



# ESG FINANCING FOR PPP PROJECTS

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# PPP AND THE 2030 AGENDA

Like their peers in other fields, professionals and institutions operating in the PPP field are increasingly expressing concern about the environment, about the impact of their actions, about combatting corruption, and generally about their social responsibility.

These concerns are embodied in the 2030 Agenda for Sustainable Development and the 5Ps: Planet, People, Prosperity, Peace and Partnership.

Working from the angle of Partnership and PPP, the UN has advanced the concepts of People-First PPPs and the Value-for-People analysis alongside the traditional Value-for-Money analysis, to help achieve the 2030 Agenda and its Sustainable Development Goals (SDGs).

Structuring projects with the Environmental, Social and Governance (ESG) best-practice criteria in mind can help PPP projects tap into an as-yet not fully utilized financing pools.



# THE CONCEPT OF SOCIALLY RESPONSIBLE INVESTING IS GAINING IN POPULARITY...

WHY?

## 1. The Millennials Factor

"We're in the middle of a **\$30 trillion intergenerational wealth transfer** from baby boomers to their children. And those kids - not really millennials only, but people from 25 to 40 years old - simply think about their investment decisions differently."

*Dave Nadig, CEO of ETF.com*

**84% of millennials are interested in sustainable investing.**

*Morgan Stanley survey, February 2015*



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## 2. Long-term Investors

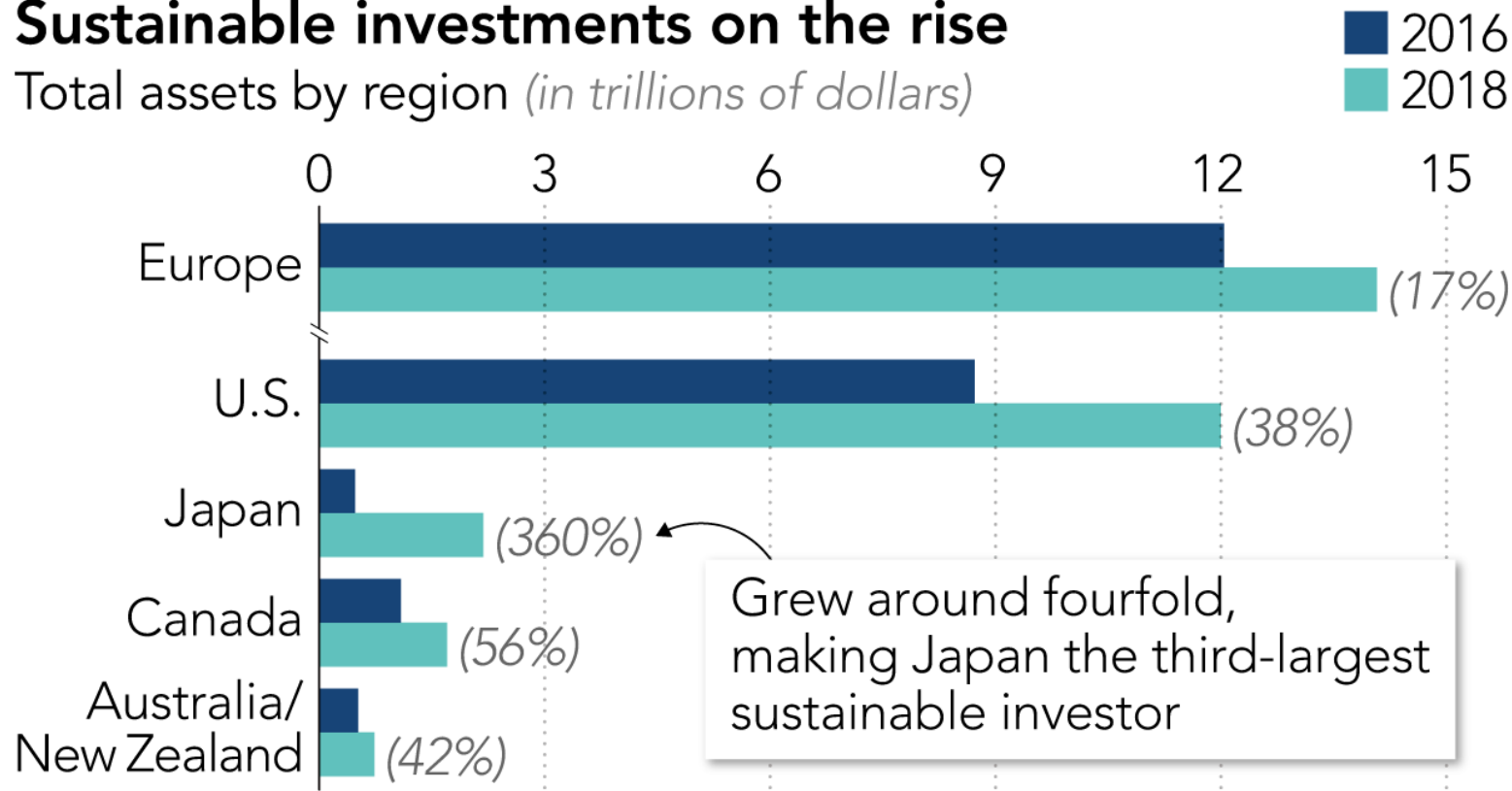
Mutual funds, pension funds, insurance companies and sovereign wealth funds own the vast majority of stock worldwide. They are more interested in sustainability and long-term performance than individual investors looking for short-term gain.



