

Bretton Woods Project, July 2019

Infrastructure has been identified as an essential aspect of achieving the Sustainable Development Goals (SDGs) and – by the G20 – as an engine of renewed global growth. However, much planned infrastructure risks undermining climate action by locking developing countries and regions into carbon-intensive development pathways. This briefing emphasises the interdependence between the SDGs and the Paris Climate Agreement, in terms of ensuring that all new infrastructure is climate resilient and aligned with the low- or zero-carbon pathways required to avert catastrophic climate change – which would render achieving the SDGs impossible. It argues that multilateral development banks (MDBs) must adopt a more robust joint definition of ‘sustainable infrastructure’, and mainstream it in their approach to infrastructure lending, in order to help catalyse a shift away from ‘business as usual’ approaches to carbon-intensive infrastructure that are not aligned with effective climate action or the SDGs.

1. Introduction: Infrastructure and climate action - building bridges to a low-carbon future?

Infrastructure planning processes represent one of the fundamental challenges to effective global climate action, owing to the long-term lifespan of most infrastructure and its centrality to low-carbon transition strategies. This is particularly the case for energy infrastructure, but is also highly relevant for transport, urban planning and housing, communications, water and sanitation, and other types of infrastructure as well. The landmark special [report](#) from the Intergovernmental Panel on Climate Change (IPCC) released in October 2018 lays bare the challenge of limiting average global temperature rise to 1.5°C relative to preindustrial levels, as global CO₂ emissions will have to fall 45 per cent by 2030 compared to 2010 levels, and reduce to net zero emissions by 2050. However, current infrastructure planning is – with a few notable exceptions – out of step with the aims of the Paris Climate Agreement, and this includes infrastructure planning being undertaken in developing regions. As noted in a 2017 [report](#) from Brussels-based civil society organisation (CSO) Counter Balance, planned infrastructure ‘mega-corridors’ around the world pose a grave threat to sustainable development: “The building of planned mega-corridors would... mean locking-in the current extractivist development model. This agenda... is largely reliant on fossil fuels, mining and large-scale agribusiness. ... [It] is fundamentally incoherent with the fight against climate change.” For example, recent [research](#) on China’s Belt and Road Initiative (BRI) – [described](#) by the Chinese ambassador to the United States in April 2019 as the “most ambitious development project in history” – found that between 2014-2017, “most Chinese deals in energy and transportation... [our study] reviewed were tied to carbon-intensive sectors and did not show a strong alignment with the low-carbon priorities included in the BRI countries’ NDCs [Nationally Determined Contributions to the Paris Agreement].” In the European context, meanwhile, recent [analysis](#) of National Energy and Climate Plans (NECPs) by CSO network CEE Bankwatch found that, “most countries in central and eastern Europe are not committed to an ambitious energy transformation and instead stay as close as possible to business as usual scenarios.”

In short, a transformative change in infrastructure planning is urgently needed in order to meet global climate targets, as well as the SDGs. As more countries take steps to develop Long-Term Strategies (LTS) for low GHG-emission development (i.e. 2050 Pathways), low-carbon infrastructure planning will form an essential aspect of this process. However, as noted in the 2018 IPCC special report on 1.5°C, countries' current NDCs put the planet on a trajectory to 3°C average temperature rise relative to preindustrial levels, so countries need to raise their ambition.¹ MDBs have an important role to play in catalysing the shift to net-zero emissions when it comes to infrastructure, given the important role they play in providing finance, guarantees, technical assistance and other support for infrastructure projects. Yet, given their role as the handmaidens of business-as-usual infrastructure approaches, MDBs will also need to radically transform their approaches to infrastructure in order to bring them in line with a 1.5°C 'pathway'.

