Report by:

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FAST-Infra; a public-private initiative to raise private investment in developing world sustainable infrastructure

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HSBC Centre of Sustainable Finance

Contents

Foreword

Transforming sustainable infrastructure into a mainstream, liquid asset class will speed up the ability of investors to make capital allocation choices that support the transition to a sustainable economy. The 'Finance to Accelerate the Sustainable Transition-Infrastructure' (FAST-Infra) aims to do exactly that by establishing a consistent, globally applicable labelling system for investments in sustainable infrastructure assets. Through this labelling system, the market can easily signal the sustainability of the asset, and investors can trust that their money is going to projects that meet environmental, social, resiliency, and governance needs and contribute to the SDGs.

A sustainable infrastructure label will ensure that governments and project developers embed high environmental, social, governance and resiliency standards into new infrastructure at the design and pre-construction phases, on the grounds that only assets incorporating such standards will obtain the label. The label will also attract private finance at the construction stage and new institutional investors at the post-construction phase. Alongside the labelling work, FAST-Infra is developing financial mechanisms to mobilize private investment at scale for the financing of labelled projects.

FAST-Infra was conceived by Climate Policy Initiative (CPI), HSBC, the International Finance Corporation (IFC), OECD and the Global Infrastructure Facility under the auspices of President Macron's One Planet Lab. In May this year FAST-Infra hosted two global roundtables to present its goals and to invite the key stakeholders in the infrastructure ecosystem to join. Close to 100 institutions participated, with most subsequently joining FAST-Infra, including leading global investors, financial intermediaries, development finance institutions, governments, rating agencies and other stakeholders.

Christian Deseglies

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1. Summary and Introduction

Infrastructure assets form the backbone of economies but they are also a major source of greenhouse gas emissions, both during their construction and operation.

Investment in infrastructure of USD 6.9 trillion per year is needed to meet global development needs through 2030[1], and developing countries will account for the majority of these investments[2]. Infrastructure needs to be designed, built and operated in a sustainable way otherwise it will lock the world into a high emissions trajectory and not be resilient to climate change.

Private sector finance is not flowing in significant size to fund projects. Multilateral development banks (MDBs) are key participants in the sector, but they have limited balance sheets and infrastructure competes with other areas of lending. For some countries, large domestic savings do not see MDB fund flows into domestic infrastructure projects.

To overcome this hiatus, FAST-Infra was established by HSBC, IFC (International Finance Corporation), OECD (Organisation for Economic Co-operation and Development), GIF (Global Infrastructure Facility) and CPI (Climate Policy Initiative) as an industry-led, public-private partnership. FAST-Infra ('Finance to Accelerate the Sustainable Transition – Infrastructure') aims to raise the flow of private finance to developing world sustainable infrastructure. Following two global calls in May 2020, 70 to 80 institutions (banks, asset managers, multi-lateral banks, national development banks and NGOs) now participate in FAST-Infra.

FAST-Infra aims to unlock private financing through i) Creating a sustainable infrastructure label and ii) Undertaking targeted financial interventions.

FAST-Infra's Sustainable Infrastructure (SI) Label
FAST-Infra's work on a sustainable infrastructure (SI) label is advanced. In early 2021, FAST-Infra will release its label prototype for a 45 to 60-day consultation. The first assets may be declared to be FAST-Infra SI compliant in 2021.

FAST-Infra's targeted financial interventions
FAST-Infra has developed concept notes and work plans around four distinct ideas:

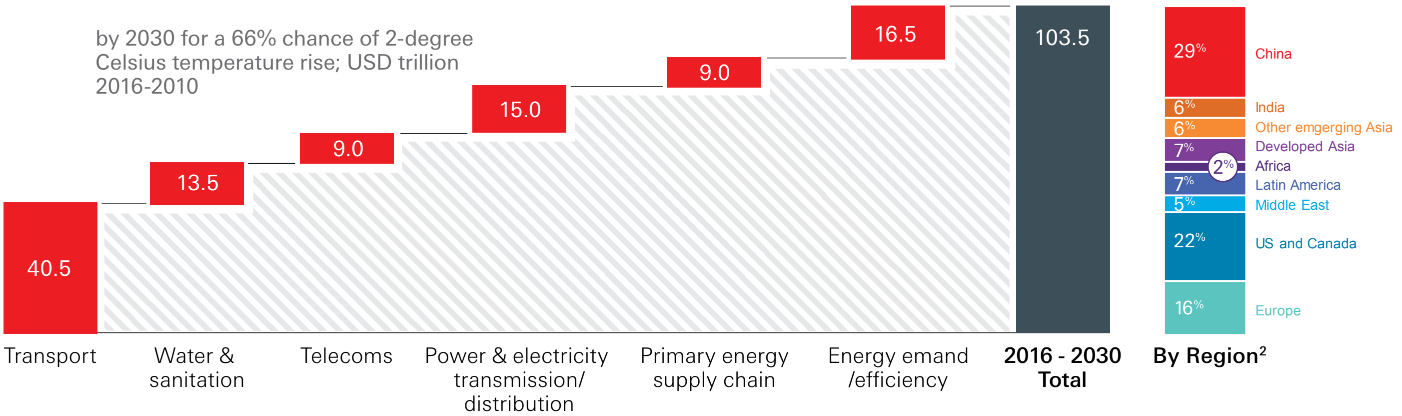
- a technology platform
- a PPA or revenue guarantee
- a modified MCPP (managed co-lending portfolio programme)
- a financing facility to lend to NDBs (national development banks)

During 2021 these four concepts will be developed into product design phase, with organisation and costings being calculated.

FAST-Infra has been taken up by the UK government team working on COP-26[3]. FAST-Infra was mentioned in the Mark Carney report 'Building a private financing system for net zero' as an important initiative that will help address barriers in financing sustainable infrastructure'[4].

Overview of this report
To change the way infrastructure is financed and developed, FAST-Infra needs to be cognisant of infrastructure's unique features, and current initiatives and programmes that already exist around infrastructure. This report describes some of the unique features of infrastructure (section 2), examines current work around definitions, principles, standards and taxonomies for infrastructure, and discusses lessons from the green bond market (section 3). The report then presents FAST-Infra's work around a sustainable infrastructure label (section 4), and the four market initiatives being developed by FAST-Infra (section 5).

Figure 1: Global infrastructure investment needed



[1] 'Investing in Climate, Investment in Growth', OECD/IEA, July 2017.
[2] McKinsey, 'Bridging Global Infrastructure Gaps' June 2016.
[3] Conference of the Parties of the United Nations Framework Convention on Climate Change.
[4] 'Building a private financing system from net zero: priorities for private finance for COP-26', Mark Carney

2. Infrastructure's key features

Infrastructure has several unique features which need to be taken into account when deciding how infrastructure is planned and paid for. For example, infrastructure often provides a public good. Infrastructure assets are long-lived. Good infrastructure assets are well integrated with the community they serve; infrastructure works better if integration is pre-planned and comprehensive.

Infrastructure has direct and indirect beneficiaries. For example, passengers benefit from the transit services provided by metro systems. But individuals that never use the metro also derive indirect benefits in terms of reduced road congestions. Firms located in the city in question derive indirect benefits in terms of higher productivity and land values. A sensible revenue system will capture these benefits; charging users a fare and taxing non-users to recoup some of their indirect benefits.

Construction and contractor risks are high when an asset is being created. Partly due to construction uncertainties, infrastructure tends to be financed in the loan market or the private placement market, rather than with bonds.

Much of the environmental damage caused by renewable energy assets comes during construction; while for sectors like conventional power generation, LNG liquefaction and airports, emissions can be high during construction and operation. In the operational phase, the magnitude of damage may be determined by the asset users: a road's environmental impact will be less if predominantly used by electric vehicles rather than by diesel powered trucks. But the environmental performance of an infrastructure asset may be easier to track than for corporates, which have globally dispersed operations.

One can also think of three types of infrastructure in relation to sustainability: i) 'net zero', ii) 'grey', and iii) 'ecological' or 'natural capital'. Net zero infrastructure includes renewable energy and electric buses, that attempt to emit zero or near zero carbon emissions. 'Grey' infrastructure includes water infrastructure or roads, assets that contribute towards significant pollution during their build and operation, but where gains can be made. 'Ecological' or natural capital assets like mangrove swamps provide a range of services, such as protecting against coastal erosion.

