The OECD Business and Finance Outlook is an annual publication that presents unique data and analysis on the trends, both positive and negative, that are shaping tomorrow’s world of business, finance and investment. The COVID-19 pandemic has highlighted an urgent need to consider resilience in finance, both in the financial system itself and in the role played by capital and investors in making economic and social systems more dynamic and able to withstand external shocks. Using analysis from a wide range of perspectives, this year’s edition focuses on the environmental, social and governance (ESG) factors that are rapidly becoming a part of mainstream finance. It evaluates current ESG practices, and identifies priorities and actions to better align investments with sustainable, long-term value – in particular, the need for more consistent, comparable and available data on ESG performance.
Please cite this work as:
OECD (2021), Towards a global certification framework for quality infrastructure investment: Private sector and civil society perspectives on the Blue Dot Network - Highlights
TOWARDS A GLOBAL CERTIFICATION FRAMEWORK FOR QUALITY INFRASTRUCTURE INVESTMENT

Foreword

Quality infrastructure investment based on international standards and best practices is vital to ensure that infrastructure delivers benefits for citizens, communities and end-users, and provides value-for-money for governments. It is also crucial for mobilising private investment by ensuring that infrastructure projects prepared by governments are well-planned and managed, procured in an open and transparent manner, and consistent with best practices in terms of environmental and social safeguards and climate sustainability.

The OECD is committed to helping countries pursue quality infrastructure investments based on robust international standards and open market principles, and has developed a number of policy guidance documents to support such efforts, including the Compendium of Policy Good Practices for Quality Infrastructure Investment, the Implementation Handbook for Quality Infrastructure Investment and the Recommendation on the Governance of Infrastructure. The OECD is now drawing on this well-established expertise to provide technical support for the development of the Blue Dot Network (BDN), a multilateral initiative launched by the governments of Australia, Japan and the United States to provide an internationally-recognised framework that will assist in mobilising investment that maximises the positive economic, social, environmental, governance and development impact of infrastructure.

This voluntary, private-sector-focused and government-supported initiative will build on existing international standards to develop a global certification framework for quality infrastructure projects. It represents an innovative solution for operationalising international quality infrastructure standards and best practices from the OECD and beyond, and assisting investors in identifying projects that have positive sustainability features and thus represent lower-risk investments over the full lifecycle of an asset.

As part of this technical support, the OECD has leveraged its Trust in Business Initiative to convene an Executive Consultation Group (ECG), composed of 150 leaders from both business and civil society to inform the development of a global certification framework for infrastructure projects.

The OECD surveyed private sector and civil society stakeholders in order to assess the demand for and the merits of a global certification framework as proposed by the Blue Dot Network. This highlights document contains the main findings from a forthcoming report which synthesises and analyses those stakeholder responses.
The report assesses the appetite of respondents for a global certification framework and considers how the Blue Dot Network could best support private participation in infrastructure investment in low- and middle-income countries by exploring participants' perceptions of the obstacles and risks. It also examines how the Blue Dot Network can promote the application of best-in-class standards and the integration of sustainability considerations into infrastructure investment and development activities. The report will thus serve to inform further engagement of the ECG and provide concrete inputs for the development of the Blue Dot Network certification framework.

This report marks the start of a collaborative process that will shape the development of the Blue Dot Network to ensure that it meets the needs of stakeholders from government, the private sector and civil society from all regions of the world.

Greg Medcraft
Director, Directorate for Financial and Enterprise Affairs
Executive Summary

Strong support for a credible global certification framework

- The OECD Trust in Business Initiative has convened an Executive Consultation Group (ECG) of leaders from both the private sector and civil society in order to inform the development of the Blue Dot Network’s global certification framework. A survey of stakeholders from the private sector and civil society and their shared networks finds that participants overwhelmingly agree that a credible and trusted certification regime would increase private sector participation in infrastructure projects, and improve appetite to invest in low and middle-income countries\(^1\).

- The Blue Dot Network (BDN) aims to operationalise the G20 Principles for Quality Infrastructure Investment and other best-in-class frameworks, principles and standards, such as the Sustainable Development Goals, the IFC Performance Standards, the Equator Principles and the OECD Guidelines for Multinational Enterprises, among others, through the establishment of a voluntary private-sector-focused and government-supported certification scheme for attracting investment and ensuring positive outcomes of infrastructure development.

- By increasing transparency and ensuring that projects are aligned with robust best-in-class standards and best practices, the Blue Dot Network could help to overcome or compensate for some of the primary obstacles and risks faced by the private sector that inhibit their engagement in infrastructure projects in low- and middle-income countries.

- Through streamlining and promoting reporting standards, building consensus among all players in the infrastructure value chain, and setting clear data requirements, the Blue Dot Network can simplify the integration of sustainability considerations in infrastructure development and investment, build greater confidence around the value and integrity of ESG data, and introduce greater efficiency in the infrastructure investment process.

