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An ESG Primer for PPP Units

UNOSD NVR-SDGs March 2021

ESG & PPP

Why should PPP Practitioners keep ESG in mind?

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History of ESG

The story of ESG investing began in January 2004 when former UN Secretary General Kofi Annan wrote to over 50 CEOs of major financial institutions, inviting them to participate in a <u>joint initiative</u> under the auspices of the <u>UN Global Compact and with the support of the International Finance Corporation (IFC) and the Swiss Government</u>. The goal of the initiative was to find ways to integrate ESG into capital markets. The report made the case that embedding environmental, social and governance factors in capital markets makes good business sense and <u>leads to more sustainable markets and better outcomes for societies.</u>

Georg Kell, Jul 11, 2018, Forbes Magazine

ESG Defined

- The *E* in ESG, *Environmental criteria*, includes the energy an organization takes in and the waste it discharges, as well as the resources it uses. *E* includes carbon emissions and climate change.
- The *S*, for *Social criteria*, addresses the relationships an organization has and the reputation it fosters with people and institutions in the communities where it operates. *S* includes labor relations and diversity and inclusion.
- The *G*, for *Governance*, is the internal system of practices, controls, and procedures an organization adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders.

Based on Witold Henisz, Tim Koller, & Robin Nuttall, McKinsey 2019

ESG Current Application

- There is no "one best way" nor "silver bullet" to do ESG integration.
- Governance is the ESG factor most investors are integrating into their process.
- Environmental and social factors are gaining acceptance, but from a low base.
- ESG integration is farther along in the equity world than in fixed income.
- Portfolio managers and analysts are more frequently integrating ESG into the investment process, but rarely adjusting their models based on ESG data.

Findings of a (CFA/PRI 2018) survey of more then 1,100 financial experts

ESG investments now exceed $30 trillion

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- 84% of millennials interested in sustainable investing, and a $30 trillion intergenerational wealth transfer is taking place.
- Long-term investors, such as mutual funds, pension funds, insurance companies and sovereign wealth funds, are interested in sustainability.
- 49 stock exchanges and more than 350 large asset managers have committed to ESG principles
- 97 financial institutions in 37 countries have committed to the Equator Principles
- People-First PPP concept and G20 Quality Infrastructure Investing have gained widespread recognition.

ESG has a big following

Company	Indices[2]				Ratings[3]				Ranking[4]	Investment Funds	Proxy Voting
	ESG	E	S	G	ESG	E	S	G	ESG	Other Services	
Market											
Bloomberg	✓	✓	✓		✓	✓	✓	✓			
FTSE Russell	✓	✓			✓	✓	✓	✓			
MSCI	✓	✓	✓		✓	✓	✓	✓			
Thomson Reuters	✓	✓	✓	✓	✓	✓	✓	✓			
ESG-Exclusive											
Arabesque					✓	✓	✓	✓		✓	
Covalence	✓				✓	✓	✓	✓	✓		
CSRHub					✓	✓	✓	✓			
Ethos				✓	✓	✓	✓	✓		✓	✓
Inrate		✓			✓	✓	✓	✓			✓
Oekom Research	✓				✓	✓	✓	✓	✓		
RobecoSAM	✓	✓			✓				✓	✓	✓
Sustainalytics	✓	✓	✓	✓	✓	✓	✓	✓	✓		
VigeoEIRIS	✓				✓			✓	✓		
Specialized											
ISS/IW Financial					✓			✓	✓		✓
CDP		✓				✓					
RepRisk					✓				✓		

Source: Responsible Investing: Guide to ESG Data Providers and Relevant Trends (Douglas et al., 2017)

Yet ESG has not had a noticeable impact on PPP

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- Projects are still awarded like construction projects.
- Environmental and Social Impact Assessment is usually left to the winning bidder to do.
- Information about the project and the pipeline is not communicated to investors early on.
- Under political pressure, most PPP tenders are rushed through.
- Stakeholders and rating agencies tend not to be consulted.
- Governments have not yet fully internalized PPP as a means to deliver on the SDGs and to enhance the ESG dimensions.

Lack of Awareness

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PPP Units are generally not aware of the tools available from third-parties for project ESG assessment.

