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# **Setting Higher Standards:**

Striving for a Common Approach to Sustainable, Quality Infrastructure

Written by Elizabeth Losos and T. Robert Fetter

#### THE SUSTAINABLE INFRASTRUCTURE GAP

Well planned, designed, and built infrastructure projects are critically needed to improve economic productivity, provide critical community services, transition to a low-carbon economy, mitigate environmental risks, and promote human rights and social inclusion. The urgency is greatest in emerging and developing **economies**. Encouragingly, both public- and private- sector investors are increasingly designating funds for just these types of infrastructure projects. A recent surge in public development finance (e.g. the United States and G7's Build Back Better World, , European Union's Global Gateway, and United Kingdom's Clean Green Initiative), in conjunction with existing bilateral and multilateral infrastructure initiatives, represent potentially hundreds of billions of dollars for sustainable and quality infrastructure guarantees. In the private sector, institutional investors such as pension funds are increasingly seeking sustainable, low-risk investments for their rapidly expanding ESG funds. Infrastructure investments for sustainable development is also a **key priority** for the German G7 Presidency under the so-called "G7 Development Track".

And yet sustainable, quality infrastructure is still not <u>being constructed at nearly the rate needed</u>, especially in Middle- and Low-Income Countries (MLICs). A persistent barrier to tapping into financial resources is the absence of a reliable and widely recognized global standard or signal that identifies "bankable" infrastructure projects with low environmental, social, and governance risks, high debt transparency, and reliable economic returns over a project's life cycle. While there are a multitude of existing standards, rating systems, and guidelines for assessing various aspects of infrastructure sustainability and quality, users find them difficult to distinguish. Consequently, the current landscape provides more confusion than clarity when selecting which infrastructure investments will benefit local, national, and global needs.

#### NEW GLOBAL STANDARDS STRIVE TO FILL THE GAP

Over the last two years, two separate initiatives have been undertaken independently to create a common standard to mobilize private capital for investments in sustainable, quality infrastructure projects. Both target infrastructure development in MLICs. These global standard initiatives – **FAST-Infra** (Finance to Accelerate the Sustainable Transition-Infrastructure) and Blue Dot Network (BDN) – are premised on the assumption that public funds alone will not be sufficient to address the sustainable, quality infrastructure gap. A global infrastructure standard that reliably signals high quality, sustainable projects could potentially help channel billions of dollars in private institutional investments into emerging and developing markets. FAST-Infra, led primarily by finance-sector institutions, recently launched the Sustainable Infrastructure Label (SI Label) to identify sustainable infrastructure projects. The Blue Dot Network, led by the Governments of the United States, Australia, and Japan, recently introduced the Blue Dot Network framework for certifying quality infrastructure projects.

### HOW FAST- INFRA AND BLUE DOT NETWORK COMPARE

The two initiatives have related goals and objectives, though with different approaches and scope. Rather than establish a wholly new set of criteria and measures, each has drawn from the best available existing principles, guidelines, standards, rating systems, and certifications. Each has created their own "meta-standard".

The approach of FAST-Infra and Blue Dot Network are closely aligned in their primary objectives of establishing a globally recognized meta-standard that facilitates increased private-sector financing of sustainable, quality infrastructure, especially in MLICs. Their secondary objectives focus on providing a meta-standard for use by client governments and by infrastructure developers.

Sustainable infrastructure projects are projects The **scope** of FAST-Infra is more narrow, targeting that are planned, designed, procured, constructed just sustainable infrastructure. It addresses a operated, maintained, and decommissioned wide range of environmental (e.g. climate and to ensure economic and financial, social, biodiversity), social (e.g. human and labor rights), environmental (including climate resilience), and and some governance considerations (e.g., circular institutional sustainability over the entire life economy and climate adaptation). FAST-Infra's four cycle of the project. Dimensions are roughly equivalent to ESG topics covered by the IFC Performance Standards, plus climate resilience and adaptation. The Blue Dot Network's scope focuses more broadly on quality infrastructure, which includes all aspects of sustainable infrastructure and also economic efficiency and sustainable development considerations. Blue Dot Network's 10 Elements correspond closely to G20's Quality Infrastructure Investment Principles.

The two meta-standards vary in the **structure and specific requirements** that projects or assets must meet to receive the label, certification, or classification. Both identify a minimal condition for the categories that they cover. FAST-Infra awards SI Label to a project that meets all its baseline requirements and makes a positive contribution in at least one area. Blue Dot Network certifies a project with one Blue Dot if it meets essential requirements and awards a second or third Blue Dot if it exceeds the essential requirements.

