Delivering on Low-Carbon and Climate-Resilient Infrastructure

Amar Bhattacharya
Brookings Institution

Latin America & Caribbean Climate Week
Montevideo, August 21, 2018
Outline

Sustainable Infrastructure in the New Global Agenda

The Drivers of Quality and Sustainable Infrastructure

Meeting the Financing Challenge

The Central Role of the MDB System
A new global agenda and sustainable infrastructure: the future of growth and development

- The milestone events of 2015 have set a new global agenda focused on three simultaneous challenges:

  Reignite global growth
  Deliver on the SDGs
  Drive strong climate action

- Delivering on sustainable infrastructure is at the center of all three challenges.
- Well-designed infrastructure can be pro-growth, pro-poor, and pro-climate.
Sustainable infrastructure is crucial to the story.
Sustainable infrastructure is key to meeting the Paris targets

The challenge is now to implement and accelerate to 2020 to close the gap.
Policies are integrated and are reinforced by each other:
Three components of a well-aligned policy framework for climate and growth

Source: OECD, *Investing in Climate, Investing in Growth*
The Three Doublings: Scale and Urgency

• The world’s infrastructure will roughly double in 15 years;

• The world’s economy will roughly double in 20 years;

• The population of towns and cities will double in roughly 40 years, and most cities will be shaped in the next 20 years.
The infrastructure challenge

• **Long-lasting infrastructure investments on scale** will need to be made in our cities, energy, water and transport systems all over the world:
  
  o aging infrastructure in advanced economies will need repair and replacement.
  
  o higher growth and growing weight of emerging/developing countries in global economy.
  
  o structural change in developing countries including rapid urbanisation from around 3.5bn now (50% of 7+bn) to 6.5bn by 2050 (70% of 9+bn). Africa’s population will double (from 1 billion to 2 billion).

• Altogether $80-$90 trillion in infrastructure investments will be required over next 15 years - more than the current existing stock.

• Once in history transition.
Projected cumulative infrastructure demand, 2015-2030
By regional groups, sector and income groups

Scale of infrastructure investments over next 15 years are large

Source: Bhattacharya et al 2016
Note: Projections based on mid-point of range estimates. Excludes fossil fuel extraction and use, expenditure to enhance energy use efficiency, and operation and maintenance costs.
• Growing evidence of impact of climate change and vulnerability to climate risk and natural disasters (20 hottest years on record since 1995)

• Sendai framework for disaster risk reduction

• Embedding resilience in infrastructure design and operations

• Financial risk management—public and private sector roles

• Financing resilience and adaptation—an incomplete agenda
Vulnerability to Natural Disasters and Climate Risks

Floods

Number of Floods

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Floods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1966</td>
<td>0</td>
</tr>
<tr>
<td>1967-1983</td>
<td>500</td>
</tr>
<tr>
<td>1984-2000</td>
<td>2,000</td>
</tr>
<tr>
<td>2001-2017</td>
<td>2,500</td>
</tr>
</tbody>
</table>

Droughts

Number of Droughts

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Droughts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1983</td>
<td>100</td>
</tr>
<tr>
<td>1984-2017</td>
<td>500</td>
</tr>
</tbody>
</table>

Wildfires

Number of Wildfires

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Wildfires</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1983</td>
<td>50</td>
</tr>
<tr>
<td>1984-2017</td>
<td>300</td>
</tr>
</tbody>
</table>

Extreme Temperature Events

Number of Events

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1972</td>
<td>10</td>
</tr>
<tr>
<td>1973-1995</td>
<td>100</td>
</tr>
<tr>
<td>1996-2017</td>
<td>400</td>
</tr>
</tbody>
</table>

Source: HSBC
A Narrow Window of Opportunity

- **The window for making the right choices is uncomfortably narrow** because of a shrinking carbon budget, the lock-in of capital, technology and emission patterns for decades and because remedial measures will become progressively costly.

- **Postponement of actions is highly dangerous** because of increasing uncertainties and likelihood of catastrophic risks even if there is a linear relationship between concentrations and temperatures.

- At the same time the **attractiveness of a low-carbon growth path is increasing**, because of technological and cost advances. It is also clear that strong climate action has important co-benefits in terms of sustained growth, improvement in the quality of life with economic benefits, and delivery on the SDGs.