# ESG INVESTMENTS NOW EXCEED US\$30 TRILLION

## Sustainable investments on the rise

Total assets by region (in trillions of dollars)



2016-18 growth in parentheses

Source: Global Sustainable Investment Alliance Review 2018



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## 3. Greater Institutional Support

49 stock exchanges have committed to publish ESG disclosure guidelines.

345 large asset owners have signed up to the UN Principles for Responsible Investment.

Amundi, Europe's largest asset manager, has pledged to fully screen for ESG in 100% of its investments by 2021.

*S&P Global*

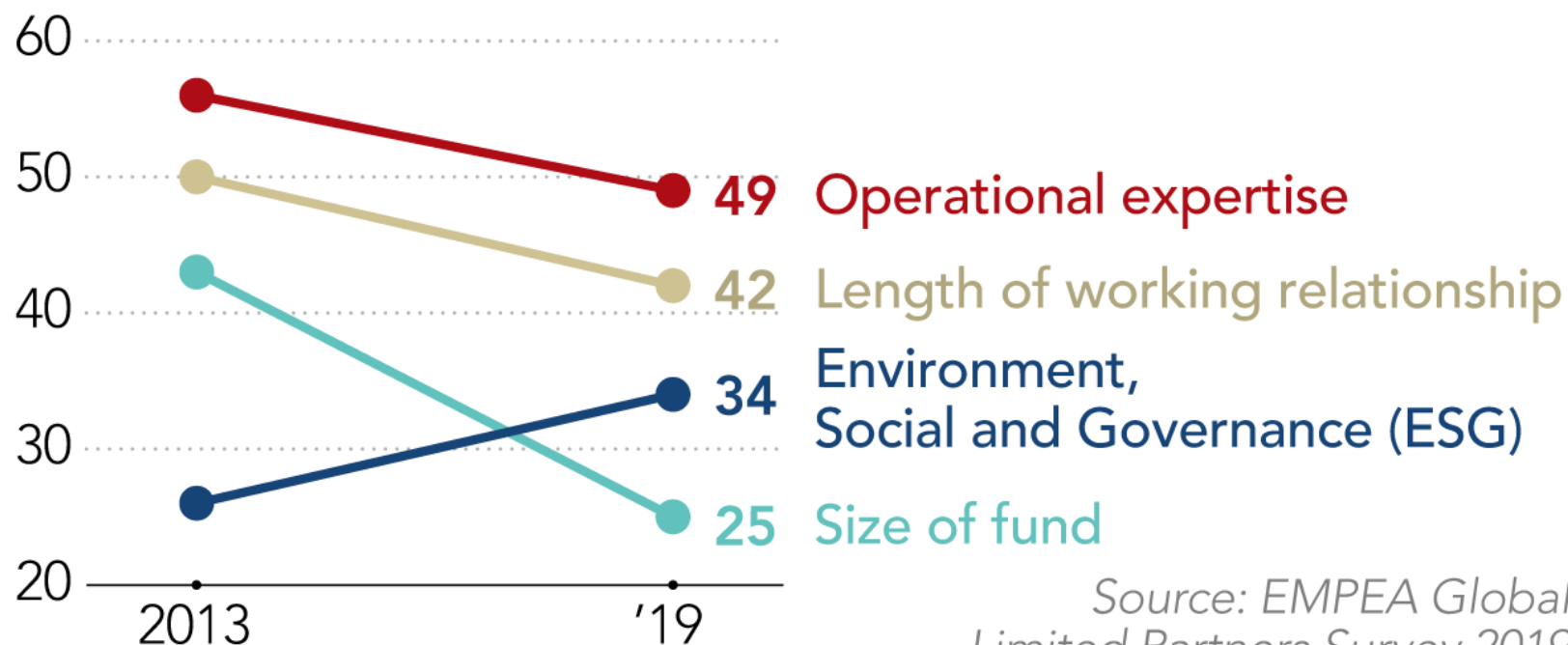


HAYEK  
ASSOCIATES

# 34% OF INVESTORS SUPPORT ESG INVESTING

## Changing priorities *(investor responses, in percent)*

"What is important in selecting emerging-market private equity funds?"



Source: EMPEA Global Limited Partners Survey 2019



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## 4. ESG Ratings

Company	Indices				Ratings				Ranking	Market Coverage (firms)	Rating Scale
	ESG	E	S	G	ESG	E	S	G			
<b><i>Market:</i></b>									<b>ESG</b>		
Bloomberg	v	v	v		v	v	v	v		> 10,000	100-0
FTSE Russel	v	v	v		v	v	v	v		> 4,000	5.0-1.0
MSCI	v	v	v		v	v	v	v		> 6,000	AAA to CCC
Thomas Reuters	v	v	v	v	v	v	v	v		> 6,000	A+ to D-
<b><i>ESG-Exclusive:</i></b>											
Arabesque					v	v	v	v	v	> 4,000	100-0
Covalence	v				v	v	v	v	v	> 3,400	100-0
CSRHub					v	v	v	v		> 17,000	100-0
Ethos					v	v	v	v		> 1,650	-
Inrate		v			v	v	v	v		> 2,600	A+ to D-
ISS-Oekom	v				v	v	v	v	v	> 3,500	A+ to D-
RobecoSAM	v	v			v					> 2,400	Gold, Silver, Bronze
Sustainabilitycs	v	v	v	v	v	v	v	v	v	> 6,500	100-0
VigeoEIRIS	v				v			v	v	> 3,200	Double+ to Double-
<b><i>Specialised:</i></b>											
