



OECD REFERENCE NOTE ON ENVIRONMENTAL AND SOCIAL CONSIDERATIONS IN QUALITY INFRASTRUCTURE

Fifth Tokyo Fiscal Forum: Implications of G20 Achievements for Asia
20-21 November 2019
Tokyo, Japan

Robert Youngman

Team Leader, Green Finance and Investment
Environment Directorate - OECD
robert.youngman@oecd.org



Main themes of Reference Note

Why?

- There is a **strong economic case** for environmental and social considerations (E & S)
- E & S considerations are essential for **fulfilling international obligations**

How?

- **Enhancing environmental and social outcomes and resilience**
- **Embedding environmental and social considerations into investment and management practices**
- **Enhancing and developing methods to finance quality infrastructure**
- **Strengthening social sustainability and minimising negative impacts**
- **Promoting and enabling responsible business conduct to support quality infrastructure**



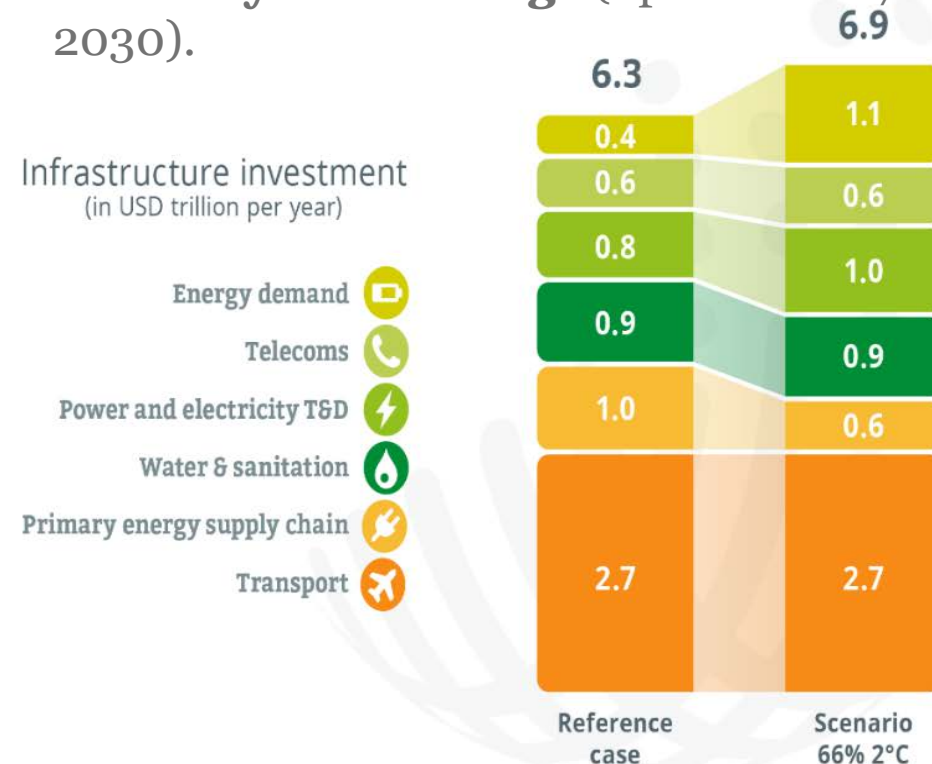
E&S considerations: The economic case

Infrastructure is major contributor to environmental pollution and degradation, which imposes **high costs**:

- Climate change inaction: losses between 1.0% and 3.3% of global annual GDP by 2060; as much as 10% by end of century.
 - Ambient air pollution in OECD and BRIICS : USD 4.76 trillion in 2015.
- *By avoiding and mitigating E & S risks and losses, quality infrastructure investments **reduce costs, avoid lock-in and reduce additional costs of asset stranding.***
- *Climate-compatible policy packages could increase long-run output by **up to 2.8% on average across G20 by 2050***

Infrastructure needs : USD 6.3 T annually to meet development goals.

- ...but **only 10% incremental cost** to meet PA goal (< 2°C).
- **Offset by fuel-savings** (up to USD 1.7 T/year by 2030).



Source: OECD (2017) Investing in Climate, Investing in Growth



Fulfilling international obligations

Quality infrastructure investments that are aligned with environmental and social objectives are critical for fulfilling a number of international obligations:

- **2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals**
- **Sendai Framework for Disaster Risk Reduction (2015-2030)**
- **Paris Climate Change Agreement**
- **Convention on Biological Diversity (CBD) and the Aichi Biodiversity Targets**
- **G20 leaders** affirmed essential elements of quality infrastructure investment at G20 Hangzhou summit
- **Human rights obligations**
- **ILO standards**
- **Responsible business conduct standards**



Principal areas of intervention



Enhancing
environmental
and social
outcomes and
resilience



Embedding
environmental and
social
considerations into
investment and
management
practices