Obstacles and opportunities for greater private sector participation in infrastructure investment in low- and middle-income countries

- While the survey found overwhelming support for a global certification framework, it also identified a range of obstacles that inhibit private investment in infrastructure and measures that may overcome those obstacles. Survey respondents noted the major obstacles to private sector participation in infrastructure in low- and middle-income countries are excessive risks, poor governance, weak legal and regulatory frameworks, and inadequately prepared projects. A lack of open and transparent procurement processes that consider technical quality and life cycle costs was also mentioned as a barrier to private sector participation.

---

\(^1\) The anonymous survey was shared with private sector and civil society organisations, some of whom circulated it more broadly to members of their associations and networks.
• Participants also emphasised corruption, labour rights and the risk of negative impacts on the livelihoods of communities as issues of particular concern when it comes to investing and/or operating in low- and middle-income countries.

• Private sector participants highlighted a range of measures that could increase private participation in infrastructure. A number of these measures, including improved governance and transparency, better project preparation, standardisation, the application of global standards, and independent certification, could be supported through a global certification framework as envisaged by the Blue Dot Network.

• Other obstacles, such as pervasive political risk and the weak capacity of governments to develop investable projects, also need to be addressed in order for investors to have sufficient comfort in the overall soundness of infrastructure projects. Complementary measures such as the provision of risk mitigation to address political and currency risk, and technical support for upstream planning and project preparation could increase the effectiveness of a certification framework and incentivise participation in the Blue Dot Network.

Promoting best-in-class standards that underpin sustainability

• A core aim of the Blue Dot Network is to facilitate the application of robust standards that encourage sustainable practices. A majority of organisations participating in the survey reported that they integrate sustainability considerations/ESG metrics as a formal part of their infrastructure investment decision-making, lending, or management process. Moreover, 70% of industry respondents reported having established or planning to establish a net-zero emissions target for 2050 or earlier.

• While environmental, social and governance issues are central to the activities of most respondents, insufficient or unreliable data and a lack of clarity of applicable standards represent key barriers to applying sustainability considerations.

• Sustainability and ESG considerations applied to infrastructure reflect a high degree of customisation. Private sector participants rely primarily on in-house research rather than third-party research providers or existing ratings or benchmarks. They also apply a range of different ESG standards, tools and reporting frameworks including both infrastructure-focused instruments and more general sustainability frameworks.

• The current lack of alignment around ESG data, performance and reporting standards highlighted by the survey fosters uncertainty around the sustainability characteristics of infrastructure investments and is a major source of inefficiency.

Bringing together like-minded stakeholders

• The immediate aim of the Blue Dot Network is to certify infrastructure projects based on their alignment with robust standards. However, by bringing together like-minded stakeholders committed to the common vision of developing quality infrastructure grounded in openness, transparency and respect for international standards and rules, the Blue Dot Network has the potential to build a community of practice that can serve as the basis for promoting learning, knowledge sharing and capacity building.
1. Background and purpose

Quality infrastructure investment (QII) is vital for supporting economic growth, and enhancing human well-being. It is also key to achieving the Sustainable Development Goals (SDGs) and meeting the goals of the Paris Agreement. However, low and middle-income countries often do not experience the benefits of infrastructure development because of poor quality infrastructure that leads to unreliable access to essential services such as electricity, water, telecommunications and transport.

Quality infrastructure investment is also crucial for mobilising private financing for infrastructure by ensuring that infrastructure projects prepared by governments are well-planned and managed, procured in an open and transparent manner, and consistent with best practices in terms of environmental and social safeguards and climate sustainability. By promoting standards that both support private investment and ensure that infrastructure delivers benefits for end-users and society, quality infrastructure investment contributes to aligning the interests of the private sector, governments and citizens.

The G20 Principles for Quality Infrastructure Investment provide an internationally-recognised framework to assist countries in pursuing investments that maximise the positive economic, social, environmental and development impact of infrastructure. The Blue Dot Network aims to operationalise these and other best-in-class frameworks, principles and standards, such as the Sustainable Development Goals, the IFC Performance Standards, the Equator Principles and OECD standards, among others, through the establishment of a global certification scheme that will assist in attracting investment into infrastructure.

The Blue Dot Network seeks to facilitate the widespread application of current and future agreed quality infrastructure standards and best practices, thus allowing contracting authorities, project sponsors or developers to send a signal of their commitment to these standards to markets and the public. Further, it aims to assist investors in identifying projects that have positive sustainability features and represent lower-risk investments. The Blue Dot Network would be informed by and intends to capture the needs of civil society, government and the private sector to efficiently and sustainably promote market-driven and private sector-led investment, supported by the judicious use of public funds.

In order to assess the demand for and merits of a global certification framework as proposed by the Blue Dot Network, the OECD developed a survey questionnaire which was circulated to stakeholders from the private sector and civil society in April-May 2021 (Box 1.1). Survey participants reflect a wide diversity of companies, regions and sectors involved in different aspects of infrastructure development (see Box 1.2).