These insights inform FAST-Infra's work in several ways. Although FAST-Infra aims to raise private finance for infrastructure, we are cognizant of the key role that national and local governments play in the provision, adoption and delivery of infrastructure services. FAST-Infra also recognises the central role of developing asset plans that enjoy local community support.

FAST-Infra is aware that its focus on sustainability must be during the asset's whole life cycle. FAST-Infra is determined to include natural capital in its definition of infrastructure, and to enhance natural capital and the services this can provide.

3. Sustainable infrastructure as an asset class

International policy work is underway to advance infrastructure as an asset class and to advance sustainable infrastructure. FAST-Infra will draw on both work streams, to advance sustainable infrastructure as an asset class.

Infrastructure as an asset class
The G-20 and the OECD think that standardisation of project finance documentation could advance infrastructure as an asset class[5]. Others agree. The EBRD argues that: 'Greater standardisation lies at the heart of efforts to create an infrastructure asset class.' EBRD (2019)

> The Singapore government at the 2019 Asia Infrastructure Forum, announced its aim to: 'standardise 50 percent of the terms in project finance documents in the coming year as part of ongoing efforts to make infrastructure projects more bankable and investible.'
> (SIIA,2020)

Definitions of sustainable infrastructure
Several organisations seeking to advance sustainable infrastructure have presented definitions. The Inter-American Development Bank (IDB) says sustainable infrastructure entails: 'projects that are planned, designed, constructed, operated and decommissioned in a manner to ensure economic and financial, social, environmental (including climate resilience) and institutional sustainability over the entire life cycle of the project'[6].

They argue that sustainable infrastructure: 'preserves, restores, and integrates the natural environment, including biodiversity and ecosystems. It supports the sustainable and efficient use of natural resources, including energy, water and materials. It also limits all types of pollution over the life cycle of the project and contributes to a low-carbon, resilient and resource-efficient economy.

According to this criteria, infrastructure should not contribute to climate change or biodiversity loss and be resilient to climate change damage. Sustainability needs to be embedded during planning, procurement, construction, operation and decommissioning.

The United Nations Environment Programme (UNEP, 2018) thinks the IDB definition too narrowly focusses on the project level. UNEP would prefer a definition that includes wider societal impacts. UNEP also stresses the role that natural eco-systems play in providing resilience.

The Singapore Institute of International Affairs' says sustainable infrastructure entails: 'identifying and integrating the E&S risks associated with infrastructure projects, with the aim of minimising negative E&S impacts throughout a project's lifecycle.' (SIIA, 2020).

[5] 'G20 roadmap to infrastructure as an asset class', OECD, 2018
[6] 'What is Sustainable Infrastructure?', IDB (2018). This definition also appears in Bhattacharya et al. (2019).

FAST-Infra's contribution

FAST-Infra has mapped current initiatives around principles, standards and taxonomies for sustainable infrastructure. Principles tend to be high level but few in nature. A taxonomy is detailed but highly prescriptive. Standards lie between principles and a taxonomy.

FAST-Infra aims to develop a sustainable infrastructure label (section 4) that will be underpinned by a set of standards. As such the FAST-Infra work on standards will sit between the high level work done on principles and the detailed taxonomy work done by the EU (Figure 2).

Principles

The Equator Principles were developed to guide the project finance market. The ten Equator Principles provide a minimum standard for due diligence and monitoring. Over 100 financial institutions have adopted them since their 2003 launch: the fourth version was published in 2019.

The Green Investment Principles (GIPs) were launched at the Belt and Road Forum in April 2019. The seven GIPs may guide infrastructure development around the Belt and Road Initiative.

The G20 Principles for Quality Infrastructure Investment were signed in June 2019 by G20 leaders in Fukuoka, Japan. There are six principles for quality infrastructure[7/8].

The United Nations Sustainable Development Goals (SDGs) have a broader focus than infrastructure. Nevertheless, infrastructure is referred to in SDG9 and is relevant to many others: SDG3 good health and well-being, SDG4 quality education, SDG6 clean water and sanitation, SDG7 affordable and clean energy, SDG 8 decent work and economic growth, SDG11 sustainable cities and communities.