CDP		v				v				> 2,000	
RepRisk					v				v		

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





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## 5. International Requirement

As of the beginning of October 2019, 97 financial institutions in 37 countries have adopted the Equator Principles.

*The Equator Principles Association*



...BUT ALL THIS HAS YET TO HAVE A NOTICEABLE  
IMPACT ON SOCIALLY RESPONSIBLE  
PPP PROJECTS

WHY?



# MAIN REASONS

The projects

The private sector

The public sector

The MDBs



# THE PROJECTS

PPP projects are generally conceived, designed and tendered using an approach more akin to awarding construction projects. Only the very basic human, social and environmental requirements are usually taken into consideration.

It is typical, for instance, that the full environmental and social impact assessment (EISA) be left to the winning private sector bidder to conduct, post contract award.

There is usually very a lack of ESG-relevant information about the project that would allow investors to consider it early on. Contingent liabilities, for example, are rarely quantified.

Finally, the projects are often in countries that investors have not spent much time investigating and getting to know because of poor communication of the PPP pipeline.



# THE PRIVATE SECTOR

World-class investors are conscious of the importance of sustainability to the success of long-term projects, which PPP projects are.

Most PPP tenders have short timelines, not allowing investors to fully investigate all potential financing avenues.

Many (especially financial) investors are not aware of the tools available from third-party providers for analyzing the ESG dimension of projects...