	Name	Types of Assets	Primary User Type(s)	Methodology	Output(s)
Evaluation Tools	GRESB Infrastructure Asset Assessment	Energy, Water, Waste, Transportation, Telecom, Data, Social, Real Estate	Financial Investors, Managers, Operators	• User-provided data • Point scoring system • Validation • Peer benchmarking	**Rating:** Absolute score (out of 100), peer and overall rankings , Scorecard and Benchmark Report
Evaluation Tools	Envision	Energy, Water, Waste, Transportation, Landscape, Information	Procuring Entities, Developers	• User-provided data • Publicly available point scoring system	**Certification:** Bronze, Silver, Gold, and Platinum levels
Evaluation Tools	SuRe	Energy, Water, Waste, Transport, Communication, Social, Food Systems, Mining	Procuring Entities, Developers, Financial Investors	• User-provided data • Publicly available achievement scoring system	**Certification:** Bronze, Silver, and Gold levels
Evaluation Tools	RepRisk	34 sectors (including beyond infrastructure)	Companies, Investors, Governments, NGOs	• Media scanning • Private point scoring system and rating system	**Score or Rating:** RepRisk Index score or RepRisk Rating (AAA-D)
Evaluation Tools	CEEQUAL	Infrastructure, civil engineering, public spaces, and landscaping	Governments, Developers/Designers	• User-provided data • External validation and scoring	**Score and Rating:** Assessment score (percentage out of 100%) and award (excellent, very good, good, pass)
Evaluation Tools	ISCA Tools (Planning, Design & As-Built, and Operations)[xvii]	Energy, Water, Waste, Transportation, Information	Governments, Developers/Designers, Operators/Owners	• User-provided data • External validation and scoring	**Score and Rating:** Assessment score (out of 100) and rating (Bronze, Silver, Gold, Platinum, and Diamond)
Valuation Tools	SAVi	Energy, Buildings, Roads, Water, Natural Capital (under development)	Procuring Entities, Financial Investors	• System dynamics modeling • Project finance modeling	**Financial Impact:** Cost benefit analysis, gross margin, net present value, value for money, internal rate of return, credit ratio
Valuation Tools	TREDIS	Transportation	Procuring Entities, Developers	• Regional economic and transportation modeling • Project finance modeling	**Financial Impact, Market Access:** Cost benefit analysis, project finance analysis, economic development impact
Valuation Tools	Autocase	Buildings and Project Sites	Procuring Entity, Developers	• Economic analysis modeling	**Financial Impact:** Cost benefit analysis, net present value
Valuation Tools	Zofnass Economic Process Tool	Energy, Water, Waste, Transport, Landscape, Information	Procuring Entity, Developers	• Economic analysis modeling (based on Envision framework)	**Financial Impact:** Cost benefit analysis, net present value

Source: Valuing Sustainability in Infrastructure Investments: Market Status, Barriers and Opportunities A Landscape Analysis Prepared by WWF Switzerland and Cadmus Group, March 2019

G20 Principles for Quality Infrastructure Investment

1. Maximizing the positive impact of infrastructure to achieve sustainable growth and development.
2. Raising economic efficiency in view of lifecycle cost.
3. Building resilience against natural disasters and other risks.
4. Integrating environmental considerations in infrastructure investment. (E)
5. Integrating social considerations in infrastructure investment. (S)
6. Strengthening infrastructure governance. (G)