Both FAST-Infra and Blue Dot Network propose hosting **digital data platforms** that will serve as a repository for all applications, reporting information, and other disclosures for each proposed infrastructure project. Platforms are envisioned to provide "one-stop shopping" with centralized tools and a streamlined application process. The platforms could also provide a matchmaking service to connect prospective investors, developers, contractors, service providers, and governments. The open and transparent nature of a data repository could put market pressure on project developers to continuously improve their sustainability performance.

The **governance structure** of each of the meta-standards resides in a relatively small group of founding organizations. The development of FAST-Infra has been overseen by a steering committee that includes HSBC, Global Infrastructure Facility, International Finance Corporation, Climate Policy Initiative, and OECD. Blue Dot Network has been overseen by representative from the Governments of the United States,



**Quality infrastructure projects** are projects with attributes such as environmental, social and governance objectives as well as usefulness, openness, efficiency, stability, financial sustainability, integrity, governance, transparency, resilience, connectivity, and compatibility with the Sustainable Development Goals.

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Australia, and Japan; representatives from the G7 have served as observers. The OECD has been tasked by the Blue Dot Network with the development of its certification framework. The governance committees of both FAST-Infra and Blue Dot Network plan to transfer day-to-day administration of their assessment process to an outside body that will serve as a secretariat once the label or certification requirements and processes have been established. They have also conferred with representatives of developed and developing country governments.

Each of the meta-standard initiatives has an active stakeholder engagement processes, though the degree to which they have consulted with investors, project developers, and governments has varied with their initiative's main focus. FAST-Infra initially focused on private-sector engagement, though they have consulted with an increasingly broader circle of stakeholders. Engagement of MLIC governments has primarily occurred through one of its founding steering committee members, the Global Infrastructure Facility. The Blue Dot Network, through its Executive Consultation Group, has consulted with individuals

A third initiative, Green Development **<u>Guidance</u>**, has been developed by China's Belt and Road Initiative International Green Development Coalition (BRIGC). This initiative is not discussed in this policy brief due to its more limited scope and reach. The Green Development Guidance focuses on an environmental-only classification for green infrastructure and does not consider the social, governance, or financial risks that comprise sustainable and quality infrastructure. The primary aim of the Green Development Guidance focuses on Chinese financiers and infrastructure developers, not private sector investments.

in the finance, infrastructure construction, project development, professional services, and infrastructure operation sectors as well as representatives from research institutions, universities, and NGOs.

Each initiative is pushing for meta-standard adoption on both the demand side (investors and governments) and supply side (infrastructure developers), though they differ as to where they direct most of their efforts. FAST-Infra's SI Label adoption efforts have been primarily focused on financial investors. They have lined up endorsements from major financial industry associations and institutional investors. To a lesser degree, FAST-Infra is also encouraging the adoption of the SI Label in public-sector infrastructure investments through efforts with MLIC

governments through its steering committee member, the Global Infrastructure Facility. To date, none of the Multilateral Development Banks have indicated that they will require the SI Label for their loans.

The **Blue Dot Network certification adoption plan** is in an earlier stage of development. Blue Dot Network will likely draw upon companies with representation on its Executive Consultation Committee to assist with "road-testing" the certification. Another opportunity for Blue Dot Network adoption would be to link the Blue Dot Network Certification directly to development finance assistance and loans from the US, Australia, and Japan or other G7 member nations.

#### THE CHALLENGES FACING **ADOPTION OF STANDARDS**

These initiatives face several challenges. The first is potential confusion created by the virtually simultaneous introduction of two new meta-standards. A fundamental goal of each is to create a clear and widely recognized signal that identifies quality and/or sustainable infrastructure projects with low risks. But these new meta-standards, with their different scopes, processes, and sponsors, could create additional confusion rather than clarity. The initiatives risk diluting the signal of each other, especially if they are poorly aligned and not well communicated. Fortunately, because the two meta-standards are still in the

development phase and at an early stage of introduction to the global community, there are opportunities to clarify the role that each can play, seek common approaches where possible, and reduce perceived conflicts.

The second challenge relates to the **need for the meta-standards to be adopted concurrently by multiple** stakeholder groups, including investors, project developers, and client-country governments. The metastandards will fail to achieve widespread adoption if any of the major stakeholder groups choose to ignore them. Thus adoption efforts must reach all major stakeholder groups.

A final challenge is ensuring that MLICs are able to participate in the meta-standard processes and realize their benefits. Middle- and especially Low-Income Countries have the greatest need to develop a pipeline of bankable infrastructure projects that address their economic and sustainable development **needs.** And yet these countries are likely to be the ones that have the greatest difficulty applying and complying with the meta-standard requirements. If substantial efforts are not targeted at leveling the playing field for MLICs, these countries may perceive meta-standard requirements as introducing additional barrier to accessing infrastructure investments.