- **BUT if we do not take the opportunities now, 2°C target will be out of reach with all the grave consequences.**

- Next twenty years will be **decisive in world history**: deep responsibility as well as great opportunity.
Outline

Sustainable Infrastructure in the New Global Agenda

The Drivers of Quality and Sustainable Infrastructure

Meeting the Financing Challenge

The Central Role of the MDB System
Impediments to quality and sustainable infrastructure

- Despite its central importance, unable to deliver on the quantity and quality of investment needed.

- The failure to deliver on the scale and sustainability of infrastructure investments reflects two fundamental and persistent gaps.

- Most countries are unable to translate the tremendous needs and opportunities for sustainable infrastructure investment into realized demand, and a significant proportion of investment is not as sustainable as it should be. This is largely due to the inherent complexities of infrastructure investment (long-term nature, interconnectedness, social impacts, and externalities positive and negative) and policy and institutional impediments.

- Second, despite the large pools of available savings, mobilizing long-term finance at reasonable cost to match the risks of the infrastructure project cycle and ensuring that finance is well-aligned with sustainability criteria remains a widespread challenge.
DEFINITION:

Sustainable infrastructure refers to infrastructure projects that are planned, designed, constructed, operated, and decommissioned in a manner so as to ensure economic, financial, social, environmental (including climate resilience), and institutional sustainability over the entire lifecycle of the project.
What is Sustainable Infrastructure?

- Economic and Financial Sustainability
  - Economic and social returns
  - Financial sustainability
  - Policy attributes

- Environmental Sustainability and climate resilience
  - Preservation of Natural Environment
  - Efficient use of resources
  - Pollution
  - Climate and natural disasters

- Social Sustainability
  - Poverty and Social impact and engagement with communities
  - Human and Labor rights
  - Cultural preservation

- Institutional Sustainability
  - Alignment with Global and National Strategies
  - Governance and systemic change
  - Effective management systems & accountability
  - Local capacity building
A framework to deliver sustainable infrastructure

A robust policy and institutional framework ensures the right selection of infrastructure projects, incentivizes the private sector to invest in sustainable infrastructure, and promotes sustainability all the way from planning to project procurement.

**Growth and Investment Strategies**
- Pro-growth policies
- Infrastructure Investment Plans
- Investment Frameworks and Project Prioritization

**Business and Policy Environment**
- Initial Design and Feasibility Analysis
- Procurement
  - Public
  - Private (PPPs)
- Detailed Design and Project Preparation

**Upstream**
- Sound regulatory framework for infrastructure investments

**Project-cycle**
- Investment
- Construction
- Operation
- Decommissioning

**Institutional capacity and governance**
- Leadership and coordination
- Ensuring integrity, transparency, and openness
- Capacity building
## Policy and institutional framework tools

Many principles, tools, and benchmarks have been developed to enhance a policy and institutional framework for public investments in recent years.