---

2 The G20 Principles for Quality Infrastructure Investment were developed under the Japanese G20 Presidency and endorsed by G20 Leaders in 2019.

3 The survey questionnaire circulated to private sector and civil society participants differed slightly to accommodate the different nature of their roles and activities.
Box 1.1. Private sector and civil society survey methodology

In order to build a representative global sample of organisations and gather input from across the entire infrastructure value chain, the authors conducted desk-based research on organisations in both the private sector and civil society engaged in infrastructure sectors and infrastructure-related activities around the world. Efforts were made to ensure a diverse sample in terms of geographic location, activities, and organisation size. Organisations such as industry associations and civil society networks were also invited to circulate the survey to their members.

The majority of survey questions were of a multiple choice nature to facilitate data analysis and comparability. However, respondents were also requested to answer open-ended questions to solicit more wide-ranging inputs.

Survey responses were anonymous to encourage honest input.

A key objective of the survey was to gather views from across the entire infrastructure ecosystem -- from investors through to engineering and construction companies, operators, suppliers, end-users and civil society -- and from across all regions of the world, in order to ensure that the outcome of the process is well-coordinated, inclusive, and ultimately effective at mobilising the multiple actors that are essential to the success of infrastructure development.

This report synthesises and analyses survey responses. It assesses the appetite of respondents for a global certification framework. It then considers how the Blue Dot Network can support private participation in infrastructure investment in low- and middle-income countries by exploring participants’ perceptions of the obstacles and risks. The report then examines how the Blue Dot Network can promote the application of best-in-class standards and the integration of sustainability considerations into infrastructure investment and development activities.
**Box 1.2. Profile of survey respondents**

A total of 91 private sector and civil society organisations responded to the survey. Participants are headquartered in over 30 countries and have activities in all regions of the world. The most represented regions in terms of the areas of operation declared by respondents are Latin America and the Caribbean, North America, Western Europe, Southeast Asia, and Sub-saharan Africa. 28% of respondents identified their activity as ‘Global’ (which includes business associations covering a number of countries). Private sector survey participants are drawn from a wide range of sectors spanning the infrastructure value chain from investors through to contractors, operators, users, and suppliers. In total, 36 sectors are represented in the survey responses.

<table>
<thead>
<tr>
<th>Regions of activity (number of respondents)</th>
<th>Sectors of activity (number of private sector respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil society</td>
<td>Private sector</td>
</tr>
<tr>
<td>North and South America</td>
<td>Continental US</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Latin America and Caribbean</td>
</tr>
<tr>
<td>East Asia</td>
<td>South Asia</td>
</tr>
<tr>
<td>South East Asia</td>
<td>Other Asia</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>Private sector</td>
</tr>
<tr>
<td>North Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>South America</td>
<td>Private sector</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>Private sector</td>
</tr>
<tr>
<td>East Asia</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>North Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>North America</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>East Asia</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>North Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>North America</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>East Asia</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>North Africa</td>
<td>Private sector</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Private sector</td>
</tr>
</tbody>
</table>

**Revenue of private sector respondents (% of respondents)**

- Less than USD 10 million: 18%
- Between USD 10 – 100 million: 25%
- Between USD 100 million – 1 billion: 22%
- Between USD 1 billion – 10 billion: 12%
- Greater than USD 10 billion: 23%

**Civil society respondents’ infrastructure-related activities (% of respondents)**

- Domestic projects: 100%
- Advocacy: 100%
- Capacity building: 100%
- Monitoring: 80%
- Policy influence: 50%
- Research: 50%
- Knowledge management: 30%
- Disaster risk management: 20%
- Partnerships: 10%
- Private sector: 10%

For the purpose of analysing the data, three sub-groupings have been created comprising a selection of private sector participants that are engaged in the three principal functional areas in infrastructure development that are most likely to be directly concerned with a certification regime (finance, construction and operations) to provide a basis for understanding and comparing the needs of different players that are active at the various stages of the infrastructure life cycle.
2. Global demand for a certification framework

A central question for the success of the Blue Dot Network is the demand level from the private sector and civil society for a global certification framework for quality infrastructure projects. The survey therefore solicited input from stakeholders on the need for and merits of a global certification.

**Strong demand for a credible certification regime**

96% of all respondents believed that a trusted certification regime would increase their participation in infrastructure projects, and 92% of private sector respondents affirmed that it would increase their exposure to low and middle-income countries.

The principal aim of the Blue Dot Network is to bridge the infrastructure investment gap by mobilising private investment in infrastructure, particularly in low- and middle-income countries where the gap is largest. Respondents from both the private sector and civil society almost unanimously consider that a certification framework would contribute to achieving those goals as expressed by the following comment from a respondent:

A very good idea and necessary. It could make a big difference. It is achievable with the necessary commitment from all parties. The new Blue Dot [Network] standard needs to be clear, complete, achievable and auditable.

