

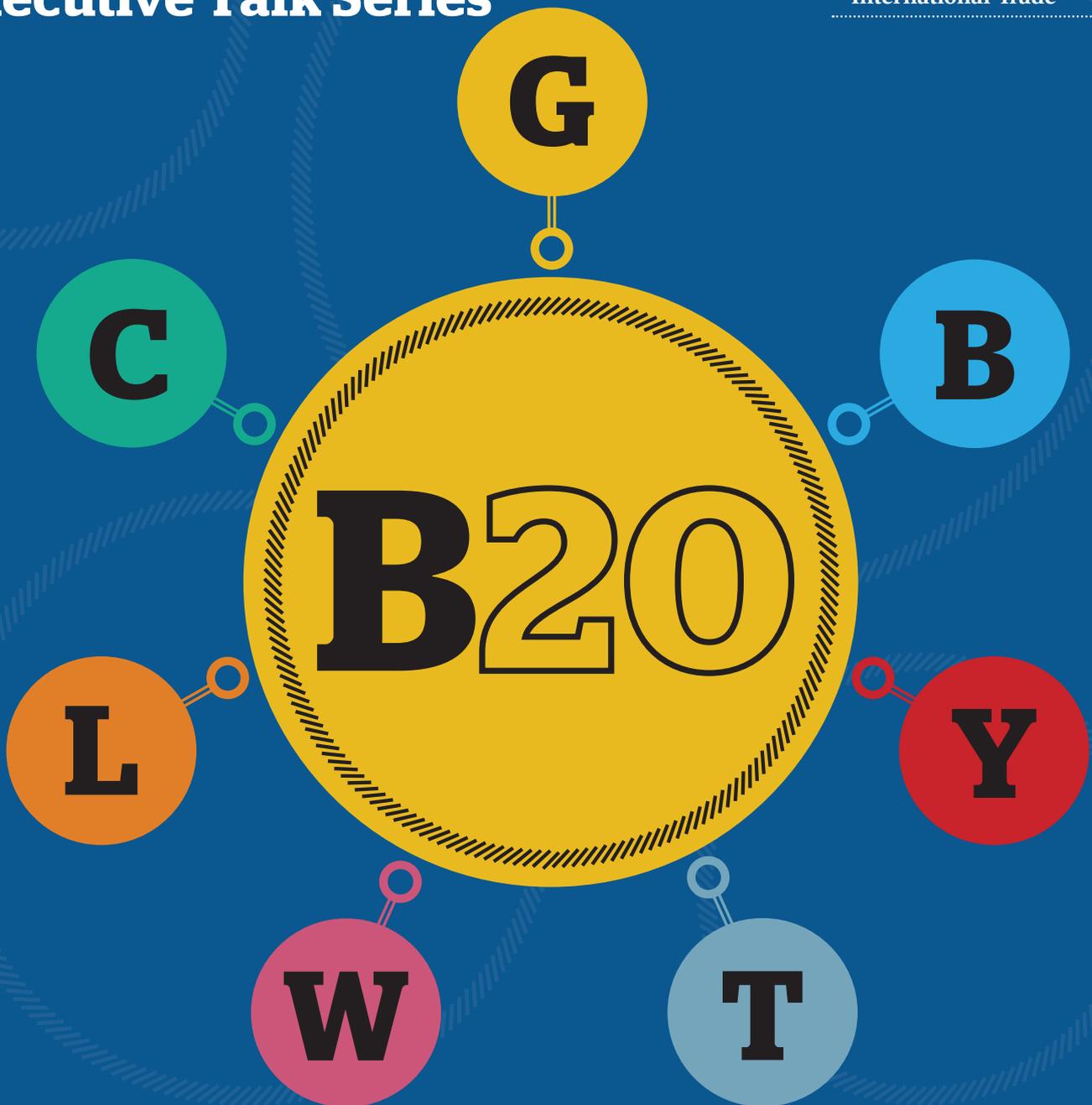


G20

Executive Talk Series

INSIDE G20

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How we Rebalance the Global Economy?
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of Globalization and International Trade



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Converting the Halo Effect to a Virtuous Cycle: How Infrastructure Sustainability will Unlock Sustainable Infrastructure and the Capital Needed

“Infrastructure is good! It creates jobs and stimulates the economy.” Well that is not necessarily true, especially when the wrong infrastructure solution is implemented or when infrastructure is poorly delivered and operated. The upstream and downstream impact on the economy, society and environment can be massive and compromise the infrastructure’s social licence, thus affecting financial performance and future investments. If we don’t acknowledge and deal with the macro misnomer that ‘infrastructure is good’, then the gap will continue to exacerbate between attracting private capital and sufficient suitable project availability. This is an OECD and non-OECD issue.