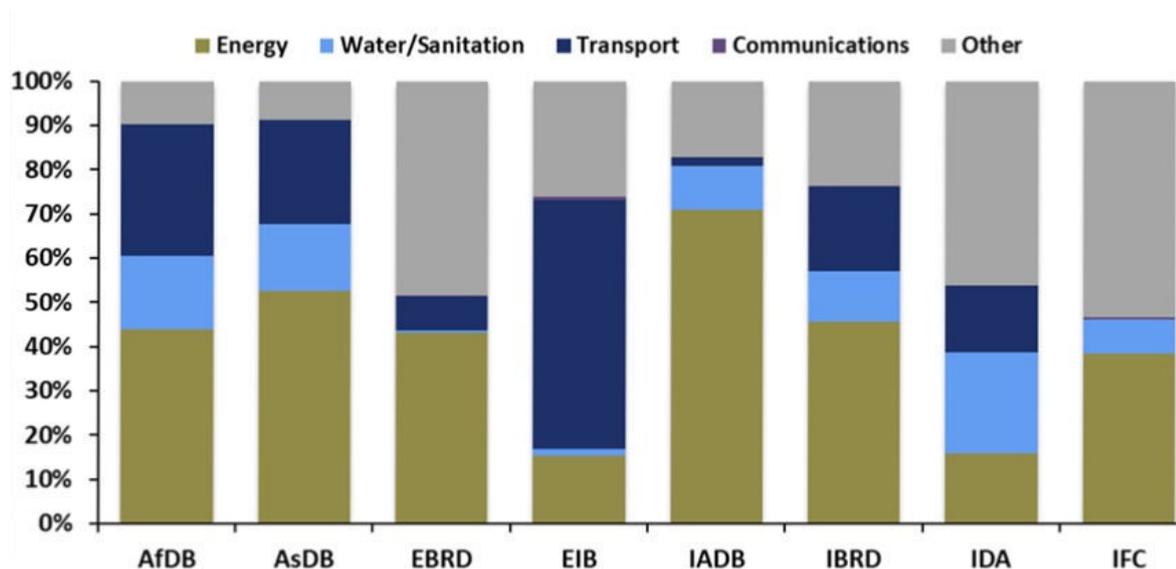
2. Infrastructure finance provided by MDBs: Approaches to 'sustainable infrastructure'

In recent years, various estimates of the global 'infrastructure finance gap' – estimating the total investment needed in new infrastructure or in upgrading existing infrastructure needed to achieve the SDGs – have proliferated. However, it is not always transparent what types of infrastructure are assumed in such estimates, and how they are aligned with the Paris Agreement and the SDGs. At the third annual Global Infrastructure Forum in Bali, Indonesia, in October 2018, nine MDBs [committed](#) to investing in 'sustainable, resilient infrastructure'. However, the emergence of differing – and sometimes incompatible – definitions of sustainable infrastructure since the early 1990s has muddied the waters in terms of what MDBs – and others – mean when they discuss the term, and indeed the lack of a strong joint definition amongst MDBs arguably hampers their cooperation in an area they have identified as vital to meeting the SDGs. This is particularly important as large-scale infrastructure projects, and discrete elements of planned mega-corridors, often feature co-financing from multiple MDBs as well as other sources of public and private finance. However, vague definitions of sustainable infrastructure can be used as a way to justify business-as-usual approaches to infrastructure that lock countries and regions into carbon-intensive development models. As the Inter-American Development Bank (IDB) [notes](#), "The concept of sustainable infrastructure needs to help drive transformational change rather than becoming a trivial buzz word to repackage old ways of preparing, constructing, operating, and investing in infrastructure."

The IDB has [developed](#) the most comprehensive approach to operationalising sustainable infrastructure among the major MDBs, defining it as, "infrastructure 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." The IDB's lifecycle approach factors in the climate risks over the planned existence of infrastructure projects into upstream planning. It also assesses whether projects are aligned with country commitments to the Paris Agreement, the SDGs, the Sendai Framework, and the Addis Ababa Action Agenda. However, as noted above, countries' NDC commitments currently put the world on a trajectory that would lead to an average global temperature rise of 3°C relative to preindustrial levels, meaning that this is a potential weakness of IDB's approach.

¹ As argued in a [recent academic paper](#) by Jason Hickel and Giogos Kallis, there is little evidence that 'green growth' approaches can lead to the achievement of the Paris Agreement's aims: "absolute decoupling from carbon emissions is highly unlikely to be achieved at a rate rapid enough to prevent global warming over 1.5°C or 2°C, even under optimistic policy conditions." Ultimately, approaches that de-prioritise the importance of growth may be necessary to achieve net zero emissions, including in infrastructure.

