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T7 Task Force International cooperation for the global common good

POLICY BRIEF

FOSTERING A COMMON APPROACH TO SUSTAINABLE AND QUALITY INFRASTRUCTURE

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Abstract

An urgency exists to build sustainable, quality infrastructure to address the world’s infrastructure gap, especially in developing and emerging economies. The solution will require significant new inputs from both the public and private sectors. Two global infrastructure investment initiatives – *FAST-Infra’s Sustainable Infrastructure Label (SI Label)* and *Blue Dot Network Certification* – are independently being developed to create market signals that will attract and facilitate private- and public-sector investments in high quality, sustainable infrastructure projects, especially in Middle- and Low-Income Countries (MLICs). Both of these initiatives are built upon available existing guidelines, standards, rating systems, and certifications, with the aim of creating a streamlined, global infrastructure “meta-standard.” The degree to which these two meta-standards will succeed in becoming widely adopted and attracting new investments in sustainable, quality infrastructure will depend on whether they can overcome several critical challenges, including: clarifying the confusion among existing infrastructure standards; facilitating the simultaneous meta-standard adoption by investors, project developers, and client-country governments; and ensuring the MLICs are able to benefit from these meta-standards. The G7 member nations, with their recent pledges to support quality, sustainable infrastructure investments in MLICs through Build Back Better World (B3W), Global Gateway, and Clean Green Initiative, are uniquely well-positioned to catalyze adoption of infrastructure meta-standards. We propose that the G7 build on its *Partnership for Infrastructure and Investment Task Force* that was established in June 2021 in Carbis Bay to promote meta-standard cooperation and adoption. Specifically, we propose that the G7 Task Force (1) assists with the coordination of requirements, processes, and governance structures between the two recently developed meta-standard initiatives (Blue Dot Network and FAST-Infra); (2) facilitates agreement by development finance institutions from G7 member nations to a common set of meta-standard requirements; (3) supports the development of robust technical assistance and capacity development program for client-country governments and infrastructure developers in MLICs to support infrastructure meta-standard compliance; and (4) convenes a global summit to obtain input, customization, and buy-in on global infrastructure standards from a representative set of creditor and client countries.

Challenge

A top priority for both the G20 and G7 Presidencies over the last several years has been to close the global infrastructure gap by attracting private capital to invest in quality, sustainable infrastructure projects, especially in Middle- and Low-Income Countries (MLIC)¹. The growing pool of private-sector institutional investors (e.g. pension funds, insurance companies) seeking ESG-compliant investments² are prime targets for these investments.³ Yet a persistent barrier to tapping into these resources is the absence of a clear and widely recognized 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. Consequently, despite growing investor interest, financing of sustainable, quality infrastructure projects in MLICs remains woefully inadequate.⁴

Two initiatives have recently been launched to address this shortcoming. FAST-Infra (Finance to Accelerate the Sustainable Transition-Infrastructure), led primarily by financial sector institutions, introduced the Sustainable Infrastructure Label (SI Label).⁵ The Blue Dot Network (BDN), led by Governments of the United States, Australia, and Japan, unveiled the Blue Dot Network framework for certifying quality infrastructure projects.⁶ In both cases, rather than establish a wholly new set of criteria and measures, the initiatives created a “meta-standard” that draws from and expands upon best available existing principles, guidelines, standards, rating systems, and certifications. FAST-Infra’s SI Label focuses primarily on the ESG aspects of sustainable infrastructure.⁷ The Blue Dot Network Certification covers ESG requirements but also adds other elements of the G20’s Quality Infrastructure Investment (QII) Principles, such as good public governance, considerations of value for money, equal access, and a focus on long-term sustainable development objectives.⁸ Both initiatives rely on voluntary adoption of their meta-standard by project developers, investors, and governments.

