one viable solution. While RBF is already found in many existing climate finance mechanisms – including REDD+ and the CDM – a lack of common understanding of the potential role of this tool in climate policy has hindered its potential to date<sup>7</sup>.

Nevertheless, awareness is growing that **the effectiveness of climate finance interventions could be enhanced through a stronger focus on results**, and that RBF provides motivation to deliver on programme objectives, which could include impacts beyond those related to

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<sup>6</sup> Smith, B. (2015) Mobilising the Private Sector's Share of the \$100 Billion: The Role of the Green Climate Fund. Available at: <http://www.cmia.net/cmia-in-the-news/202-cmia-and-mm-the-role-of-the-green-climate-fund-paper-151204/file>

<sup>7</sup> Warnecke et al (2015)

climate change, such as health, education, policy reform, etc. The GCF is considering RBF approaches as part of its funding activities, and the Paris Agreement recognises the 'importance of adequate and predictable financial resources *including for results-based payments*'. While the latter appears in the context of emissions reductions from deforestation and forest degradation, the inclusion of RBF in the Agreement at all suggests its pertinence for climate change-related activities.

### Corporate Buyers

WBC buyers are corporates with advanced corporate social responsibility strategies and commitments. Some buyers are firms simply wishing to make a social impact, altruistically attempting to satisfy a commitment to their staff and customers that they have genuine social responsibility. Some combine this with sensing an advantage in creating – in the long term – a larger market for their brand, since poverty alleviation can be seen as creating customers. Also, they sense that the social impact of buying WBCs improves their image to existing customers, and they require photos and testimonials to demonstrate this in their public relations strategies. Finally, corporates may see WBC involvement as a boon to staff development, since staff can become involved in the WBC projects, visiting the project locations on stimulating study tours, and possibly also spotting new market opportunities in the process.

### Conclusions

Water Benefit Certificates (WBCs), such as WASH WBCs, represent a new and innovative market opportunity in the diversifying climate finance world, a world where adaptation is gaining in prominence and interconnections with the broader sustainable development agenda are being explored.

**WBCs can capture the enthusiasm and momentum generated in Paris and turn vision into action**, representing verified environmental and socio-economic impacts which will accelerate communities along a pathway of sustainable climate-resilient development.

Whave's WASH WBCs are now attracting attention from corporate buyers, who are noticing that the programme is of a sufficient size to have significant impact. In the past three years, Whave's programme has grown rapidly and now spans eight districts of Uganda. It is already improving the lives of 100,000 people and, due to this expansion and a focus on institutional capacity-building, will soon improve the lives of two million people living in those districts. Central and district governments have identified the approach as the key sustainable-systems solution to the WASH crisis and have requested plans for a national-scale roll-out. Sales of WASH WBCs will be critical to this transformation process, which is replicable in other countries.



*Flavia Balabye, Water and Sanitation Committee Chair Person, Maumo community, Luuka district – signing a Service Agreement with a Whave field officer.*



*Whave micro-utility Charles Kibumba carrying out a routine preventive maintenance visit.*

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