(Civil society respondent)

The credibility and transparency of the certification framework are viewed as key qualities for its success.

When respondents were asked to rank a number of different qualities for a certification framework, clear majorities of both private sector (69%) and of civil society (65%) respondents opted for ‘credibility’ as the most important quality (Figure 2.1). This result is consistent with the responses to the previous question which heavily favour certification by an independent body. ‘Transparency’ followed by ‘usefulness’ are viewed as the second most important qualities, while ‘simplicity’ was the third most important quality selected by private sector respondents from among the five choices. ‘Efficiency’ is seen as less of a relative priority by respondents. Civil society responses also strongly favoured ‘transparency’ and ‘usefulness’ as the second and third most important qualities for a certification framework.

The importance of credibility to the success of the framework is captured by this comment from one respondent:

To be successful, a certification regime should give investors in equity (be they long-term strategic or medium-term investment funds) and debt the security that a globally respected entity has reviewed the minor details of the project along with the investor/creditor, and has to be rigorous and have access to details, both internally with respect to the project and sponsors, but also the legal, regulatory, tax and political environment. (Asset management respondent)
Figure 2.1. Most important qualities of a certification framework to private sector respondents

Survey question: Rank in order what you consider to be the three most important qualities of a certification framework

<table>
<thead>
<tr>
<th>% of private sector respondents</th>
<th>% of civil society respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credibility</td>
<td>Credibility</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Accountability</td>
<td>Accountability</td>
</tr>
<tr>
<td>Transparency</td>
<td>Transparency</td>
</tr>
<tr>
<td>Most Important</td>
<td>Most Important</td>
</tr>
<tr>
<td>Second Most Important</td>
<td>Second Most Important</td>
</tr>
<tr>
<td>Third Most Important</td>
<td>Third Most Important</td>
</tr>
</tbody>
</table>

TOWARDS A GLOBAL CERTIFICATION FRAMEWORK FOR QUALITY INFRASTRUCTURE INVESTMENT
3. Supporting private participation in infrastructure investment in low- and middle-income countries

A central aim of the Blue Dot Network is to help mobilise private financing for infrastructure, particularly from long-term investors, in order to bridge the infrastructure investment gap. A key objective of the survey was to identify obstacles and risks from the perspective of different actors in the infrastructure value chain and from different regions, and to outline measures that could encourage greater private investment in infrastructure. The survey therefore sought to map the exposure of private sector participants to different low- and middle-income regions, and identify the principal obstacles and risks that participants most associate with those regions.

Stakeholders note excessive risk combined with weak public governance and a lack of trust in host governments as the principal factors inhibiting private infrastructure investment in low- and middle-income countries

A strong majority of participants invest or participate in infrastructure in low- and middle-income countries with Latin America and the Caribbean and Sub-saharan Africa being the two regions to which the most respondents have exposure, followed by the Asia Pacific region.

When private sector survey participants were asked what they consider to be the main obstacles to investing/operating in infrastructure in low and middle-income countries (Figure 3.1) they identified ‘Excessive risk (including political, financial, operational, security, etc) that cannot be mitigated at a reasonable cost’ as the leading obstacle, followed by ‘Poor governance of infrastructure delivery (i.e. planning, decision-making, procurement, contract oversight, etc)’ and ‘Weak legal and regulatory frameworks’. It is worth noting that the results vary slightly for different categories of respondents. Civil society participants also highlighted the importance of governance and legal and regulatory frameworks but placed less emphasis on risks while drawing attention to ‘Lack of democratic accountability and transparency’ as a significant obstacle.

---

4 Three sub-groupings comprising a selection of private sector participants that are engaged in the three principal functional areas in infrastructure development (finance, construction and operations) have been created in order to provide a basis for understanding and comparing the needs of different players that are active at the various stages of the infrastructure life cycle (see Box 1.2).
Figure 3.1. Obstacles to investing/operating in infrastructure in low- and middle-income countries by stakeholder and sub-group

Survey question: What are the main obstacles when it comes to investing/operating infrastructure in low and middle-income countries?

Note: Respondents were asked to answer this survey question based on the low- or middle-income region to which they had the most exposure.

In the particular area of governance, the interests of the private sector, governments, and citizens are well-aligned as shown by substantial analysis from the OECD which highlights that the strength of a country’s infrastructure governance plays a critical role in enabling countries to reap the benefits from their investments. As highlighted by the OECD Recommendation on the Governance of Infrastructure, strong infrastructure governance is not only crucial for engaging the private sector in infrastructure development but it ensures that the right projects get built and are delivered efficiently in a manner that is cost-effective, affordable and trusted by users, citizens and other stakeholders (OECD, 2020[1]). Good governance is associated with higher levels of efficiency, higher productivity in downstream sectors, less volatile investment flows, more sustainable public finances, and lower levels of perceived corruption (Schwartz et al., 2020[2]) (Demmou and Franco, 2020[3]).