Figure 1. MDB climate finance in different infrastructure sectors, yearly average 2015-16 (E3G, [2018](#))



3. Key challenges and contradictions: MDB infrastructure finance and ‘business as usual’ approaches

Despite the growth of climate finance being funnelled through MDBs, which reached \$43.1 billion in 2018 [according](#) to the MDBs joint tracking methodology, many current MDB-related infrastructure finance trends remain unaligned with the Paris Agreement. The most obvious example of this is MDBs’ [support](#) for fossil fuel-related energy infrastructure, which undermines efforts to shift to a low-carbon future. Even after the Paris Agreement was signed, MDBs continued to invest significant amounts in fossil fuels, according to US-based CSO Oil Change International’s Shift the Subsidies [database](#): “about a quarter of... [MDBs’ energy] investments between fiscal years 2014 and 2016 flowed to fossil fuel infrastructure – \$28 billion in total – directly at odds with efforts to fight climate change.” While removing coal from the global energy mix remains an urgent priority, an immediate and managed drawdown of all fossil fuels – including natural gas – is necessary to have a realistic chance of meeting the Paris Agreement’s goals. As noted in a recently published [report](#) by Oil Change International, *Burning the Gas ‘Bridge Fuel’ Myth*, “If climate goals are to be met, any effort to phase out coal must be accompanied by policies to constrain gas and support zero-carbon generation. As Matthias Kimmel of BNEF [Bloomberg New Energy Finance] stated, ‘[e]ven if we decommissioned all the world’s coal plants by 2035, the power sector would still be tracking above a climate-safe trajectory, burning too much unabated gas. Getting to two degrees requires a zero-carbon solution.’” In the case of the World Bank – the largest aggregate financier of fossil fuels-related energy investments among MDBs, according to Oil Change International’s above-mentioned database – despite its 2013 moratorium on coal project finance, and its recent commitment to end finance for ‘upstream’ oil and gas project finance after 2019, further steps are needed in order for it to signal its support for a zero-emissions transition (see *Observer* [Spring 2018](#)).

However, the challenges to mainstreaming sustainable infrastructure go well beyond the energy sector. For example, the ‘infrastructure as an asset class’ paradigm of the G20 and MDBs – which seeks to create

tradable financial products based on the income stream created from new infrastructure investments – [currently lacks](#) a framework to ensure that infrastructure projects included in this initiative are in line with the Paris Agreement or the SDGs. The paradigm, due to be operationalised under Japan’s G20 presidency in 2019, focuses on Quality Infrastructure Investment principles, which avoid explicit reference to climate change, instead [emphasizing](#) openness of bidding contracts, transparency and debt sustainability. MDBs are also investing more of their capital in financial intermediaries – which now accounts for nearly half of the portfolio of the World Bank’s International Finance Corporation (IFC), its private sector investment arm, and over 40 per cent of the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD)’s lending portfolios, respectively. This presents [further challenges](#) for effective climate action. Not only do these investments lack transparency (as often sub-projects financed through these investments are not publicly disclosed), but in a number of cases they have been found to be linked to carbon-intensive investments, including – in the case of IFC – finance for a [new generation](#) of coal-fired power plants across Asia.² More fundamentally, efforts to leverage the private sector into largescale infrastructure projects present fiscal risks: [Research](#) on public-private partnerships (PPPs) shows these projects are often more costly for governments over the longer term, with states typically assuming new risks in order to ‘crowd in’ private sector actors, including risks posed by contingent liabilities. Recent [research](#) by the Overseas Development Institute (ODI) also shows the limited success of blended finance³ in increasing finance for development in low-income countries in particular. The [overwhelming need](#) for grant-based and concessional forms of climate finance – including for sustainable infrastructure – and the [rising cost of capital](#) for many developing countries already being affected by climate change, means additional forms of finance, for example via the creation of a [climate damages tax](#) or [the establishment of a global currency reserve](#), are ideas that governments and MDBs need to consider.

4. Infrastructure for whom: Investors or end users?

A 2019 World Bank [report](#), *Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet*, pushes back on the infrastructure finance gap narrative, instead highlighting the need for robust national-level planning processes to ensure that countries are investing in the infrastructure they need in order to align with the Paris Agreement and the SDGs. It notes, “With the right policies, investments of 4.5 percent of GDP will enable lower-and-middle-income countries to achieve the infrastructure-related Sustainable Development Goals and stay on track to limit climate change to 2°C.” Due to the challenges posed by climate change to infrastructure planning, the report argues that governments’ future infrastructure costs can vary widely, in part depending on whether they make the choice to invest in low-carbon infrastructure now – or incur greater costs trying to do so later. A key aspect of ‘spending better’ is to develop systematic approaches to infrastructure planning, which consider the broader social and environmental impacts of infrastructure. As [noted](#) in a 2018 report by the Office of the UN High Commissioner on Human Rights (OHCHR), *The Other Infrastructure Gap: Sustainability*, there is a need for rights-based and environmental perspectives to be better integrated into infrastructure planning. While this is certainly important in individual infrastructure projects, it is equally important in the development of countries’ more holistic 2050 Pathways strategies. Countries such as [Costa Rica](#) have used the development of such strategies as an opportunity to not only consider the infrastructure that is needed

² The IFC is developing a Green Equity Strategy that is designed to encourage its FI clients to divest from coal over time; however, the draft version of the strategy – while a positive step – fails to incorporate oil and gas divestment.