Standards

Several public sector initiatives are underway on standards. The Infrastructure Cooperation Platform provides technical services to the MDBs; and the IDB is leading an initiative on 'Sustainable Infrastructure'. UNEP has established an Expert Working Group to develop a streamlined Good Practice Guidance Framework on integrated approaches to sustainable infrastructure.

Several bodies like GRESB and Global Infrastructure Basel rate or assess infrastructure performance[9]. Helpfully, the Global Infrastructure Facility (GIF) – a FAST-Infra founding partners, has collated their main sustainability indicators into an 'Aligned Set of Sustainability Indicators' (ASSI) report (Figure 2).

The Coalition for Climate Resilient Investment (CCRI) is addressing resiliency issues in relation to financial and project investments.

Taxonomy

FAST-Infra will indeed consider the EU taxonomy, although the taxonomy is not focused solely on infrastructure[10] and it has been developed principally for the EU rather than the developing world. The taxonomy sets a high bar for many technologies which may be too testing for some emerging economies. There also may be challenges in applying it in other jurisdictions, as it refers to EU legislation and related standards which may not have analogues in other jurisdictions.

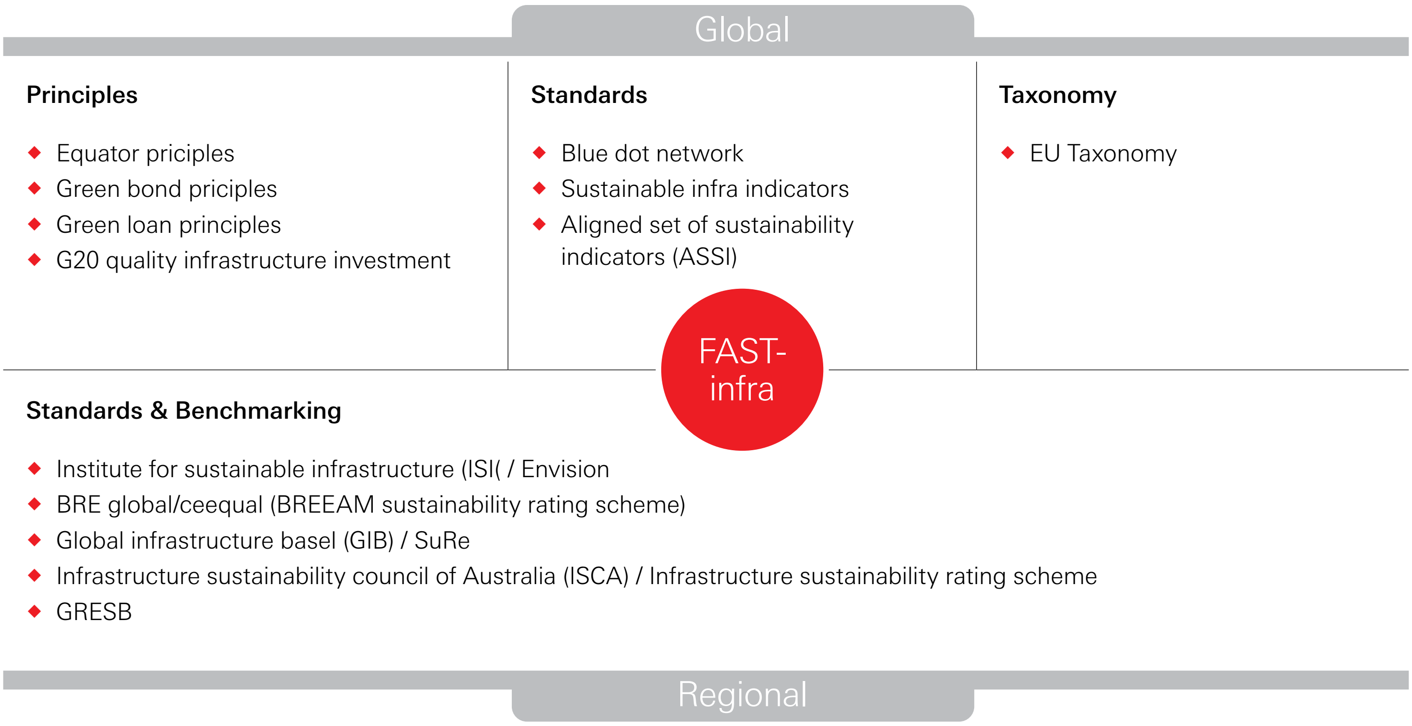


Figure 2: Global or regional initiatives on sustainable infrastructure

[7] The OECD is developing a Compendium of Good Practices for Quality Infrastructure Investment to support the G20 Principles for Quality Infrastructure.
[8] The Blue Dot Network (announced by the US, Australia and Japan at the 4 November 2019 Indo-Pacific Business Forum) may certify projects exemplifying quality infrastructure as per the G20 Principles for Quality Infrastructure Investments.
[9] GRESB created the GRESB Infrastructure Asset Assessment, to assess ESG performance across a range of sectors.
[10] The EU Technical Expert Group on Sustainable Finance 'Taxonomy Report', and 'Taxonomy Report; Technical Annex', 9 March 2020 examine eight economic sectors. None of these are infrastructure, though some involve infrastructure assets.

4. Creating a FAST-Infra sustainable infrastructure label

A key goal of FAST-Infra is to create a sustainable infrastructure label. We think a label will have a catalytic impact in two areas: the label will encourage host governments and developers to consider environmental and resiliency issues at the pre-construction phase; and it may also serve to draw in some further investors at the post-construction phase (Figure 3).

Currently we think that the developing world infrastructure market is stuck in a low quality, low cost equilibrium, where developers do not discuss quality or resiliency for fear of not being awarded a contract. The FAST-Infra label could shift the market to a higher quality equilibrium (perhaps with higher capex but lower opex costs). Governments and developers that want their assets to be regarded as sustainable would need to discuss environmental and resiliency standards at the pre-construction phase, as the only way to get their asset awarded the sustainable infrastructure label.