The results are similar across regions with both ‘Excessive risk’ and ‘Poor governance’ identified as the principal obstacles. In Sub-saharan Africa and Latin America and the Caribbean, ‘Insufficient investable projects’ is also identified as a significant obstacle, while in the case of Asia Pacific respondents also considered ‘Lack of information’ to be a barrier.
Private investors cite poorly prepared/structured projects and a lack of trust in host government as the leading reasons for not investing/participating in an infrastructure project

Private sector participants were asked to specify the main reasons for not investing/participating in an infrastructure project. Respondents prioritised projects being poorly prepared (i.e. inadequate documentation) or poorly structured (e.g. inappropriate allocation of risks), inadequate risk-return profiles, and a lack of trust in the host government. Weak sustainability features are not a considered a key barrier by many of the participants. This may be explained by the fact sustainability is viewed as a dimension that is mostly within the control of the investor or developer.

Political risk and corruption risk are considered the most critical risks for infrastructure in low- and middle-income countries

‘Political risk’ is the risk that private sector respondents are clearly most concerned with followed by ‘Corruption risk’ and ‘Regulatory risk’. ‘Construction risk’ and ‘Environmental and social risk’ are of least concern in the context of low- and middle-income countries (Figure 3.2). This might be due to the fact that that these two risks may not be perceived as differing significantly between low- middle- and high-income countries.

Corruption is also of paramount concern to governments and citizens as it results in elevated social, environmental and economic costs including through misappropriated resources, excessive cost over runs, poor quality and inadequate services (Alexeeva, Queiroz and Ishihara, 2011[4]) (Collier, Kirchberger and Söderbom, 2015[5]) (Kenny, 2009[6]) (Fazekas and Toth, 2018[7]). Infrastructure investments, often large, long-term and complex projects, are subject to high risks of corruption at multiple stages of the process (OECD, 2016[8]) (Schwartz et al., 2020[9]). Preventing corruption is therefore central to implementing quality infrastructure. The corrosive effect of corruption was captured in the comments of one civil society participant:

Corruption has the most significant negative impact on infrastructure development in low and middle income countries. Corruption takes place in both the public and private sectors. It has a significant price, quality, health and safety, environmental and societal impact. On major infrastructure projects, corruption has both a public sector and private sector impact, as large projects (roads, bridges, hospitals, schools, dams etc.) tend to be public sector projects, but are built by private sector contractors. The necessary steps needed to prevent such corruption are well known, but are too complex to list here. They involve a well-controlled and impartial regulatory, procurement and project management process, and effective audit, reporting, investigation and prosecution. A minimum set of anti-corruption control measures can be specified which a project must have in place to be able to be Blue Dot [Network] certified. (Civil society respondent)
Figure 3.2. Leading risks associated with infrastructure in low- and middle-income countries

Survey question: Which risks are you most concerned about when investing/operating in infrastructure in low and middle-income countries? (private sector respondents)

Note: Respondents were asked to answer this survey question based on the low- or middle-income region to which they had the most exposure.

The prioritisation of risks was broadly shared across the three categories of respondents however only finance category respondents expressed a significant concern over ‘Currency risk’. Understandably, respondents in the finance and operations categories have greater concern for ‘Revenue/demand risk’ than those in the construction category.

Labour rights risks and negative impacts on the livelihoods of communities are the social risks of most concern in low- and middle-income countries

In the specific area of social risks, private sector respondents are most concerned with the ‘Risk of negative impacts on livelihoods of communities’ and ‘Labour rights risks’ (Figure 3.3). This is consistent with evidence that shows that projects that fail to gain the trust of local communities and lack a multi-dimensional approach in project planning, design, and delivery are at much greater risk of cancellation, delays or cost-overruns (IADB, 2017[9]). However, a significant proportion of participants also expressed concern for the ‘Risks of discrimination against vulnerable or marginalised groups’, ‘Conflict-related risk’, ‘Displacement/Resettlement risk’ and ‘Human rights risks’. Notably, gender issues were not highlighted as a significant risk across stakeholders, however participants in the finance category were those that expressed most concern for the issue.

In the Asia Pacific and in the Middle East and North Africa regions, ‘Labour rights’ are the social risk of greatest concern for respondents. In Eastern Europe and Central Asia, Sub-saharan Africa and Latin America and the Caribbean, the ‘Risk of negative impacts on livelihoods of communities’ is of most concern to respondents with significant exposures to those regions. In the latter two regions, ‘Displacement/Resettlement risks’ is also identified as a major risk.
Figure 3.3. Leading social risks associated with infrastructure in low- and middle-income countries

Survey question: Based on the selected region, which social risks are you most concerned about when investing/operating in infrastructure in low and middle-income countries?

Note: Respondents were asked to answer this survey question based on the low- or middle-income region to which they had the most exposure.

