



The Solutions Lab

Scaling for Sustainable Infrastructure

Sustainable Infrastructure Project Preparation: Mobilizing Private Capital and Closing the Infrastructure Service Gap

Thematic Brief



FIGURE 1. THE INFRASTRUCTURE LIFE CYCLE – PROJECT PREPARATION & FINANCE PHASES¹

Why project preparation is key to mobilize private capital and close the infrastructure service gap

The global investment needs to provide adequate infrastructure services are estimated at USD 94 trillion between 2016 and 2040, resulting in a predicted **financing gap of USD 15 trillion**, according to the Global Infrastructure Hub. Achieving the SDG targets on universal access to water and electricity increases the financing gap by another USD 3.5 trillion between 2016 and 2030.²

Mobilizing private investment in sustainable infrastructure is even more critical in the wake of COVID-19 because public budgets in developing countries are constrained. At the same time, there is **plenty of institutional, private capital looking** for sustainable assets with long-term stable yields.

Joining forces in closing this service gap through sustainable infrastructure will be mutually **beneficial for both public and private stakeholders**: By integrating sustainability criteria into planning and preparation of new infrastructure assets, public bodies can achieve a dual objective: (i) infrastructure asset pipelines that provide essential services to societies and meet sustainable development objectives, and (ii) bankable projects that attract private capital because they fulfil investment criteria of forward-leaning private investors. **Professionals in**

¹ Figure developed by The Solutions Lab.

² Global Infrastructure Hub & Oxford Economics, 2017. [Global Infrastructure Outlook](#).

charge of developing infrastructure pipelines are thus emerging as increasingly critical stakeholders in the delivery of sustainable infrastructure.

Investors' increasing demand for sustainable infrastructure assets

Forward-leaning private investors increasingly require infrastructure assets to meet sustainability criteria before positive investment decisions are taken. This is attributable to the growing recognition of investors that sustainability factors – such as environmental (including climate), social, and governance (ESG) – can carry significant risk for infrastructure assets, which may impact financial return.

Adding to this momentum, long-term oriented institutional investors – such as pension funds and insurers – are facing increasing pressure from respective regulators to incorporate sustainability factors into long-term investment decisions.

At the same time, investors are beginning to appreciate that looking through a sustainability lens during infrastructure investment due diligence may also reveal opportunities, including untapped market potential and prospects to grow revenues.

Forward-leaning private investors have already created strict sustainability due diligence frameworks (see e.g. open source due diligence tool developed by B Capital Partners and GRESB³) to ensure that ESG criteria, including climate factors, are rigorously analysed during infrastructure investment due diligence.⁴

Sustainable Infrastructure Project Preparation to Mobilize Private Capital

Part of the solution to attracting more private capital is to offer more bankable projects that fulfil the sustainability investment criteria of more forward-leaning private investors.⁵

Consequently, by integrating sustainability factors in up- and midstream phases of infrastructure project development (prioritization, project planning, concept design and procurement), project preparation professionals can help align investment opportunities with investors' sustainability due diligence criteria. Alignment with sustainability must be made explicit to the private sector at the time of bid to encourage positive investment decisions.⁶

This burgeoning **sustainability push from the private sector** is being met, in some cases, by a **growing sustainability pull from the public sector**. Despite capacity challenges, governments progressively recognize that a full lifecycle approach, with sustainability considerations integrated throughout, yields greater value for money in the long run than traditional approaches. Coupled with expected efficiency gains of private participation and the need to crowd-in private investment in infrastructure, this push and pull engenders a perfect

³ The open source ESG due diligence tool developed by B Capital Partners AG, a partner-owned investment house, and GRESB, an ESG benchmark provider, is available [here](#).

