GREEN Action Task Force

Discussion Note on Infrastructure Investment and the Low-carbon Transition: Implications of the Belt & Road Initiative on the Eurasia Region

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Infrastructure Investment and the Low-carbon Transition: Implications of the Belt & Road Initiative on the Eurasia Region

1. Context

Infrastructure investment is crucial for economic growth and development, including for the Eurasia region. In light of the Paris Climate Agreement and the 2030 Development Agenda, it is imperative to ensure that investment decisions are compatible with their goals, and thus are sustainable, low-carbon and climate-resilient. As infrastructure is by nature long-lived, investment decisions being made today can lock in development patterns (“green” or “brown”) for decades to come.

The Belt and Road Initiative (BRI) put forward by the People’s Republic of China in 2013 aims to improve regional co-operation through better connectivity across Europe and Asia, and particularly among countries along the ancient Silk Road. It includes plans for a Silk Road Economic Belt running overland across Central Asia, and a 21st Century Maritime Silk Road for the naval part. It has involved nearly 70 countries and the scope is broadening. The roadmap issued by China underlines five priorities: (1) policy coordination, (2) better transport, energy and information infrastructure, (3) the reduction of trade and investment barriers, (4) financial integration, and (5) the promotion of connections among people. The BRI also aims at strengthening environmental and energy co-operation.

The BRI complements a variety of other initiatives and plans for enhancing connectivity and integration across Europe and Asia. These include the EU’s TRASECA2 initiative and the US-backed “New Silk Road” (NSR), as well as various projects sponsored by India, the Central Asian states and other actors to promote connectivity in the region, such as the International North–South Transport Corridor or the proposed CAREC3 Corridors. Connectivity stands high on the economic development agendas of most of the emerging economies of Europe and Asia, and it also offers important potential benefits to OECD countries.

The BRI is expected to bring significant amounts of infrastructure investment to the Eurasia region over the coming decades. There is still uncertainty about which of these projects will advance and at what speed. The impact on growth, environmental sustainability and people’s well-being of those projects that do go forward will depend not just on infrastructure development but also on changes in trade policy and on improvements in processes and institutions affecting the provision and operation of major infrastructure.

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1 Together, Belt and Road countries represent approximately 40% of the earth's total land area, 30% of global GDP, 55% of total CO2 emissions, and 60% of the world’s population (Source: UNEP).
2 Transport Corridor Europe-Caucasus-Asia.
3 The Central Asia Regional Economic Cooperation (CAREC) Programme is a partnership of 11 countries and six multilateral development partners working to promote development through cooperation. Members include the former Soviet republics of Central Asia, as well as Afghanistan, Azerbaijan, China, Georgia, Mongolia and Pakistan.
2. Questions for Discussion

Members of the GREEN Action Task Force are invited to discuss the following questions for discussion.

a) **Capacity for environmental and social safeguards:** The BRI represents great potentials to boost the transition to a greener economy in the Eurasia region if the benefits of the increased infrastructure investment are maximised, through e.g. investment in greener transport and energy infrastructure. At the same time, there are also risks associated with large-scale infrastructure development. Instruments such as environmental impact assessment can help developers and governments minimise possible adverse effects of plan, programmes and projects, maximise their benefits and sustainability and provide for public participation in decision-making.

- **What kind of needs exists to ensure sufficient national capacities for environmental and social safeguards for infrastructure development projects?**

b) **Transport:** The BRI focuses on connectivity and building transport links (roads, railways, air and maritime) across the countries along the belt. Further investment in transport infrastructure would support increase in trade and boosting growth and development in the Eurasia region. In addition, the BRI is also expected to include investment in urban transport. While the transport sector is currently responsible for significant local air pollution as well as GHG emissions in many countries, further investment offers a great opportunity to contribute to the greening of the sector if the right investment decisions are made. For long-distance freight as well as urban passenger transport, better information base (modal options, costs, benefits and trade-offs) is needed to support decision makers.

- **Do decision makers for transport infrastructure development in your country systematically consider not only economic but also environmental and social benefits in developing plans and project design? Do they have solid information base (and capacity) to support sound decision-making?**

c) **Energy:** Governments in the Eurasia region are seeking to move towards low-carbon energy systems. OECD work indicates that there is no shortage of capital available for energy efficiency and renewable energy investment, but connecting finance with such investment opportunities is hampered by investment barriers, market failures and policy misalignments. To overcome them, governments have a key role to play to strengthen domestic frameworks for economic, investment and climate policies, ensure that they are mutually supportive, and ultimately to improve the risk-return profile of green energy investment projects. Also, pipelines of bankable projects are lacking in the region. Capacity needs to be further developed to prepare and evaluate energy efficiency and renewable energy projects for financial institutions and businesses/project promoters.