This perception is what I am terming the halo effect of infrastructure. Donors, multilaterals and sovereigns, as well as capital and service providers, respond by encouraging the identification of and investment in ‘sustainable infrastructure.’ The Brookings Institution article titled “Delivering on sustainable infrastructure for better development and better climate” associated with the comprehensive paper with the same title (authored by Amar Bhattacharya, Joshua P. Meltzer, Jeremy Oppenheim, Zia Qureshi and Nicholas Stern published Friday December 23, 2016) enshrines this response very well and provides a valuable first principal definition, the current context, trends and drivers for the need for “sustainable infrastructure”.

Sustainable infrastructure can and should be the means to decarbonise the global economy, deliver on the sustainable development goals and be a practical means, through each investment, to facilitate social and economic equity, sustainable production and resource utilisation. It is also a fundamental lever to protect biodiversity habitats, indigenous communities and heritage while enabling cities and regions

to be resilient to change. In contrast, ‘bad infrastructure’ tends to accelerate current negative impacts including biodiversity habitat destruction, climate change and social and economic inequity, again reinforcing the message conveyed in the Brookings’ article.

As opportunities and investments pitched as sustainable infrastructure solutions rapidly grow, there is a risk that the halo effect extends to what should be positive and effective approaches to infrastructure delivery. While there are detailed business cases that carefully set out bank ability and fund ability of a project, many of the critical sustainable infrastructure attributes can get stripped out at procurement and through “value” engineering exercises resulting in “unsustainable” infrastructure outcomes. This danger is not a hypothesis, these scenarios unfold all the time, whether the investment is a road or a port or a wind farm. So how can we as an industry ensure that each, and every “sustainable infrastructure” asset is planned, procured, delivered and operated in accordance with the Brookings article sustainable infrastructure definition?

The answer is infrastructure sustainability, no this is not semantics. The tools and processes are available and have been deployed by originations like Infrastructure Sustainability Council of Australia (ISCA). Infrastructure sustainability (IS) is defined as infrastructure that is planned, designed, constructed and operated to optimise environmental, societal and economic outcomes over the long term. (IS Technical Manual, Version 1.2, 2016). This is achieved through developing and facilitating the systematic deployment (including significant ongoing industry consultation) of applied quadruple bottom line benchmarked performance and rating tools. ISCA’s IS rating scheme, for example, has a current coverage which addresses stakeholder engagement and

community participation, heritage, resource efficiency, emissions, pollution and waste, management and governance, climate change risk, biodiversity and energy and carbon. The scheme is granulated to 44 credits benchmarked from business as usual to industry best practice. The benchmarked range reflects the sustainability performance spectrum which is essentially business as usual (which is different in different jurisdictions) to net gain (which is the ultimate goal to reverse so many of the cumulative infrastructure impacts locally and globally). The IS rating scheme has been applied to over \$82B of new build infrastructure projects (most asset classes, capital values and contract types) and over \$60B of current asset operations (e.g. airports, waste water treatment facilities, road networks and so on). The scheme is not a construction green tick, rather it is a whole of life sustainability performance framework where ratings can be achieved at the end of design, construction and through operations. The rating is independently verified by third party. Each rating process is a collaborative journey with the client and project team to ensure the best outcomes can be realized including reducing costs, mitigating risks, and enhancing social and environmental outcomes. Importantly the process starts off with a materiality assessment (an adjustable weighting assessment) which identifies the key risks and opportunities from a sustainability perspective for the project and asset.

The IS rating scheme is inherently aligned with many of the Sustainable Development Goals and therefore immediately assists an asset and its associated organizational entities to be able to report on SDG performance and establish an improvement pathway and trajectory. The scheme complements incumbent policies, standards, safeguards and regulation and not duplicate. Because of international partnerships established by

ISCA, the same modus operandi is applied in the scheme but is flexible to local tailoring, addressing unique cultural elements.