⁴ Work on the integration of sustainability considerations into investment decisions includes work by WWF in cooperation with Cadmus (Sloan, W., Wright, K., Crowe, J., Daudon, J. & Hanson, L., 2019. [Valuing Sustainability in Infrastructure Investments: Market Status, Barriers and Opportunities](#). Zurich: WWF Switzerland & Cadmus Group) and with Oliver Wyman (Tonkes, N., Demmer, F., Lee, E., Koh, S., Wright, H. & Chen, T.K., 2020. [Incorporating Sustainability into Infrastructure](#)) as well as initiatives by private and public stakeholders: FAST Infra, for example, a joint initiative by public and private stakeholders, is working towards a Sustainable Infrastructure Label building on a curation of existing market-facing standards (Deseglise, C., 2020. [How to drive investment into sustainable infrastructure](#). Geneva: World Economic Forum).

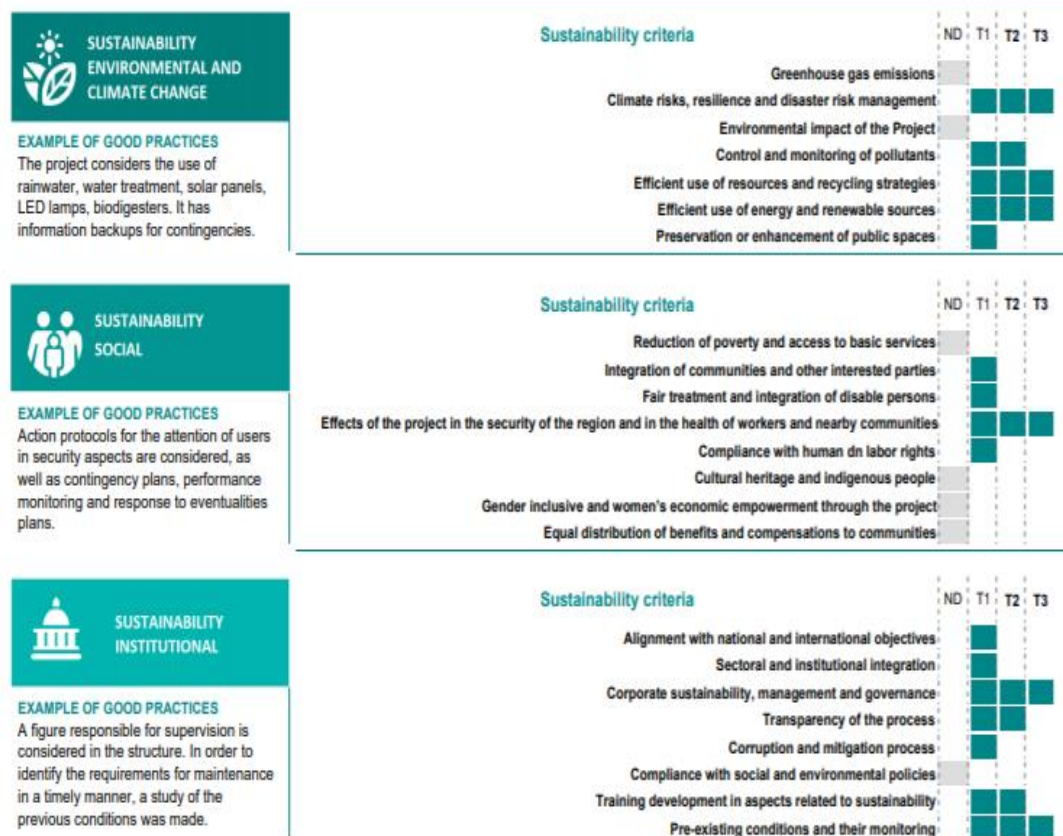
⁵ While a stronger focus on sustainability considerations may help to attract forward-leaning investors, the issue of successfully mobilizing private capital has of course more dimensions that are covered extensively in guidance documents and literature elsewhere, see here for additional insights: IDB, 2017. [Mobilizing Private Capital for Infrastructure](#). Washington, DC: IDB.

⁶ Sponsored by the Public-Private Infrastructure Advisory Facility (PPIAF) and the Global Infrastructure Facility (GIF) - World Bank Group and EBRD with IDB as partner, the "Aligned Set of Sustainability Indicators" (ASSI) initiative was launched in April 2019 to create coherent / aligned signaling of key sustainability criteria for governments and private investors based on multi-stakeholder consultations.

impetus for governments to incorporate sustainability requirements in the preparation of infrastructure pipelines.