- **Are your country’s energy sector plans and strategies accompanied by concrete pipelines of investment projects for energy efficiency and renewable energy to meet the commitments under the Paris Climate Agreement? What support is needed to translate these commitments and targets into concrete plans for investment projects?**
Annex

Possible activities by the OECD

The OECD is discussion with UN Environment and other partners to collaborate on the “greening” of the Belt & Road Initiative (BRI). UN Environment has convened the Green Belt and Road Coalition, which will aim to integrate the goals of sustainable development and green growth into the Belt and Road Initiative. Specifically, planned activities of the UN Environment include a focus on empowering Ministries of Environment and environmental and other relevant civil society organisations to take part in the discussions to better manage investments coming to the country, and developing targeted training programmes to this effect (e.g. on Strategic Environmental Assessments).

To complement the activities of UN Environment, the OECD proposes to provide its analytical capabilities to address possible impacts of the BRI on the Eurasia region, building on its transport modelling capacity, earlier work Investing in Climate, Investing in Growth, clean energy investment reviews and analyses, and investment policy guidance and tools for managing sustainable infrastructure projects among others. Also the OECD’s ongoing cooperation with the Eurasia region on different policy domains could provide a good foundation. Possible areas of new work include:

1. Transport connectivity: The OECD’s Global Freight Model 3 developed by the International Transport Forum (ITF) offers policy-makers unique insights into the costs, benefits and trade-offs of various options when it comes to transport infrastructure, enabling them to make more informed choices. In addition, this work stream can help countries adopt the building blocks of strategic, data-driven and coherent transport policies covering all major modes of transport. This is a critical need in many countries, where the Ministry of Transport is, effectively, a ministry of road construction, with railways operating independently, and ports and airports under yet another authority or authorities. The OECD/ITF is in a good position to support capacity building to address this, helping countries identify the data needs, structures and processes that can help them design and implement better transport policies. In addition to modal shifts (road, rail, air, sea), the freight connectivity analyses for the EECCA region could address related environmental impacts such as CO2 and other air emissions.

2. Urban transport: The OECD has developed a decision-support tool OPTIC (Optimising Public Transport Investment Costs) Model to estimate costs and benefits of public investment programmes to promote clean urban transport. An approach to developing investment programmes to introduce urban bus systems running on cleaner fuels, supported by the OPTIC model, is being road-tested in selected cities in Kazakhstan. This could be replicated more widely for other cities and countries in the region.

3. Clean Energy Finance & Investment - Country Reviews and implementation support: Building on the body of cross-country analytical work (such as Policy Guidance for Private Investment in Clean Energy Infrastructure, Overcoming Barriers to International Investment in Clean Energy, and Investing in Climate, Investing in Growth) the OECD is developing a programme of country reviews and implementation support for the development of well aligned policy
frameworks to attract finance and investment in renewable energy and energy efficiency for selected countries. This could be extended to the Eurasia Region. Tailored to specific country contexts, a country review could address areas such as investment policy, investment promotion and facilitation, competition policy, financial market development and policy, public governance, corporate governance and responsible business conduct, relevant tax and trade policies, and infrastructure investment planning and provision.

4. Responsible Business Conduct (RBC), the OECD Multinational Enterprises (MNE) Guidelines and the OECD Policy Framework on Investment (PFI): Responding to heightened expectations in terms of sustainability and social inclusion, foreign investors increasingly pay attention to RBC. Governments have an important role to play in providing an enabling legal environment for responsible businesses, to keep and attract high quality investors who might otherwise be tempted to go elsewhere. Adhering to a common, overarching framework of values and principles helps countries maintain a level playing field while keeping the standards of corporate citizenship high. In this regard, the OECD is the guardian of good practices aimed at ensuring responsible conduct and integrity in business operations, such as the Guidelines for Multinational Enterprises, which a number of countries along the Belt and Road have adopted. Related work supports the development of responsible supply chains, such as trade and integration in global value chains. The OECD has supported China to develop due-diligence guidance for responsible minerals supply chains. This work could be extended to the Eurasia region e.g. for minerals and extractives, linking to the OECD work on the mining sector and the environment.

5. Private investment in infrastructure. The OECD has accumulated considerable experience across policy fields on ways of enhancing private investment in environment-related infrastructure. It addresses notably: (i) entry obstacles through the OECD Principles for Private Sector Participation in Infrastructure; (ii) competition in infrastructure sectors through the OECD Recommendation on Structural Separation in Network Industries; (iii) regulatory obstacles to investment by Institutional Investors with the G20/OECD High-Level Principles for Institutional Investment; (iv) the sound budget planning of complex Public-Private Partnerships (PPPs) with the OECD Principles of Public Governance of PPPs.