UNECE People-First PPP Principles

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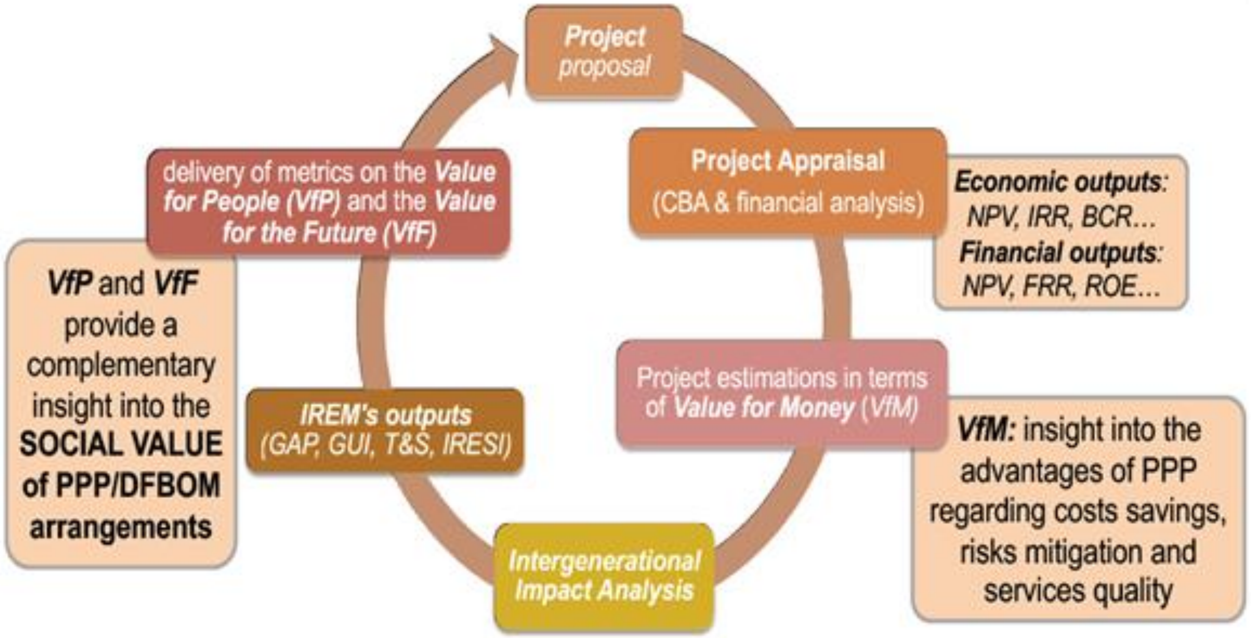
1. Access and equity.
2. Economic effectiveness and fiscal sustainability.
3. Environmental sustainability and resilience.
4. Replicability.
5. Stakeholder engagement.

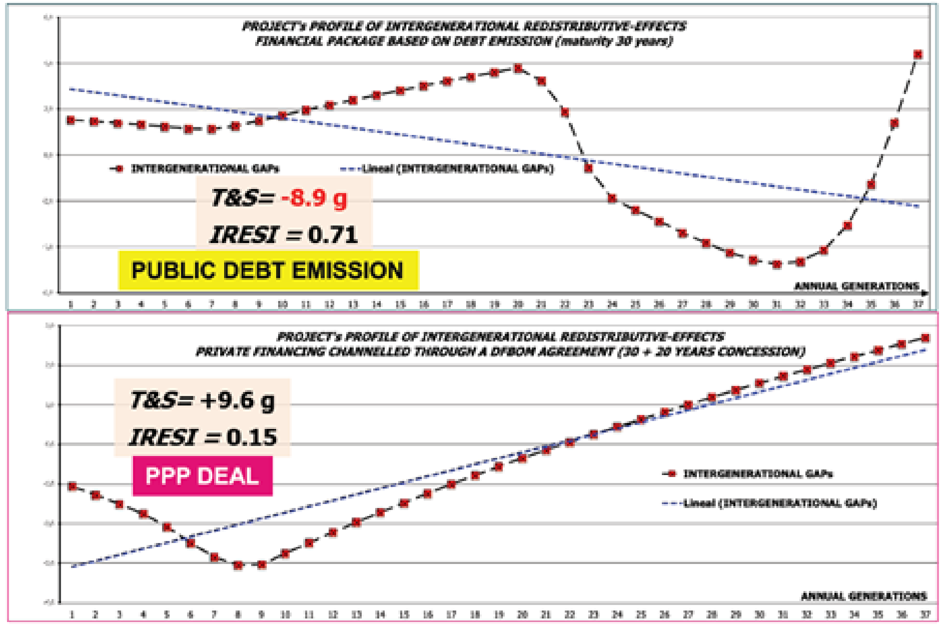
(UNECE is in the process of developing a PfPPP Impact Assessment Tool.)

Introducing the Value for Future Generations Concept

Comprehensive evaluation of the social value of PPP/DFBOM arrangements



Analysis of Intergenerational Redistribution



In Conclusion

- PPP units will ignore ESG at their own risk.
- Truly successful and sustainable PPPs require not just getting a rating. They entail paying close attention to:
  1. Value for Money
  2. Value for People
  3. Value for Future Generations

Questions & Answers

- The floor is open for questions
- Please use the Q & A box