# ESG TOOLS FOR VALUING SUSTAINABILITY IN INFRASTRUCTURE INVESTMENTS

	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	<ul style="list-style-type: none"> <li>User-provided data</li> <li>Point scoring system</li> <li>Validation</li> <li>Peer benchmarking</li> </ul>	Rating: Absolute score (out of 100), peer and overall rankings, Scorecard and Benchmark Report
	Envision	Energy, Water, Waste, Transportation, Landscape, Information	Procuring Entities, Developers	<ul style="list-style-type: none"> <li>User-provided data</li> <li>Publicly available point scoring system</li> </ul>	Certification: Bronze, Silver, Gold, and Platinum levels
	SuRe	Energy, Water, Waste, Transport, Communication, Social, Food Systems, Mining	Procuring Entities, Developers, Financial Investors	<ul style="list-style-type: none"> <li>User-provided data</li> <li>Publicly available achievement scoring system</li> </ul>	Certification: Bronze, Silver, and Gold levels
	RepRisk	34 sectors (including beyond infrastructure)	Companies, Investors, Governments, NGOs	<ul style="list-style-type: none"> <li>Media scanning</li> <li>Private point scoring system and rating system</li> </ul>	Score or Rating: RepRisk Index score or RepRisk Rating (AAA-D)
	CEEQUAL	Infrastructure, civil engineering, public spaces, and landscaping	Governments, Developers/Designers	<ul style="list-style-type: none"> <li>User-provided data</li> <li>External validation and scoring</li> </ul>	Score and Rating: Assessment score (percentage out of 100%) and award (excellent, very good, good, pass)
	ISCA Tools (Planning, Design & As-Built, and Operations) <sup>www</sup>	Energy, Water, Waste, Transportation, Information	Governments, Developers/Designers, Operators/Owners	<ul style="list-style-type: none"> <li>User-provided data</li> <li>External validation and scoring</li> </ul>	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	<ul style="list-style-type: none"> <li>System dynamics modeling</li> <li>Project finance modeling</li> </ul>	Financial Impact: Cost benefit analysis, gross margin, net present value, value for money, internal rate of return, credit ratio
	TREDIS	Transportation	Procuring Entities, Developers	<ul style="list-style-type: none"> <li>Regional economic and transportation modeling</li> <li>Project finance modeling</li> </ul>	Financial Impact, Market Access: Cost benefit analysis, project finance analysis, economic development impact
	Autocase	Buildings and Project Sites	Procuring Entity, Developers	<ul style="list-style-type: none"> <li>Economic analysis modeling</li> </ul>	Financial Impact: Cost benefit analysis, net present value
	Zofnass Economic Process Tool	Energy, Water, Waste, Transport, Landscape, Information	Procuring Entity, Developers	<ul style="list-style-type: none"> <li>Economic analysis modeling (based on Envision framework)</li> </ul>	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 Groupup March 2019

# THE PUBLIC SECTOR

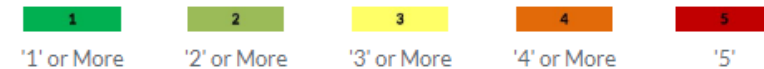
Governments have not yet fully internalized PPP as a means to deliver on the SDGs and to enhance the ESG dimensions. The typically follows a **lack of public sector leadership on the PPP ESG front:**

- **PPP guidelines are designed to deliver “value for money (VfM)”** – which is, of course, important – but not “value for people (VfP)”.
- **Project ESG information** to create a level playing field among investors is usually missing.
- **Not all stakeholders are consulted**, yet each will bring a different perspective on the impact of the project.
- **Little interest in working with rating agencies** to facilitate capital market financing.

**PUBLIC FINANCES / INFRASTRUCTURE**

&lt; GLOBAL INFRASTRUCTURE &amp; PROJECT FIN... &gt;

At Least 10% with Relevance Score of:



	Energy	Renewables	Thermal Power	Transportation	Water & Wastewater	Other
<b>NUMBER OF RATED ISSUERS</b>	11	18	15	240	5	28
<b>Environmental</b>						
GHG Emissions & Air Quality	3	1	3	2	2	3
Energy Management	3	1	3	2	3	3
Water & Wastewater Management	1	2	3	2	3	2
Waste & Hazardous Materials Management, Ecological Impacts	3	3	3	3	3	3
Exposure to Environmental Impacts	4	3	3	3	3	3
<b>Social</b>						
Human Rights, Community Relations, Acces & Affordability	3	3	3	3	3	3
Customer Welfare - Fair Messaging, Privacy & Data Security	1	1	1	2	2	3
Labor Relations & Practices	2	2	2	3	2	3
Employee Wellbeing	2	2	2	2	2	2
Exposure to Social Impacts	3	3	3	3	3	3
<b>Governance</b>						
Management Strategy	3	3	3	3	3	3
Governance Structure	3	3	3	3	3	3
Group Structure	3	3	3	3	3	3
Financial Transparency	3	3	3	3	3	3