<table>
<thead>
<tr>
<th>Principles and policy recommendations</th>
<th>Business and policy environment</th>
<th>Investment Strategies and Planning</th>
<th>Public investment frameworks and project prioritization</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Investing in Climate, Investing in Growth (OECD)</td>
<td>• Report on G20 Strategies (G20/OECD)</td>
<td>• Recommendation of the Council on Public Procurement (OECD)</td>
<td>• Framework for Disclosure in PPP (WB et al.)</td>
<td>• Recommendation of the Council on Public Procurement (OECD)</td>
</tr>
<tr>
<td>• Bhattacharya et al./NCE (2016)</td>
<td>• Ise-Shima Principles for Promoting Quality Infrastructure Investment (G7)</td>
<td>• Contracts for Sustainable Infrastructure (IISD)</td>
<td>• Recommendations of the Council for Public Governance of PPP (OECD)</td>
<td>• Policy Guidelines for Managing Unsolicited Proposals in Infrastructure Projects (PPIAF)</td>
</tr>
<tr>
<td>• Towards a Framework for the Governance of Infrastructure (OECD)</td>
<td>• Leading Practices on Promoting and Prioritising Quality Investment (G20)</td>
<td>• Leading Practices</td>
<td>• Allocating Risks in PPP Contracts (GHI)</td>
<td>• A Guide to the Statistical Treatment of PPPs (European PPP Expertise Centre)</td>
</tr>
<tr>
<td>• Getting Infrastructure Right: A Framework for Better Governance (OECD)</td>
<td>• Policy Framework for Investment (OECD)</td>
<td>• Framework for Public Investment Management (WB)</td>
<td>• Guidebook on Promoting Good Governance in PPPs (UNECE)</td>
<td>• Framework for Disclosure in PPP (WB et al.)</td>
</tr>
<tr>
<td>• Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions (OECD)</td>
<td>• Quantifying the Socio-Economic Benefits of Transport (ITF)</td>
<td>• Leading Practices on Promoting and Prioritising Quality Infrastructure Investment (OECD)</td>
<td>• PPP Reference Guide (MDBs et al.)</td>
<td>• Eurostat Treatment of Public-Private Partnerships (European PPP Expertise Centre)</td>
</tr>
<tr>
<td>• Good Practice Guidance on Internal Controls, Ethics, and Compliance (OECD)</td>
<td>• Strategic Infrastructure Planning: International Best Practice (ITF)</td>
<td>• Policy Framework for Investment (OECD)</td>
<td>• Project Checklist for Public-Private Partnerships (WB/OECD)</td>
<td>• PPP Fiscal Risk Assessment Model (IMF/WB)</td>
</tr>
<tr>
<td>• High-Level Principles for Integrity, Transparency, and Effective Control of Major Events and Related Infrastructures (OECD)</td>
<td>• Port Investment and container Shipping Markets (ITF)</td>
<td>• Recommendation on Fighting Bid Rigging in Public Procurement (OECD)</td>
<td>• Country Readiness Diagnostic for PPP (WB)</td>
<td>• PPP Project Preparation Status Tool (PPP Knowledge Lab)</td>
</tr>
<tr>
<td>• Guidelines on Corporate Governance of State-Owned Enterprises (OECD)</td>
<td></td>
<td></td>
<td></td>
<td>• Qualitative Value-for-Money Toolkit (ESCAP)</td>
</tr>
<tr>
<td>• How to Improve the Financial Oversight of Public Corporations (IMF)</td>
<td></td>
<td></td>
<td></td>
<td>• PPP Screening Tool (WB)</td>
</tr>
<tr>
<td>• Principles for Private Sector Participation in Infrastructure (OECD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Private Sector Participation in Water Infrastructure: OECD Checklist for Public Action (OECD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Guidelines for Multinational Enterprises (OECD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• G20 Anti-Corruption Working Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country-level benchmarks</th>
<th>Business and policy environment</th>
<th>Investment Strategies and Planning</th>
<th>Public investment frameworks and project prioritization</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Global Competitiveness Indicators (WEF)</td>
<td>• Public Investment Management Assessment (IMF)</td>
<td>• Infrastructure Prioritization Framework (WB)</td>
<td>• Infrascope (EIU/DB/EBRD)</td>
<td>• PPP Project Preparation Status Tool (PPP Knowledge Lab)</td>
</tr>
<tr>
<td>• Doing Business (WB)</td>
<td>• Public Expenditure and Financial Accountability (PEFA)</td>
<td>• PPP Fiscal Risk Assessment Model (IMF/WB)</td>
<td>• Climatescope (UKAID/Bloomberg)</td>
<td>• Qualitative Value-for-Money Toolkit (ESCAP)</td>
</tr>
<tr>
<td>• Indicators of Product Market Regulation (OECD)</td>
<td></td>
<td></td>
<td>• Country Readiness Diagnostic for PPP (WB)</td>
<td>• PPP Screening Tool (WB)</td>
</tr>
<tr>
<td>• Indicators of Regulatory Policy and Governance (OECD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Competition law and policy indicators (OECD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project-level tools</th>
<th>Business and policy environment</th>
<th>Investment Strategies and Planning</th>
<th>Public investment frameworks and project prioritization</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Infrastructure Prioritization Framework (WB)</td>
<td>• Infrascope (EIU/DB/EBRD)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• PPP Fiscal Risk Assessment Model (IMF/WB)</td>
<td>• Climatescope (UKAID/Bloomberg)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Country Readiness Diagnostic for PPP (WB)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Benchmarking PPP Procurement (WB/PPIAF)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• FDI Regulatory Restrictiveness Index (OECD)</td>
</tr>
</tbody>
</table>
Tackling price distortions