Enhancing and
developing
methods to
finance quality
infrastructure



Strengthening
social
sustainability



Promoting and
enabling
responsible
business conduct
to support quality
infrastructure



Enhancing environmental and social outcomes and resilience



Benefit 1: Avoiding lock-in of polluting, environmentally-harmful infrastructure, and stranded assets

- *Stranded assets: USD 1.06 trillion (energy supply and industry sectors)*

Possible actions:

1. **Align infrastructure plans with long-term climate, development and biodiversity objectives.**
2. **Establish project pipeline consistent with long-term emissions and resilience strategies.**
3. **Bridge data gaps on infrastructure projects.**
4. **Facilitate channels for private investment into low-carbon, green infrastructure assets.**
5. **Mitigate risks to green investment.**
6. **Align incentives for quality infrastructure.**
7. **Ensure spatial, land-use planning minimises environmental impacts of infrastructure**



Enhancing environmental and social outcomes and resilience



Benefit 2: Strengthening resilience of infrastructure to environmental hazards

- *Some climate impacts are already locked-in, and hazards are expected to accelerate over coming decades.*
- *A focus on adaptation and disaster risk reduction linked to quality infrastructure can strengthen resilience and manage the increasing exposure of people and assets to climate and other environmental risks.*

Possible actions:

- 1. Consider climate changes when prioritising, planning, designing building and operating new infrastructure assets.**
- 2. Assess need to retrofit or manage existing infrastructure differently.**
- 3. Assess need for additional infrastructure to address the physical impacts of climate change.**
- 4. Ensure relevant actors have sufficient capacity to understand and manage climate risks.**
- 5. Consider and support role of natural ecosystems.**
- 6. Facilitate disaster risk financing and insurance mechanisms.**



Enhancing environmental and social outcomes and resilience



Benefit 3: Creating sustainable and liveable cities

Possible actions:

- 1. Integrate green priorities in city budgeting; develop a green fiscal strategy and action plan.**
- 2. Promote voluntary emission reduction commitments at the local government level**
- 3. Develop sub-national government capacity to plan, finance low-carbon, resilient infrastructure.**
- 4. Make use of sources of funding such as land value capture tools.**
- 5. Provide incentives to foster cross-jurisdictional cooperation.**



Embedding environmental and social considerations into investment and management practices



- *The development and financing of sustainable infrastructure requires the participation of a range of public and private investors and corporates.*
- *Embedding the principles of sustainable investment across all infrastructure assets, project phases and participating institutions is critical.*

Possible actions:

- 1. Embed E & S considerations into corporate governance**
- 2. Understand and address environmental and social risks**
- 3. Disclose environmental information**
- 4. Adopt green supply chain management**



Enhancing and developing methods to finance quality infrastructure

- *Meeting sustainable infrastructure needs requires tapping institutional investors, key participants in **the USD 100 trillion of capital tied up in bond markets***
- *The G20 Sustainable Finance Study Group (SFSG) during the 2018 Argentinian Presidency considered the role of sustainable securitisation and digitalisation.*



Possible actions:

- 1. Make use of green financial instruments: green bonds, green investment funds.**
- 2. Develop sustainable securitisation: mechanism to move project loans from bank balance sheets to bond market investors: sustainable CLO.**
- 3. Digital Applications for Infrastructure: advancing social and environmental outcomes through implementation of digital smart contracts and digital due diligence documentation.**



Strengthening social sustainability



- *Infrastructure investments can bring positive benefits to local communities as sources of good quality employment, new skills, and access to improved services.*
- *On the other hand, by virtue of their size and scale, many infrastructure investments have the potential to generate sizeable negative impacts communities, health, and livelihoods.*

Possible actions:

- 1. Promote good labour and working conditions for infrastructure workers**
- 2. Pursue resource efficiency and pollution prevention and management**
- 3. Conserve biodiversity and promoting the sustainable management of living natural resources**
- 4. Contribute to community well-being and development, and protect community health and safety**
- 5. Minimize negative consequences of land acquisition and restrictions on land use, and avoid involuntary resettlement**
- 6. Protect the interests and rights of Indigenous peoples, and cultural heritage**
- 7. Integrate gender considerations**



Promoting and enabling responsible business conduct to support quality infrastructure



- International responsible business conduct (RBC) standards: *positive contribution to sustainable development and need to address negative impacts.*
- Increasing private sector participation in infrastructure development: *RBC standards provides a mechanism for ensuring private sector addresses negative impacts on communities and the environment.*

Possible actions:

- 1. Require RBC due diligence, ensuring meaningful stakeholder engagement**
- 2. Integrate RBC due diligence in infrastructure financing, including in procurement processes.**
- 3. Require private participants and state-owned enterprises to follow internationally-accepted RBC standards.**
- 4. Ensure availability of effective, secure, adequately funded and publicly accessible remedy processes.**



Thanks for listening!

Robert.Youngman@OECD.org

<https://www.oecd.org/cgfi/>