The creation of clear signals such as FAST-Infra’s SI Label or Blue Dot Network’s Certification⁹ that can reliably identify sustainable and quality infrastructure is fundamental to attracting investments to desperately needed infrastructure projects that can put countries on paths toward achieving their SDG goals and Paris Treaty Climate Targets. Such signals are especially critical for MLICs, where private capital has struggled to find sufficient bankable projects.¹⁰

While current initiatives such as Blue Dot Network and FAST-Infra are critical and timely, their ultimate success will depend on whether they become widely recognized and adopted. They face several challenges. The first lies in distinguishing between the two meta-standards. A fundamental goal of each is to create a reliable, widely recognized market signal that identifies bankable projects with low risks. But the two new meta-standards, with their different scopes, processes, and sponsors, could create additional confusion rather than clarity. The virtually simultaneous introduction of the two initiatives poses a risk of diluting the signal of each if they are poorly aligned and not well communicated.

The second challenge relates to the need for all major stakeholder groups – investors, project developers, and client-country governments – to synchronously adopt the meta-standards. A meta-standard will fail to achieve widespread adoption if investors are unable to find attractive projects that feature the label or

certification; if project developers receive no benefits from obtaining a label or certification; or if client countries find that their meta-standard tender requirements are unmet.

A final critical challenge is ensuring that MLICs are able to fully participate in the meta-standard process and realize benefits from it. 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 for and complying with the meta-standard requirements. MLIC governments writing tenders that require added hurdles and compliance requirements may perceive that meta-standards represent an added barrier to accessing infrastructure investments.

Proposals

In December 2021, the G7 Leaders set out principles and next steps for modernizing the G7's approach to infrastructure finance and narrow the infrastructure investment gap in developing countries, including adopting a common strategic approach that is underpinned by adherence to strong standards.¹¹ Building on these efforts, we propose four areas where the G7 can assist with the adoption of global standards and acceleration of sustainable, quality infrastructure development, especially in MLICs.

1. Meta-standards coordination. The G7 can play a constructive role supporting the coordination and alignment of the two recently launched meta-standard initiatives – Blue Dot Network and FAST-Infra – even as each continues to develop independent frameworks, requirements, and protocols.

We propose that the *Partnership for Infrastructure and Investment Task Force* (G7 Task Force), established in June 2021 during the G7 Carbis Bay Summit, help guide meta-standard coordination and, if requested, mediate alignment. The G7 Task Force should include representatives from G7 development agencies as well as liaisons to multilateral institutions such as the Global Infrastructure Facility and MDBs. It should focus on four high priority topics: (1) *Metrics coordination*: The G7 Task Force could help FAST-Infra and Blue Dot Network align their metrics and thresholds where areas of overlap occur (e.g. carbon emissions limits, net biodiversity gain or loss, requirements for ethical labor practices, and debt transparency policies). Close alignment of metrics and thresholds between the two meta-standards would promote clarity of communication, streamline requirements, and facilitate comparisons across meta-standards. (2) *Platform compatibility*: The G7 Task Force could also promote and support the co-design of data platforms and repositories that would improve compatibility, comparability, and sharing across meta-standards. This would allow project developers and investors to move their data and access tools and information easily across different platforms. It could also ensure consistency with existing global platforms such as SOURCE¹² or the QII Database¹³. (3) *External auditor oversight and capacity development*: The G7 Task Force could work with stakeholders to devise rules, audit requirements, and training needs for third-party certifiers so that they could work across all meta-standard programs. Global certification protocols could help ensure integrity of meta-standards and combat misuse for “greenwashing.” Ideally the G7 would also support the

establishment of a program to accredit the certifiers. (4) *Secretariat coordination*: The G7 Task Force could help align the governance structures of the two meta-standards by assisting in the development of a coordination and communication strategy between the secretariats. Coordinating the functions of the Blue Dot Network and FAST-Infra secretariats would represent an efficient and potentially powerful means of harmonizing the two meta-standards, both in their internal operations and for external messaging.

2. Development finance institution alignment. The steering committees of both FAST-Infra and Blue Dot Network have focused largely on getting buy-in from private sector companies and industry associations. They have devoted comparatively less attention to promoting meta-standard adoption by public sector investors. To date, none of the G7 member bilateral development agencies (nor, for that matter, the multilateral development banks) have committed to the systematic adoption of meta-standards for their investments. This is not surprising given that both meta-standards are in early stages of development and most of their current efforts are directed at the private sector. However, a complementary focus on public sector investors – bilateral and multilateral development institutions – could leverage an enormous amount of additional influence in promoting meta-standard adoption.