Civil society organisations also highlighted the ‘Risk of negative impacts on livelihoods of communities’ as the leading social risk in infrastructure. Other social risks that were identified by a number of civil society respondents include ‘Displacement/Resettlement risks’, and, ‘Human rights risks’. Notably however, civil society respondents placed less relative emphasis on ‘Labour rights risks’ than did their private sector counterparts.

**Encouraging private participation in infrastructure**

*Private sector participants highlighted a range of measures that could increase private participation in infrastructure including improved governance and transparency, better prepared projects, standardisation, and independent certification*

Participants were asked to describe what measures they would recommend for increasing private participation in infrastructure in low and middle-income countries. Responses were broadly consistent with what participants had identified to be the main obstacles (see above) and included the following:

- Better governance (e.g. for instance through more credible political commitment, more transparency and accountability) and stronger legal and regulatory frameworks.

- A number of construction category respondents noted the importance of transparent and open procurement including ensuring that procurement systems not only privilege the lowest-cost bid, but integrate considerations relating to technical quality of bids and value for money as expressed by these comments:
Appropriate procurement frameworks: private development participation is restricted through inadequate selection of quality constructors. Constructors’ appetite for entering the market is influenced by an unbalanced approach to risk, tax considerations (e.g. withholding tax), local skills shortage, and unbalanced competitive environments (i.e. tender evaluation focused on price with limited consideration applied to quality). (Construction sector respondent)

Provide a transparent process for bidding for projects and allow peace of mind that a level playing field is provided. A prequalification process can give peace of mind that participants have resources and experience to deliver. (Construction sector respondent)

- The need for project preparation support and well-developed project pipelines in generating a supply of attractive projects for investors.
- A number of respondents specifically mentioned the role that an independent certification of projects, including “fully audited transparency on the entire value chain, from investment time to project delivery”, could play in promoting greater private investment in infrastructure as highlighted by these responses:

  Given the potential reputational damage of investing in a project that turns out to have human/labour rights issues, even when due diligence has been performed in good faith, the Blue Dot Network providing some form of certification could diffuse that risk for investors. (Respondent in the electricity, health care and telecoms sectors)

1. More Information, 2. Clear Expectations, 3. More Transparency and 4. Adopting Realistic and Reasonable approaches broadly supported to address high risk areas such as political, regulatory and social. Importantly, I believe the outcome of the Blue Dot Network Initiative will help address a number of these issues. In addition, as is widely recognized and currently being addressed by a number of groups, there is an absolute need to standardize and simplify how these areas are organized, communicated, tracked and audited, and again I believe the Blue Dot Network Initiative could have a significant positive impact on this. (Professional service respondent)

- Respondents highlighted the need for transparent global standards for infrastructure development applied as evenly as possible among low and middle-income countries, including specifically, the establishment of best practices on regulatory, legal, and project diligence and documentation. They emphasised the need to standardize and simplify how high risk areas such as political, regulatory and social are organized, communicated, tracked and audited. They also called for greater standardisation of practices and documentation, particularly on PPPs, concessions, and off-take contracts and with respect to the allocation of risks.

- The adoption of dispute resolution processes governed by a fully independent and globally recognised arbiter was mentioned by a couple of participants, as reflected by this response:

  It would be advisable that the certification entity had also an independent supervisory role during project execution, as well as some kind of arbitration powers to expedite dispute resolution (Construction and engineering respondent).

- Finally, a number of measures that would increase access to and lower the cost of financing were proposed, such as local capital market development, participation of Multi-lateral Development Banks, greater use of sustainable finance channels, and greater use of blended finance.

TOWARDS A GLOBAL CERTIFICATION FRAMEWORK FOR QUALITY INFRASTRUCTURE INVESTMENT
The Blue Dot Network can contribute to overcoming obstacles and increasing trust

The survey responses suggest that by increasing transparency and ensuring that projects are aligned with best-in-class international standards and best practices, the Blue Dot Network can help to overcome some of the obstacles and risks relating to poor governance, corruption, weak legal and regulatory frameworks, and poor project preparation, and thus go some way towards compensating for the lack of trust in host governments. For instance, while a certification framework may not fully overcome deficiencies in local legal and regulatory frameworks, it could help to surmount them by establishing a set of common expectations for quality infrastructure. It could also promote greater standardisation in terms of due diligence and documentation. Finally, it needs to be acknowledged that certain obstacles or risks (e.g. political and currency risk) cannot be addressed by a certification framework on its own, and may require additional complementary measures to build sufficient confidence for investors (see section 5 below).
4. Promoting best-in-class standards that underpin sustainability

The Blue Dot Network certification framework aims to facilitate the application of robust standards that encourage sustainable practices. A key objective of the survey was therefore to gain an understanding of the principal sustainability frameworks and reporting standards currently applied by the various players in the infrastructure ecosystem, and of how these players integrate sustainability considerations into their infrastructure-related activities.

**Industry participants face obstacles to integrating sustainability considerations in infrastructure investment and development**

A significant majority of participating organisations report that they integrate sustainability considerations/ESG metrics as a formal part of their infrastructure investment decision-making, lending, or management process.