# EXAMPLE OF PROJECT FINANCE ESG RATING CRITERIA



# THE MULTILATERAL DEVELOPMENT BANKS

Multilateral development banks have typically insisted on PPP projects meeting certain environmental and social conditions in order to qualify for financing, but:

- They have sometimes disregarded the Governance side, turning a blind eye to corrupt practices. Their excuse is usually that “the project is good for the people, regardless”; and
- In some cases, especially in middle income countries, the availability of their financing, coupled sometimes with their political influence, have made it unnecessary for projects to strive to get private or capital market financing.



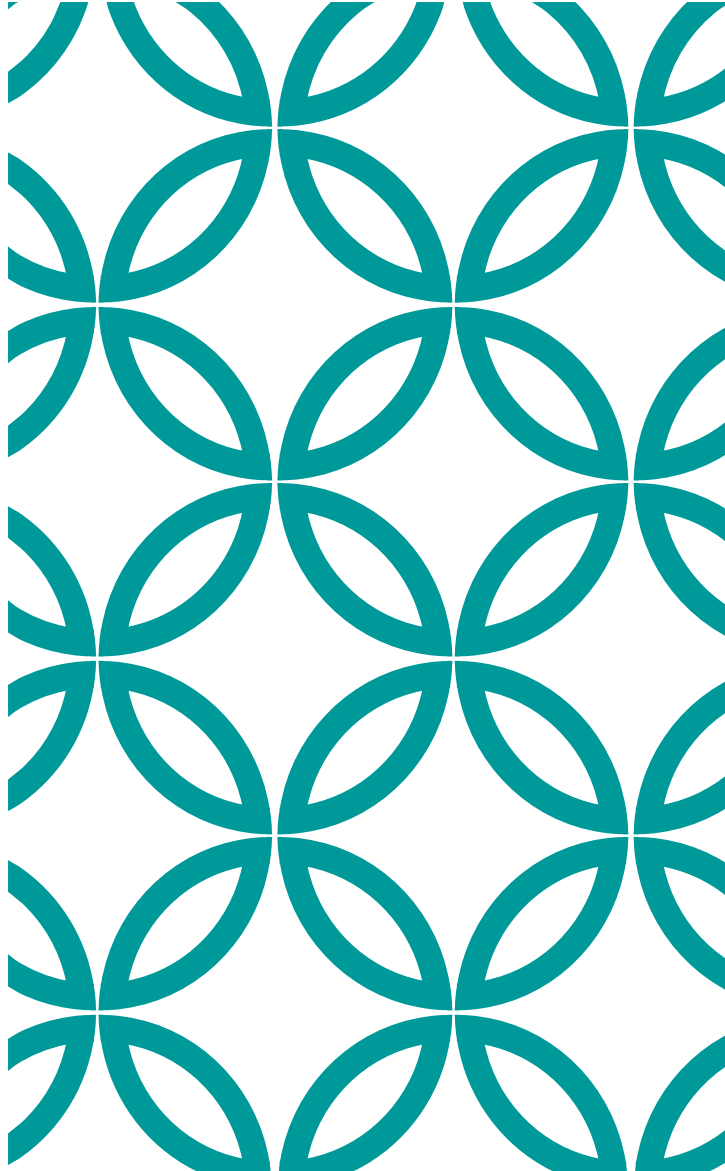
# GOING FORWARD

Much greater awareness – on all levels and on the part of all the players in the PPP field – is needed and strongly encouraged in order to achieve the SDGs and the overall objectives of the 2030 Agenda for Sustainable Development.

The World Association of PPP Units & Professionals (WAPPP) and the UNECE Working Party on PPP endeavor to assist with this goal:

- By creating a network of PPP professionals able to share experiences;
- By promoting the People-First and VfP concepts; and
- By helping establish world class standards for PPP activity.





# THANK YOU

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