We propose that the G7 development finance institutions (DFIs) commit to promoting an aligned set of meta-standard requirements. While each of these development agencies already has its 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 very powerful driver to accelerate the awareness and adoption of the meta-standard by investors, developers, and client-country governments. Obtaining a SI Label or Blue Dot Network Certification – while still voluntary – could be strongly encouraged by offering incentives such as better investment financing terms for G7-sponsored projects that are certified or labelled as meta-standard compliant.

The G7 Task Force could, again, be an appropriate entity to shepherd process of establishing a common set of DFI-aligned standards. Such an effort could be modelled after a similar initiative undertaken over the last two years to align sustainable infrastructure standards across the multilateral development banks, led by World Bank’s Public-Private Infrastructure Advisory Facility (PPIAF), Inter-American Development Bank, Global Infrastructure Facility, and the European Bank of Reconstruction and Development (Boswell et al., 2021; Inter-American Development Bank, 2020; Saner et al., 2021).

3. Technical assistance and capacity development. The countries that would most benefit from the development of a pipeline of sustainable, quality infrastructure projects also tend to be the ones that are least able to comply with the meta-standard requirements. Technical assistance and capacity development for many MLIC governments and infrastructure developers is urgently needed to level the playing field. If substantial resources are not devoted to addressing these needs, then – given the market-based focus of FAST-Infra and Blue Dot Network – it is likely that a SI Label or Blue Dot Network Certification will be more attractive in High-Income Countries, where compliance will be more straightforward (and will likely represent a smaller gap compared to business-as-usual practices).

We propose that the G7 Task Force coordinates with the FAST-Infra and Blue Dot Network secretariats to develop a robust technical assistance and capacity development program for governments and applicants

in Middle- and Low-Income Countries to support infrastructure meta-standard compliance. The G7 countries are particularly well-suited to provide support in three areas: (1) *Project preparation assistance*: The G7 members, through their development agencies and as shareholders in the multilateral development banks, are in a good position to support governments with technical assistance and project development expertise for individual infrastructure projects. (2) *Strategic Planning*: Development agencies and MDBs can also support MLIC governments in their strategic and systems-level planning for infrastructure. Evidence shows that early-stage planning of infrastructure and incorporation of sustainability compliance into infrastructure tender requirements – before financial and political capital has been vested in any single individual project – is often the best time to ensure that projects will contribute to a country’s sustainable growth and comply easily with meta-standard requirements.¹⁴ (3) *Capacity development*: G7 development agencies can develop capacity building resources and training programs that link directly to the meta-standard requirements.¹⁵ (4) *Data and advanced analytics*: G7 member nations, through their technical agencies, have access to big data and analytics that could simplify the application process for all applicants. For example, remote sensing data, climate modeling, hazard risk assessment tools, national biodiversity inventories, and artificial intelligence technology could be mobilized to pre-populate applicants information needs regarding sensitive habitats, sea level rise, flooding scenarios, and green supply chain procurement options. Automatically providing such assistance to support project development could significantly reduce the application burden.

4. Global engagement. To date, the most substantial efforts dedicated toward developing a global standard have been concentrated within G7 nations. With initial Blue Dot Network and FAST-Infra frameworks now launched and project road-testing just beginning, the time is opportune to seek broader participation in the meta-standard development process. We propose that the G7 Task Force work in conjunction with the G20 to convene a global summit to obtain input, customization, and buy-in from a diverse, geographically dispersed set of creditor and client countries. China and South Korea, for example, both represent major infrastructure lenders. Each country has pledged to reduce environmental risks of their overseas infrastructure investments (an aspiration of China’s Green Belt and Road¹⁶ and South Korea’s Green New Deal). Equally important would be the participation of borrowing nations, whose perspectives and needs must be incorporated into meta-standard development while the process is still in its formative stages. It is critical that no nation feels that a global standard is imposed on them. The International Platform on Sustainable Finance (IPSF)¹⁷ and its convening role within the green bond market could serve as a model. Through dialogues, IPSF has worked to broker the integration of Chinese green bonds into the global markets.