We also think that a sustainable infrastructure label, at the post-construction phase, may attract further asset managers and institutional investors seeking to establish sustainable infrastructure funds or invest in sustainable infra assets: they may want to participate in financings extended to assets bearing the FAST-Infra label.

Green Bond Principles
FAST-Infra's determination to create a sustainable infrastructure label partly is inspired by the Green Bond Principles (GBP), a document that helped accelerate green bond issuance.

The GBP were developed by banks that help their clients issue green bonds. The GBP is a short document. It lists ten types of projects that might be considered to be green, and explains the four steps required to issue a green bond. The banks that created the GBP handed the document on to be managed by the International Capital Markets Association (ICMA). ICMA updates the GBPs annually.

The GBP does not go into detail on what constitutes a green bond. The GBP simply lists ten types of projects that can be funded by a green bond and then declares the list to be in-exhaustive.

Of course there are differences between green bonds and infrastructure. Green bonds are issued in the public capital markets, while infrastructure often is financed in the loan market or the private placement market. Infrastructure projects may be more bespoke than bond financings.

FAST-Infra is also inspired by two documents that make clear statements around sustainable infrastructure. The Asian Development Bank's 2020 'Investment Principles and Eligibility Criteria' report sets out its green infrastructure criteria on one page, its list of eligible activities on another.

The IFC's 'Performance Standards on Environmental and Social Sustainability' (IFC, 2012) is used by many project developers, partly to help them gain IFC financing but also to reduce project risk.

What progress has FAST-Infra made regarding the label so far? First, FAST-Infra has come up with a list of assets that the group regards generally to be sustainable. (This is inspired by the GBPs which lists ten project types it regards to be green). Assets not on that list could still to be sustainable but further scrutiny is required.

FAST-Infra has established 14 criteria – under 4 dimensions – that need to be considered in order for an asset to be regarded as sustainable. FAST-Infra is working to develop (KPIs) and best practice documents to sit along-side each criterion. So the document will guide the market to the key 14 criteria to be considered, plus the appropriate KPIs and best practice.

A detailed draft set of FAST-Infra sustainable infrastructure standards will be released in early 2021, after which a 45-60-day consultation period will commence.