**Carbon Pricing**
- Current carbon prices and the coverage of carbon pricing schemes are insufficient to achieve the Paris Climate Goal
- The agenda is driven by countries and international organizations’ initiatives: Nationally Determined Contributions (NDCs), OECD and World Bank’s FASTER principles, Carbon Pricing Leadership Coalition

**Fossil fuel subsidies**
- Removing fossil fuel subsidies can reduce global CO₂ emissions by more than 20%.
- More than 30 countries have made actions to reform fossil fuel subsidies since 2013.
- G20, APEC, and the nine-nation Friends of Fossil Fuel Subsidy Reform committed to reform fossil fuel subsidies

**Others**
- Water subsidies need to be reformed since they encourage inefficient and unsustainable use of natural resources
- Pricing of infrastructure should reflect the actual value to ensure efficient and sufficient investments in infrastructure
Central and overarching importance of governance

**G20: Anti-Corruption Working Group/B20 Integrity and Compliance Task Force**

- The G20 Anti-Corruption Working Group (ACWG) aims to raise the standards of transparency and accountability across the G20 and to contributing to the global fight against corruption
- B20 Integrity and Compliance Task Force addresses issues like full implementation of FATF recommendations, improving transparent and open government procedures, standards of integrity, transparency and compliance for state-owned, and state-related enterprises in a digital age.

**IMF: The Role of the Fund in Governance Issues and PIMA Framework**

- Since the adoption of the 1997 Guidance Note, the Fund has engaged in a number of initiatives including promoting the reform of economic regulations, fiscal transparency and accountability, and the financial sector surveillance program and the standards and codes initiative
- Recent review identified additional areas for attention such as assessing the extent of corruption and more concrete policy advices.
- Public investment management framework and assessment


- Presents the framework for the governance of infrastructure that countries can use to assess their infrastructure management system
- Consists of 10 dimensions covering how governments “prioritize, plan, budget, deliver, regulate, and evaluate” infrastructure investments.
- A recent analysis of 27 countries found some gaps in infrastructure governance in almost all the countries.
### SOURCE: A joint Global Initiative for Advanced Project Preparation

<table>
<thead>
<tr>
<th>Goal</th>
<th>Organization</th>
<th>Status</th>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To address the global infrastructure gap and advance the UN Sustainable Development Agenda by delivering well-prepared projects</td>
<td>• Major MDBs, in response to the G20, jointly developed and funded SOURCE</td>
<td>• Initiated in 2010 by AsDB, officially launched globally in January 2016, completed 3rd upgrade in September 2017</td>
<td>• A series of standardized templates, aggregating and processing information on all dimensions of project preparation</td>
</tr>
<tr>
<td></td>
<td>• The operational development is managed by the Sustainable Infrastructure Foundation (SIF)</td>
<td>• Currently hosts the preparation of more than 158 infrastructure projects</td>
<td>• Enables project sponsors to engage with other stakeholders including project preparation facilities, MDBs, private investors and financial institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Supports 1,200 users across 42 governments</td>
<td>• Encompasses the whole project lifecycle; including the preparation, procurement, development, and operating phases.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1-4: Project preparation</td>
</tr>
<tr>
<td>Stage 5-6: Project tendering preparation</td>
</tr>
<tr>
<td>Stage 7: Works</td>
</tr>
<tr>
<td>Stage 8: Operations</td>
</tr>
</tbody>
</table>
To address the lack of well-prepared projects, numerous project preparation facilities (PPFs) were created recently.

At least 64 PPFs have been created, the majority of which have regional basis.

<table>
<thead>
<tr>
<th>Regional Focus</th>
<th>Number of IPPFs</th>
<th>Total Funds (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>18</td>
<td>~30 billion</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>7</td>
<td>~57 million</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>5</td>
<td>~453 million</td>
</tr>
<tr>
<td>South, East, and Southeast Asia</td>
<td>20</td>
<td>~58 billion</td>
</tr>
<tr>
<td>Global</td>
<td>14</td>
<td>~43 billion</td>
</tr>
</tbody>
</table>

Source: Moser (2016)

Activities of PPFs:
- Pre-feasibility and feasibility studies
- Environmental, social, and gender studies
- Risk assessments
- Identification of programme/project-level indicators
- Pre-contract services
- Advisory services and other services to financially structure a proposed activity
- Other project preparation activities
Standards and tools

- Standard and tools to quantify sustainable infrastructure have increasingly been developed in recent years
- Existing initiatives include high-level principles, safeguards and good practices, reporting guidelines, database and benchmarking, and infrastructure sustainability rating systems

**Existing initiatives** (40 initiatives)

- Good practices
- Principles
- Reporting Guidelines
- Databases / benchmarking
- Rating systems
  Etc...