# RECOMMENDATIONS

This policy papers offers 9 recommendations of actions that could reduce competition and increase adoption of the two meta-standards. The recommendations range from specific technical adjustments at the metastandard level to global cooperation across geographies. The opportunity exists for each to thrive in its own sphere, with the sum of their efforts expanding sustainable, quality infrastructure adoption globally.

- 1. Measurement consistency Close alignment of metrics and thresholds among the two meta-standards would promote clarity of communication, streamline requirements, and facilitate comparisons across meta-standards. There is an opportunity for FAST-Infra and Blue Dot Network to align their metrics and thresholds where areas of overlap occur (e.g. carbon emissions limits, biodiversity net gain, requirements for ethical labor practices, and debt transparency policies).
- 2. Rewarding certification External review of sustainability and quality claims by a credible independent auditor represents best practice for conformity assessment of infrastructure. Both systems should detail a process for independent external review to verify claims. The review protocol should conform with relevant ISO standards on conformity assessment, auditing, and certification. Because certification is fundamental to the Blue Dot Network system, there may be benefit for the Blue Dot Network branding to incorporate "Certified" into its label and materials. For FAST-Infra – which does not currently require external review -the developers should add the option of a "certified" version of the SI Label or Traffic Light System, which would require a formal external review of all sustainability claims. The two initiatives should also support the development of shared training program for thirdparty auditors to create a pool of reviewers qualified to certify infrastructure using any meta-standard.
- 3. Universal pre-screening tool The preliminary "quick-check" self-assessment tool, proposed by Blue Dot Network, is meant to serve as an easy, fast, and inexpensive way to help a developer decide whether to commit to the more intensive and costly certification process. This self-assessment tool should be expanded and adopted for both meta-standards to proactively encourage or discourage project types or subsectors by their inherent sustainability. A positive, neutral, or negative rating produced by the tool could nudge developers and investors towards infrastructure that support sustainable development of a country or region.

- 4. Coordinated secretariats Aligning the two secretariats could create signification synergies. FAST-Infra and Blue Dot Network should co-design the roles of their secretariats so that they can coordinate meta-standard development and jointly promote common standards adoption. The two secretariats would separately manage their own meta-standards, but each could also take on additional responsibilities that serve the entire infrastructure community, playing to their individual strengths.
- 5. Compatible data platforms FAST-Infra and Blue Dot Network should co-design their data platforms and repositories for compatibility, comparability, and sharing across meta-standards. This would allow project developers and investors the ability to move their data and access tools and information easily across different platforms. The use of big data and advanced data analytics could further simplify the process for applicants in both systems.
- 6. Technical assistance for infrastructure project development FAST-Infra and Blue Dot Network (BDN) secretariats should jointly work with development agencies to develop a robust technical assistance and capacity development program for governments and applicants in MLICs to support infrastructure meta-standard compliance. A strong pool of expertise and experience already exists in development finance institutions and development assistance agencies affiliated with both FAST-Infra and Blue Dot Network. Such assistance could focus on project preparation assistance and capacity development (e.g. training, tools, resources, and training) and data and advanced analytics (e.g. remote sensing data, climate hazard risk assessments, and artificial intelligence technology).
- 7. Strategic planning assistance Upstream planning of infrastructure systems before financial and political capital have been vested in any individual project is often the easiest and most effective time to address sustainability and quality compliance. Hence, the secretariats, working in conjunction with their affiliated development institutions, should develop guidance and support for incorporating the meta-standard frameworks into strategic environmental and social assessments and national infrastructure planning.
- 8. Development finance institution alignment Even though development finance institutions all have their own safeguards and due diligence standards many as strict as or even stricter than the meta-standards agreeing to a common set of indicators would be a powerful driver to accelerate awareness and adoption by investors, developers, and client-country governments. An international task force should be established to shepherd the process of establishing an aligned set of meta-standard requirements for development finance institutions. Compliance with the meta-standard requirements while still voluntary could be strongly encouraged by offering incentives such as better investment financing terms. A common standard recognized by all the bilateral development agencies would visibly demonstrate high standards, transparency, and values purported by the sponsors of B3W, and Global Gateway.
- 9. Global engagement With the technical standards mapping and initial framework setting recently completed for FAST-Infra and Blue Dot Network, now is an opportune moment to broaden engagement of client and lender governments, public and private sector actors, and NGOs for their input, customization, and buy-in concerning a global standard. A neutral body perhaps the G20 Infrastructure Working Group or the United National Environment Programme should convene a global summit on common sustainable, quality infrastructure standards. The eight prior recommendations of this policy brief could serve as a blueprint for the agenda of issues to be discussed, resolved, funded, and implemented.

This policy brief is based on findings from the report <u>Building a Common Approach: Global</u> <u>Infrastructure Standards</u> (Elizabeth Losos and T. Robert Fetter, June 2022).

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