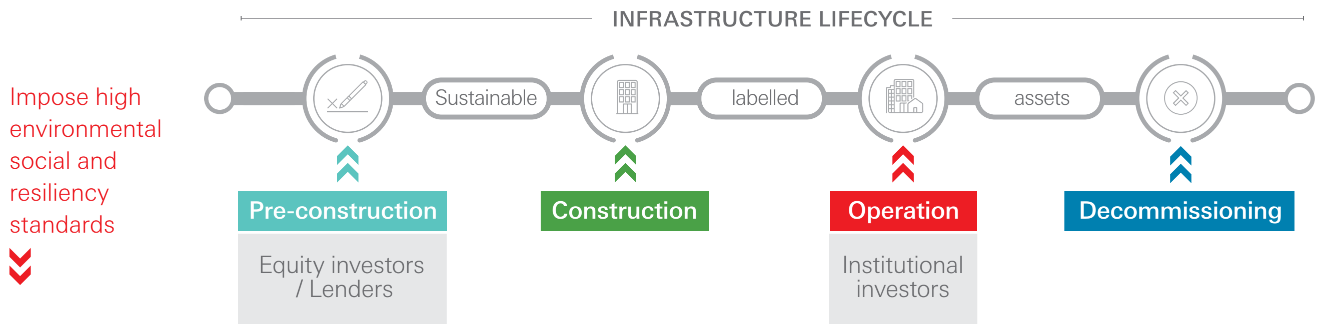


Figure 3: Catalytic impact of a sustainable infrastructure label, during infrastructure asset life cycle

5. FAST-Infra's targeted market interventions

FAST-Infra's work on targeted market interventions in the second half of 2020 has coalesced around four initiatives. All four initiatives are distinct but each has great potential. Each will be advanced during 2021 from the concept note stage, to pilot project phase and product development.

Technology platform

Around $3 tn of project finance loans[11] sit on bank balance sheets. Securitization would allow banks to recycle capital and investors to buy diversified portfolios. The IFC's Managed Co-Lending Portfolio Program (MCPP) and Bayfront pioneer project finance securitisation. But MCPP is a passive co-investment platform captive to IFC: Bayfront is focussed on Asian infrastructure only.

FAST-Infra aims to create an open architecture platform – an open, rules-based marketplace – enhanced by technology tools. Having widely known rules (instead of bespoke, bilateral agreements) may cut the time to structure CLOs. The technology tools may allow a) scrutiny of project terms b) portfolio hedging, CLO pricing c) performance monitoring d) risk management.

Combining a securitization exchange with a technology platform may enhance capital flow. In time, banks may structure project loans with a view to securitizing them: so driving standardisation[12].

PPA or revenue guarantee

FAST-Infra may help create a single global body/facility to extend power purchase agreement (PPA) or revenue guarantees to power producers in the developing world, protecting them against non-payment from the utilities to which they sell power.

Many developing world utilities are prepared to sign power purchase agreements, but their credit quality is so low that the PPA is not bankable. An agency/facility that guarantees PPA payment could support power producers trying to operate in developing countries. The agency/facility could offer a back-stop reserve payment product to fund debt service interruption periods of 90 days to a year.

This new agency/facility could extend PPA or revenue guarantees to a portfolio of power producers in developing countries around the world, for a fee. This would attract private sector investment to sustainable infrastructure projects. This would make it attractive for private sector capital to develop emerging economy projects that have historically been supported by MDBs.

[11] Source: IJ Online
[12] Project finance banks may insist documents be public If an exchange says document must be public to be securitized.

Modified managed co-lending portfolio programme (MCPP)
The International Finance Corporation in 2013 created its Managed Co-Lending Portfolio Programme (MCPP). This allows institutional investors to participate in the emerging market loans the IFC originates. The programme creates a supply of high quality, liquid assets for private investors and allows the IFC to originate new loans, as co-syndication frees up its balance sheet space. The MCPP has limited ability to scale, however, due to its bilateral nature and its "blind pool" approach, where investors take exposure to whichever loans the IFC puts into the programme.

FAST-Infra proposes to open the MCPP to multiple originators and investors via an Open-sourced Managed Co-Lending Portfolio Programme (OMCPP). The differentiating feature of the OMCPP will be its diversity of participation. Rather than an exclusive structure linking the IFC with individual investors, the OMCPP invites a range of participating development banks to originate loans.

The underlying syndication process in OMCPP is similar to that of the MCPP: The OMCPP pools together loans originated by participating development banks and allows institutional investors to access them through tranches of senior and mezzanine debt. The OMCPP reduces the risk exposure of private investors through credit enhancement, in which development banks hold the junior debt.