**Safeguards and rating methodologies**

- Equator principles
- Safeguards
- IFC Performance Standards
- Assessment systems

**Infrastructure sustainability rating/ assessment systems**

- CEEQUAL
- Envision-V3
- SuRe-V4
- IS Rating Scheme

Source: Bhattacharya et al. (2017)
Outline

Sustainable Infrastructure in the New Global Agenda

The Drivers of Quality and Sustainable Infrastructure

Meeting the Financing Challenge

The Central Role of the MDB System
Funding vs. Financing

**Infrastructure Funding**

- **Revenue sources**, often collected over a span of many years, which are used to pay the costs of providing infrastructure services
- Most common sources of funding are:
  - General purpose tax revenues
  - Revenues from user charges
  - Other charges or fees dedicated to infrastructure

**Infrastructure Financing**

- **Turns the infrastructure funding into capital** that can be used today to build or make improvements in infrastructure
- Only if a project can demonstrate reasonable predictability in funding sources for both capital expenditures and for operations and maintenance (O&M), financing can be feasible

Source: World Economic Forum
The characteristics of infrastructure pose various risks in each phase of the life-cycle of a project.

The biggest risks and constraints to financing arise at the early stages of project

<table>
<thead>
<tr>
<th>Description</th>
<th>Preparation</th>
<th>Construction</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer/government organizes feasibility studies; models cash flows, finances; organizes contracts with utilities, operators and construction firms</td>
<td>Construction first build the project to specifications</td>
<td>Separate operating company takes over operation and maintenance of the project</td>
<td></td>
</tr>
<tr>
<td>Main risks</td>
<td>Macroeconomic &amp; political risks</td>
<td>Macroeconomic &amp; political risks</td>
<td>Macroeconomic &amp; political risks</td>
</tr>
<tr>
<td>Technical risks to project viability</td>
<td>Construction risks (e.g., of overrun, delay)</td>
<td>Demand/traffic risks</td>
<td>Operating risks</td>
</tr>
<tr>
<td>Environmental and planning risks</td>
<td>Policy risks (e.g., tariff changes)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cash flows (stylized)**

Large risks and uncertainty over revenue streams

**Financing moments**

During project preparation and feasibility studies the developer seeks patient capital or, often, public funds

Once project is ‘bankable’ the developer will seek equity investors and debt providers to finance the project

Once construction is complete and started to operate project can be refinanced to reflect the changing risk profile

_Source: Bhattacharya, Romant and Stern (2012)_
The importance of robust public finance foundations

- Robust public finance is an essential foundation given the public good nature of infrastructure investments and the need to meet viability gaps for private investments.
- Removing excessive and regressive tax exemptions, taxing negative externalities, and making fuller use of property taxes are all options to expand fiscal space for infrastructure investments.
- Carbon taxation can raise substantial revenues to fund infrastructure as well as shift investments towards sustainable infrastructure.
- Structural reform of national tax policy frameworks is important to generate financing for sustainable infrastructure and to create incentives for investments.
- The national tax agenda should be complemented by strengthening local tax and expenditure capacities since an increasing proportion of infrastructure needs are local and municipal.
Mobilizing private financing

**Tackle Institutional Constraints**
- Strengthen policy and business environment
- Capital market development
- Reduce government/Political risks

**Impediments of Private Financing**
- Revenue and other risks
- High transaction costs
- Lack of proven financing structures

**Targeted Solutions**
- Better platforms for project preparation
- Better instruments and structures for managing risks
- Standardization to develop infrastructure as an asset class
- Improving data and benchmarks
- Regulatory reforms to incentivize and align finance
G20 roadmap to infrastructure as an asset class: Pillars and work streams