FIGURE 2. PROYECTOS MEXICO – ILLUSTRATIVE SUSTAINABILITY CRITERIA

Proyectos Mexico is a notable example of a government taking action through enhancing internal capacity and raising the bar through integrating sustainability requirements into infrastructure projects in the early phases of the infrastructure lifecycle.⁷ By doing so, the government is sending a strong and clear message that sustainability is a critical part of infrastructure considerations, which aligns with forward-leaning private investors and, aspirationally, will incentivize greater numbers of private investors to also consider sustainability factors. The Proyectos Mexico Platform has been recognized as a “benchmark for the world” by the Global Infrastructure Hub (GIH), securing Mexico a number one ranking in procurement in GIH’s InfraCompass2020.⁸



What are the main barriers to sustainable infrastructure project preparation?

It may be easy to agree on the merits of integrating sustainability into project preparation both as a way to ensure infrastructure pipelines in line with sustainable development objectives and to offer bankable projects that attract private capital by fulfilling investment criteria of forward-leaning private investors. Yet, actually integrating sustainability often proves challenging. The following challenges have been identified as particularly relevant barriers:

⁷ Based on Bhattacharya, A., Contreras Casado, C., Jeong, M., Amal-Lee, A., Watkins, G. & Silva Zuniga, M., 2019. *Attributes and Framework for Sustainable Infrastructure*. Washington, DC: IDB.

⁸ See full report: Global Infrastructure Hub, 2020: *InfraCompass 2020 – Set your infrastructure policies in the right direction*. Sydney: Global Infrastructure Hub.

1. Professionals in charge of project preparation who are committed to sustainable infrastructure may face the **challenge of an abundance of tools, frameworks and approaches that are increasingly difficult to navigate**.
2. A **shortage of best practice examples and lack of practical guidance** on how to implement sustainable infrastructure through project preparation on the ground may add confusion.
3. To effectively incorporate sustainability considerations into project preparation, **institutional change management – behavioural change and buy-in at all institutional levels – has emerged as a critical ingredient**.
4. **Sufficient capacity to integrate sustainability is not always available in-house** and may thus have to be developed or sourced externally.
5. **Assessing, monitoring and showcasing the benefits / business case for sustainability is difficult** but key to justifying efforts and resources flowing into sustainability integration.

How to ensure sustainable infrastructure project preparation in practice?

To effectively integrate sustainability into up- and midstream phases of project preparation and thereby subsequently attract private financing, hands-on guidance may “do the trick”, especially in the case of public institutions. The Solutions Lab has developed a [Guidance Note](#) that provides orientation and advise on pragmatic steps for institutions to integrate sustainability systematically into their operations:

1. **Institutions may want to first identify their sustainability goals and define a credible roadmap to close remaining gaps.** Building on a solid understanding of the notion of “sustainable infrastructure”, institutions should decide for a sustainability framework to guide their efforts. The starting point of any meaningful strategy is to assess potential sustainability gaps against the selected framework and define steps on how to close these gaps with credible timelines and milestones.
2. **Institutions must adapt their existing internal processes to mainstream sustainability and bridge gaps identified.** Institutions should focus on user-friendly solutions and build on existing institutional processes and (IT-)systems, while securing buy-in from key stakeholders early on. Specialized innovative tools should play a supporting role in bridging identified gaps.
3. **Institutions must ensure effective change management by highlighting the benefits and business case for sustainable infrastructure and building adequate capacity.** Open and direct communication as well as onboarding and training offers may foster a new sustainability culture and increased buy-in at all levels.
4. **Implementation should start with piloting and continuous adjustment of the implementation strategy building on sound monitoring and evaluation.** As with any new strategy, integrating sustainability requires a continued reassessment of both the processes and the impact. Data on sustainability of projects should be used to inform and improve future implementation efforts.

Interested stakeholders will find more detailed information on each of these steps as well as best practice examples in the [Guidance Note](#).



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