Sustainable financing facility (SFF) for national development banks
National development banks (NDBs) play a key role in financing sustainable infrastructure projects and are important engines of transition to a low carbon economy. In many emerging market economies, NDBs are the only providers of long-term capital. However, they may lack access to international capital markets. This inhibits NDBs' ability to scale their lending operations.

FAST-Infra proposes setting up a Sustainable Financing Facility (SFF) directly to finance eligible NDBs for on-lending to domestic sustainable infrastructure projects. According to this proposal banks will finance NDBs, allowing them to lend against sustainable infrastructure projects domestically. The NDBs will take on construction risk, while SFF funders take on NDB risk.

The SFF will develop in stages. Development banks could lead financing to build a critical mass. Commercial banks could join to raise the facility size: commercial banks would hold senior debt, DFIs junior debt. As the SFF grew in size it could tap the capital markets to access more investors.

FAST-Infra may identify NDBs poised to lend for domestic infrastructure projects. Funds would be lent to these NDBs so long as they lent for sustainable infrastructure projects. Post construction these loans can be taken out by sustainable infrastructure funds.

6. FAST-Infra in 2021

FAST-Infra enters 2021 pursuing five ideas: a sustainable infrastructure label and four specific market interventions.

FAST-Infra is creating a sustainable infrastructure label as we think the label will i) encourage host governments and developers to consider environmental and resiliency issues at the pre-construction phase; and ii) draw in more institutional investors at the post-construction phase.

FAST-Infra's work on a sustainable infrastructure (SI) label is advanced. In early 2021, FAST-Infra will release its label prototype for a 45 to 60-day consultation. The first assets may be declared to be FAST-Infra SI compliant in 2021.

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FAST-Infra is also being advanced in 2021 by the FSTF (Financial Services Task Force), and initiative of the SMI (Sustainable Markets Initiative).

For more information on FAST-Infra or to participate in the FAST-Infra consultation around the sustainable infrastructure label please consult the following website:

https://www.climatepolicyinitiative.org/fast-infra/

To get involved or learn more, please contact:

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About the Centre of Sustainable Finance

"For more than a decade, HSBC has been at the forefront of the sustainable finance market. In October 2020, HSBC set out an ambitious plan to align our financed emissions – the carbon emissions of our portfolio of customers – to net-zero by 2050 or sooner, in line with the goals of the Paris Agreement. To do this, we're intensifying our support for customers to switch to more sustainable ways of doing business. We believe we have the scale and global reach to play a leading role in advising them on their journey towards net-zero and have an ambition to provide between USD750 billion and USD1 trillion of finance and investment by 2030 to help them achieve this goal. We also aim to achieve net zero in our operations and supply chain by 2030 or sooner.

Taken together, these commitments reflect the scale of the challenge of delivering the Paris Agreement and UN Sustainable Development Goals. They also demonstrate the heights of our ambition to be a leading global partner to the public and private sectors in the transition to a low-carbon economy."

Daniel Klier, Global Head of Sustainable Finance

"Each and every one of us has a stake in developing a sustainable economic system. It is the combined responsibility of all players in society to respond to climate change, rapid technological innovation and continuing globalisation to secure a prosperous future. Yet addressing these changing forces is by no means straightforward. More work is needed to provide the financial system with the right toolkit to solve sustainability challenges.

Working with internal and external partners, this central think tank is uniquely positioned to lead and shape the debate. Since launch in 2018, we have produced 124 pieces of work by collaborating with 38 partners across 16 countries and regions. We've been working on real economy decarbonisation roadmaps and how to finance them. We will promote the sustainable finance agenda using our global network which covers the world's largest and fastest growing trade corridors and economic zones. We can provide the connections needed to foster sustainable growth across borders and geographies. We aim to mobilise the capital flows needed to address the world's major sustainability challenges."

Zoë Knight, Group Head, HSBC Centre of Sustainable Finance

Acknowledgements

The HSBC Centre of Sustainable Finance supports HSBC's ambition to facilitate low-carbon transition by providing thought leadership about transforming the real economy and strengthening the financial system response to climate change.

Building on internal subject matter expertise and our external network of experts, we generate and promote reports that support the climate ambitions of key stakeholders including industry, financial regulators, governments, and financial institutions.

The centre would like to thank the work of **Michael Ridley** in the production of this piece.

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