- Improved Project Development
  - Contractual Standardisation
  - Financial Standardisation
  - Project Preparation
  - Bridging the Data Gap

- Improved Investment Environment
  - Financial Engineering, Risk Allocation & Mitigation
  - Regulatory Frameworks & Capital Markets
  - Quality Infrastructure
Investing in sustainable infrastructure requires a shift in investment but does not need to cost much more

Infrastructure spending needed for a 2°C scenario (2015-2030, percentage change)

Note: $\Delta$ is the mathematical symbol for change.
Source: Global Commission on the Economy and Climate, 2016 and 2014, and Bhattacharya et al., 2016
Lower capital costs are crucial for sustainability

![Bar chart showing the comparison of pre-tax LCOE (USD cents/kWh) for wind vs. gas in developed and developing countries. The chart illustrates that lower capital costs are crucial for sustainability.](chart.png)
Green finance can make a contribution

The rapid growth of the green bond market shows the potential of green finance

The green bond market 2012-2016

Source: Climate Bonds Initiative
Improved disclosure of climate-related risks is essential

The recommendations of the **Task Force on Climate-related Financial Disclosures** should be considered for designing a policy and institutional framework for climate finance.

**Governance**
The organization’s governance around climate-related risks and opportunities

**Strategy**
The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

**Risk Management**
The processes used by the organization to identify, assess, and manage climate-related risks

**Metrics and Targets**
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Task Force on Climate-related Financial Disclosures
Finance needs to be aligned with sustainability

Three definitions of sustainable finance

Narrow definition:
- Integrating environmental, social and governance (ESG) factors in financial decisions

Finance fostering sustainable economic, social and environmental development

Brodest definition:
- A financial system that is stable and tackles long-term education, economic, social, environment issues, including sustainable employment, retirement financing, technological innovation, infrastructure construction and climate change mitigation

Source: EU High-Level Expert Group on Sustainable Finance
Outline

Sustainable Infrastructure in the New Global Agenda

The Drivers of Quality and Sustainable Infrastructure

Meeting the Financing Challenge

The Central Role of the MDB System
The role of MDBs

• Key role for MDBs around supporting investment by enhancing the quality of the project, reducing risk and crowding in private finance.

• Their presence can impart confidence, reduce risks (particularly government-induced policy risk), bring relevant instruments for managing risks (equity, guarantees, long-term loans...) and encourage participation of other sources of financing.

• This can bring down the cost of capital: crucial for volume and sustainability (quantity and quality).

• They are trusted conveners that can help coordination and help establish replicable and scalable models.

• They play a crucial role in getting projects through difficult early stages. After that institutional investors can be attracted by stable long-term returns; great potential scale. Development banking can be profitable.
Key Elements of Country Platforms

- Involvement of all relevant stakeholders.
- Well articulated investment strategy and medium-term plan for sector or sub-sector.
- Assessment of policy and other impediments and game plan to address them. Procedures to ensure good governance.
- Project preparation templates; standardization of documentation; data and benchmarks.
- Financing models that bring together both intermediaries and long-term investors.
- Risk mitigation and sharing that can be replicated and taken to scale.
- International public finance including consortium of development banks.
Towards a Global Platform for Sustainable Infrastructure

**Policy and institutional setting**

- Agreed framework for SI
- Coherent set of principles, tools, and benchmarks
- Coordinated support for reforms and capacity building

*Stakeholders: MDBs, IMF, OECD, GIH, think tanks, the private sector*

**Project preparation, design and implementation**

**Upstream Support**

- Common framework/platform for project preparation (SOURCE)
- Enhanced project preparation facilities
- Adherence to high quality standards

*Stakeholders: MDBs, PPFs, standard setters, GIH*

**Scale-up and upgrade Projects**

- Common framework/platform for project preparation (SOURCE)
- Enhanced project preparation facilities
- Adherence to high quality standards

*Stakeholders: MDBs, PPFs, standard setters, GIH*

**Financing**

- Strengthen multi-level public finance
- Strengthen capital market
- Catalyze private finance through standardization/improved risk mitigation
- Sustainable finance including climate disclosure
- Optimize and enhance MDB balance sheets

*Stakeholders: MDBs, WEF, IIF, BSDC/NCE, G20/GIH, think tanks*