Implementations

Two significant and timely meta-standard initiatives – FAST-Infra and Blue Dot Network – have been launched to increase investments into desperately needed sustainable, quality infrastructure projects that will help countries achieve their Sustainable Development Goals and meet their Paris Treaty Climate Targets. The G7 is in a strong position to help overcome some of the barriers that could limit the success of

these initiatives by helping align meta-standards; leverage common frameworks and standards within G7 development agencies; provide technical assistance and capacity development; and catalyze global engagement.

G7 governments development finance agencies are uniquely well-positioned to accelerate adoption of the infrastructure meta-standards. The roughly 50 development agencies represented within the G7 membership are among the key providers of infrastructure finance for Low-Income and many Middle-Income Countries. Through co-financing with multilateral development banks and private sector entities, they influence an enormous share of all infrastructure investments across the globe. They also have the capacity to access global climate finance funds and mobilize resources for sustainable programs.¹⁸

Working toward a common infrastructure meta-standard is especially appropriate for the G7 given its current commitment to addressing the world's infrastructure gap. During COP26 in Glasgow in November 2021, President Joe Biden noted that the US' B3W Initiative, the United Kingdom's Clean Green Initiative, and the European Union's Global Gateway are "...all part of a joint effort among the G7 partners to deliver high-quality, sustainable infrastructure."¹⁹ Jointly these G7 infrastructure initiatives represent hundreds of billions of dollars in pledged infrastructure investments and new guarantees to develop sustainable and high quality digital, climate and energy, and transport infrastructures.²⁰ By in large, implementation of these activities will be carried out through G7 DFIs. A common framework and commitment to meta-standard compliance will be critical for leveraging the impact of the B3W, Global Gateway, and Clean Green Initiative on sustainable, quality infrastructure.

Endnotes

¹ *G7 Leadership Statement: Partnership for Infrastructure and Investment*, 2021; Global Infrastructure Hub, 2021.

² ESG criteria are a set of environmental, social, and governance standards that have been associated with reduction of financial risk, and that socially conscious investors use to screen potential investments.

³ Déséglise, 2020; Saner et al., 2021.

⁴ OECD, 2022; Saner et al., 2021; Woetzel et al., 2017.

⁵ FAST-Infra, 2021a.

⁶ OECD, 2022.

⁷ FAST-Infra, 2021a, 2021b.

⁸ Global Infrastructure Hub, 2019; OECD, 2022.

⁹ The International Organization for Standardization, ISO, distinguishes declaration (“first-party attestation”) from certification (“third-party attestation related to products, processes, systems or persons”). In both cases, the attestation refers to a statement that fulfillment of specified requirements has been demonstrated, following a review or verification (ISO/IEC 17000:2004). In this policy brief we follow ISO 17000 in using the term “certification” to refer to a scheme in which there has been a third-party attestation that fulfillment of specified requirements has been demonstrated. Under this definition, the Blue Dot Network scheme represents a certification, since it requires an independent external review of documentation and claims. FAST-Infra strongly encourages but does not require independent external review, so its Sustainable Infrastructure Label is not considered a certification system.

¹⁰ OECD, 2022; Saner et al., 2021; Woetzel et al., 2017.

¹¹ *G7 Leadership Statement: Partnership for Infrastructure and Investment*, 2021.

¹² <https://public.sif-source.org/sif-source-news/source-the-multilateral-platform-for-quality-infrastructure/>.

¹³ Global Infrastructure Hub, 2021.

¹⁴ United Nations Environment Programme, 2021.

¹⁵ These resources could be based upon a recently initiated infrastructure anti-corruption toolbox, launched in association with the Blue Dot Network, that contains guidelines to improve corruption prevention and detection, training programs, multi-stakeholder dialogues, and capacity development (US Department of State, 2021).

¹⁶ BRIGC, 2020.

¹⁷ IPSF, a multilateral forum for dialogue between policymakers, was founded in 2019 by the European Union and relevant authorities of Argentina, Canada, Chile, China, India, Kenya, and Morocco to promote best practices, compare their different initiatives, and identify barriers and opportunities of sustainable finance, while respecting national and regional contexts..

¹⁸ Inter-American Development Bank, 2020.

¹⁹ Widakuswara, 2021.

²⁰ European Commission, 2021; Government of the United Kingdom, 2021.

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