³ ODI defines blended finance as, “the strategic use of official development finance (ODF) to mobilise additional private capital flows to developing countries to achieve the SDGs.” However, as their report shows, the private sector has been relatively resistant to provide co-finance for development projects, even with additional incentives provided by MDBs and governments.

for their low-carbon transition, but to also pursue this in an inclusive way that includes engagement with labour unions in affected sectors. In order to improve infrastructure governance, and ensure that projects are aligned with the needs of affected communities, robust consultation, including with marginalised groups such as women and indigenous peoples, is vital during the planning phase of infrastructure projects.

5. Conclusion: Core recommendations

This briefing argues that MDBs must do more to catalyse a global shift to low-carbon infrastructure, which is vital in order to avoid catastrophic climate change:

- As noted in a 2019 [report](#) from Boston University's Global Development Policy Center and the United Nations Conference on Trade and Development (UNCTAD), low-carbon and sustainable infrastructure must be made a cornerstone of a 'new multilateralism for the 21st century', with MDBs mainstreaming this concept in their lending and other operations. This includes recognising the interconnected nature of infrastructure projects. MDBs must ensure that all the infrastructure finance they provide is aligned with the 1.5°C goal mandated by the Paris Agreement. As part of this effort, MDBs must provide greater support for countries' 2050 Pathways planning processes; in order to avoid cross-purposes, MDBs should establish a robust joint definition of sustainable infrastructure, and introduce strong policies that ensure that they are not providing finance for carbon-intensive, business-as-usual infrastructure projects. This necessarily involves a rapid phaseout of lending for fossil fuel-related infrastructure. **A robust approach to finance and other support for zero-carbon infrastructure should be a key pillar of the MDBs joint approach to the Paris Agreement, to be announced at COP25 in November 2019.**
- **Inclusive planning processes, with robust consultation processes that ensure the rights of end users and affected communities, are needed in order to deliver infrastructure that supports the Paris Agreement and the SDGs, and ensures the Free Prior Informed Consent of affected communities.** In terms of energy infrastructure, more inclusive, integrated planning approaches, focused on the wider development needs of end users, and including consultation with civil society and wider stakeholders, in addition to governments, MDBs, and the private sector, are one example of such an approach (see, for example, CAFOD & IIED [2017](#)). Relatedly, MDBs must ensure that their national-level planning processes are more open to robust consultation. In the case of the World Bank, this includes their Systematic Country Diagnostic and Country Partnership Framework planning processes, which often have limited input from CSOs for example.
- **MDBs must redouble their efforts to engage with other stakeholders to ensure that finance for sustainable infrastructure is also fiscally sustainable.** With efforts to ensure that developed country commitments to mobilise \$100 billion per year in climate finance by 2020 looking highly uncertain, identifying new forms of public finance for climate action is an urgent prerequisite of a [21st-century multilateralism](#) that is fit for purpose. While efforts to engage with private sector actors are welcome, the flattening out of [investments](#) in renewable energy globally over the past 12 months points to the potential limits of leveraging private finance to achieve the deep decarbonisation shift required to meet global climate goals. Strong state capacity and investment are needed, given the [state's centrality to the development](#) of innovative technology in recent decades. MDBs must increase their efforts to support public finance for sustainable infrastructure by tackling illicit financial flows through support for a UN intergovernmental tax body, and supporting the creation of a fully independent debt workout mechanism for developing countries.

This policy brief is based on discussions held at a civil society workshop hosted by the Bretton Woods Project (BWP) on 26 February 2019, 'Low-carbon energy infrastructure, inclusive development & sustainable finance: Assessing the role of IFIs and civil society'. Any errors or omissions are the sole responsibility of BWP. For more information, please contact Jon Sward, BWP's Environment Project Manager at: jsward@brettonwoodsproject.org



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The Bretton Woods Project is an ActionAid-hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and the Rockefeller Brothers Fund.

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