Over 85% of respondents based in both OECD and non-OECD countries report that they apply sustainability considerations to their infrastructure activities. This result is somewhat at odds with responses to other questions where environmental and social issues are neither viewed as leading risks nor as major factors in investment decisions. This paradox raises questions with regard to the motivation for integrating ESG criteria and applying sustainability considerations to infrastructure investment and development, as well as to the rigour of such efforts, particularly considering the well-known challenges of the ESG market (OECD, 2020[10]). It points to the need to strengthen the evidence-base with regard to ESG approaches and operationalisation, consider the materiality of different ESG criteria for specific investments, and increase rigour and consistency in the application of ESG methodologies in order to avoid the risk of green-washing.

Respondents identified a range of obstacles, in particular, insufficient or unreliable data, that inhibit their ability to apply sustainability considerations/ESG metrics to their infrastructure activities.

Private sector participants identified ‘Insufficient or unreliable data’ along with ‘Too many competing standards’ as the leading obstacles to incorporating sustainability considerations in their infrastructure activities (Figure 4.1). From the perspective of civil society organisations, the number of competing standards also represents a key obstacle to applying sustainability considerations to infrastructure.
Figure 4.1. Obstacles to applying sustainability considerations to infrastructure

Survey question: What are the main obstacles to applying sustainability considerations/ESG metrics in infrastructure investing, project finance, project development or project management?

Paradoxically, numerous respondents identified a ‘Lack of disclosure/reporting standards for infrastructure’ as another obstacle. This apparent contradiction may be the consequence of the lack of general consensus over what should be the appropriate reporting standards for infrastructure. Participants also selected ‘Standards not tailored for different sectors’ as a common obstacle.

Participating organisations based in both OECD and non-OECD countries identify similar obstacles in their responses. However, a number of respondents from non-OECD countries and civil society also report ‘Lack of in-house expertise and capacity for implementing’ as an obstacle.

Through streamlining and promoting robust reporting standards, and setting clear requirements regarding data for all players in the infrastructure value chain, the Blue Dot Network can simplify the integration of sustainability considerations in infrastructure development and investment, and build greater confidence around the value and integrity of ESG data as reflected by this comment from a respondent:

"This is an outstanding initiative that I am confident will have a highly positive impact not only on infrastructure projects, but also to more broadly support, promote and assist in global ESG reporting and compliance."

(Professional service respondent)
Sustainability and ESG considerations applied to infrastructure reflect a high degree of customisation and heterogeneity

A wide range of mechanisms are used to integrate sustainability considerations into decision-making, with many respondents reflecting ESG issues in their corporate policies and guidelines.

Almost 50% of respondents integrate ESG/sustainability metrics in their infrastructure investing, project finance and development activities through their corporate policies and guidelines, and a significant percentage (45%) do so in their risk management guidelines. There are, however, some variations according to the different categories of respondents. A significant proportion of finance category respondents integrate sustainability considerations through applying an impact investing strategy. It is notable that other ESG investment strategies (e.g. exclusion, best-in-class, and engagement) appear less common in infrastructure investing based on survey responses. On this particular dimension infrastructure investment appears to diverge significantly from general investment in which impact investing makes up only a relatively small subset of the overall ESG investment universe.

Within the construction category, the most common approach is to integrate sustainability considerations in the design process. Respondents in this category also incorporate sustainability into their project management guidelines.

A majority of respondents rely on in-house research and analysis to guide the ESG decision-making.

Close to 70% of respondents rely on in-house research for their sustainability/ESG decision-making while 37% use third-party research providers and 30% rely on existing ratings or benchmarks. This pattern is broadly consistent across all three categories of respondents, and contrasts with ESG approaches applied in conventional investing which rely to a greater extent on external research and data providers. The dominance of in-house research may indicate a lack of consensus around what should be the appropriate frameworks or a lack of development of investment research offerings when it comes to infrastructure. The Blue Dot Network could contribute to building such a consensus and introducing greater efficiency in the infrastructure investment process.

Non-infrastructure specific sustainability frameworks are the most commonly applied tools to guide infrastructure investment decision-making or infrastructure project management.

The standards developed by the Sustainability Accounting Standards Board (SASB) is the non-infrastructure-focused ESG instrument most frequently identified by respondents, in particular, by those in the construction category (Figure 4.2). While the SASB standards are not dedicated to infrastructure they cover a number of different infrastructure sectors. The EU Green Taxonomy, which covers a number of infrastructure-related activities, is the most commonly identified instrument in the categories of finance and operations. The EU Taxonomy is the most important ESG decision-making framework for OECD-based organisations. On the other hand, there are no non-OECD-based organisations that plan to apply it. Green Bond Standards or Climate Bond Standards are applied by a few participants, particularly in the finance category.