The next generation of the rating scheme is dealing with some of the typical “elephants in the room” like best practice in business cases, inclusion of externalities, benefits realization, indigenous inclusion, skills and jobs creation for the long term, and social and ethical procurement (and consequently picks up many aspects of human rights issues). ISCA also recognizes the importance of data and is therefore looking into how deploying the IS scheme can assist organizations, projects and assets be more data ready so that the right data can be collected and used to enhance decision making and other business processes. By making the information and data collection more efficient for pursuing an IS rating, the scheme will continue to reduce burden and unlock beneficial outcomes.

Infrastructure sustainability is the applied means of ensuring the more principle based “sustainable infrastructure” attributes and expectations on an investment by investment or project by project basis are identified, performance expectations established (for construction, operation and deconstruction) and embedded and measured throughout the assets life from planning through to delivery and operations. The resultant Infrastructure Sustainability Rating should be considered just as vital as a financial rating and the underpinning data, objectives and targets should be used to assist with investment/project/asset decision making. The fact that it is a project/asset rating engaging all key elements of the supply chain and drives industry collaboration and competition, another healthy change management lever to drive performance.

Importantly, rating tools and self-assessment frameworks like IS can also be applied to current operating assets, to benchmark, identify areas of improvement and ensure effective implementation and outcomes realised. In fact globally the IS rating scheme, IS for Operations, is the only one that has a rating bespoke for assets and asset managers for sustainability.

Infrastructure Sustainability frameworks and rating tools need to be benchmarked locally and aligned globally where possible and a performance regime established encouraging beyond business as usual solutions and outcomes. This sends the right market signals, as this occurs (as we have seen in Australia and New Zealand) smarter

more sustainable products and materials are brought to market more competitively, the construction sectors innovation shackles are unlocked and so on. The pursuit of the sustainability rating then advances in earnest through detailed project design and construction. The more clients that mandate and register projects to undertake the voluntary rating scheme prior to procurement and make the rating a contractual requirement in the design and operations, the more competitive the industry becomes and step changes occur. Intelligent (and self-benefiting) deployment of the IS scheme encourages knowledge sharing and collaboration even in very restrictive contractual arrangements. Performance against them can become an indicator of performance in other areas from financial to safety and quality, and should be utilised as a fundamental risk management and opportunity realisation framework (including improving bottom line performance where possible).

Through engagement with a number of countries in Asia, ISCA has learnt that deployment of the IS scheme becomes a rapid local regulatory backfill empowering the project proponents, particularly in an environment where there is inter-governmental corruption. In countries where there is policy and economic inertia (or reversion ... to coin a phrase) particularly regarding governance, environmental and social issues (including climate change, environmental protection and restoration and human rights and equity issues), deployment of the IS scheme backfills and reinforces regulatory frameworks and environments which typically result in sovereign and other risks impeding local and international investment.

Correspondingly we have also observed that systematic deployment of the IS scheme can result in green and red tape reduction, reducing planning and approval costs and at the same time establishing a collaborative model between regulators, project procurers and deliverers to work towards the best environmental or social outcome (e.g. noise or soil reuse).

This nexus between “sustainable infrastructure” and “infrastructure sustainability” should be utilised by sovereigns, donors and multilaterals, and institutional investors to be able to identify more of the “right” projects and consequently unlock billions (if not trillions) available for



ISCA CEO and a Federal Minister awarding a project for an Infrastructure Sustainability rating.

investment (but currently being held back).

There has been international interest in ISCA and the IS scheme as mentioned previously for some time now. The approach we follow is to establish partnerships providing access to tools, training, processes and communities of practice. It is clear that local tailoring of the scheme facilitates institutional “ownership” triggering a whole of industry adoption of infrastructure sustainability principles and processes. This is how ISCA’s partnership with China is progressing where we are assisting a local NGO to develop a China version of IS and in parallel engaging with key Central Government Bureaus.

At the risk of suggesting that “infrastructure sustainability” is some sort of panacea (where it could be at times if leveraged appropriately), systematic deployment of schemes like ISCA’s from planning and in parallel across current assets, can result in cities, policy makers, planners and operators pragmatically and quickly understanding what a smart, resilient and healthy city and town might look like for them. This statement is predicated on the observation that infrastructure underpins our cities and “dumb infrastructure” will ensure smart, resilient and healthy cities can never ultimately be realised, whereas the converse is obviously true.

Infrastructure sustainability enables more effective and efficient planning, designing and delivery of infrastructure as so many of the key issues are inherently unlocked throughout the process. ■

Antony Sprigg, CEO Infrastructure Sustainability Council of Australia