---

5 The EU Taxonomy regulation entered into force in July 2020 and is expected to apply as of 1 January 2022 to the disclosures of financial companies either based in the EU or selling financial products in the EU. As a consequence, a number of non-EU based organisations plan to apply it (for example, two US-based respondents stated that they will do so).
The Global ESG Benchmark for Real Assets (GRESB) is the infrastructure-focused ESG instrument that is most commonly applied by respondents (20%) followed by the SuRE Standard for Sustainable and Resilient Infrastructure (13%). Organisations based in both OECD and non-OECD countries use GRESB.

Figure 4.2. Sustainability frameworks applied in infrastructure investment and project management

Survey question: Do you apply or plan to apply any of the following sustainability frameworks, benchmarks or taxonomies in your infrastructure investment decision-making or infrastructure project management? (private sector respondents)

Civil society organisations highlighted a different set of frameworks for developing sustainable infrastructure. Respondents placed the emphasis ISO standards (specific ISO standards that were mentioned include the ISO 9001 quality, 14001 environment, 45001 safety and 37001 anti-bribery standards) and the SuRE Standard for Sustainable and Resilient Infrastructure as well as GRESB.

_The Blue Dot Network can facilitate greater alignment around ESG criteria and data_

Developing sustainable infrastructure depends on the coordinated actions of the various players in the infrastructure value chain, from contracting authorities through to investors, construction firms, and operators. While a certain degree of heterogeneity may promote choice and competition, the current lack of alignment around ESG data, performance and reporting standards highlighted by the survey findings fosters uncertainty around the sustainability characteristics of infrastructure investments and is a major source of inefficiency. By bringing together the multiple actors in the infrastructure value chain, the Blue Dot Network seeks to create greater alignment and clarity around the criteria and data that underpin quality and sustainable infrastructure.

_Some aspects of environmental and social standards and safeguards (e.g. ESIAs) are relatively well assimilated by industry participants while others require more effective implementation (e.g. grievance mechanisms) or further elaboration (e.g. net-zero targets)_

It must be recognised that some infrastructure investments contribute to adverse impacts on the environment, workers and communities. For instance, infrastructure can have a strong impact on biodiversity which underpins essential inputs to human life, including food, safe water, climate regulation,
and protection against water-related hazards. In addition, due to their long lifespan, many existing infrastructure assets, such as certain types of power generation plants, will continue to contribute to the global carbon emissions that drive climate change for the coming decades. On the other hand, done properly, infrastructure investments can bring positive benefits to local communities as sources of quality employment, new skills, and access to improved services. Survey participants were therefore asked about their implementation of certain dimensions of environmental and social targets and safeguards.

*Industry is starting to adopt net-zero targets and a significant number are committed to doing so in the future*

Choices made on infrastructure systems in the next decade will be critical for achieving global and national climate goals. Achieving climate targets will require far-reaching transitions in energy and mobility infrastructure that will depend on a rapid scaling-up of investment in low-carbon electricity generation, significant improvements in energy efficiency, and the deployment of new energy and transport technologies such as grid-scale storage and hydrogen. Furthermore, infrastructure investments that are aligned with long-term goals including those conveyed by the Paris Agreement run less risk of obsolescence.

39% of respondents report that they have adopted a net-zero target, either for 2050 or some alternate timeframe such as 2030 or 2025. While 61% have not adopted such a target, 31% stated that they are planning to do so (Figure 4.3). Thus, a total of 70% have either established a target or are planning to do so.

The responses for OECD and non-OECD based organisations differ dramatically in terms of their adoption of net-zero targets. Thus, while 57% of OECD-based organisations in the survey have adopted net-zero targets, only 4% of non-OECD based organisations have done so.

**Figure 4.3. Adoption of net-zero targets by private sector infrastructure organisations**

Survey question: Has your organisation adopted a net-zero climate target? (private sector respondents)

The majority of respondents with net-zero targets have set targets at the company level (89%). A minority of respondents (25%) establish targets at the project level, and even fewer do so at either a portfolio or a
fund level. This is consistent with the fact that only a few respondents include scope 3 emissions\(^{6}\) in their net-zero target, which covers the investments made by investment companies.

Within the *finance* category, a similar percentage (39\%) have adopted net-zero targets. Of those with net-zero targets, 45\% claim to have targets at the project level, yet only 27\% include scope 3 emissions in their targets.

*Environmental and Social Impact Assessments (ESIA) are a standard requirement for most investors and lenders participating in the survey*

Environmental and Social Impact Assessments (ESIA) are a key element of a number of international standards including the IFC Performance Standards and form an important part of how international responsible business conduct standards (e.g. as reflected in the OECD Guidelines for Multinational Enterprises) are assessed and considered. Participants that invest in or lend to infrastructure projects were asked whether they require clients or procuring authorities to undertake an Environmental and Social Impact Assessment (ESIA). A strong majority of respondents require ESIA’s for all projects, which could, in some instances, be a reflection of legal requirements.\(^{7}\) For a minority of respondents, ESIA’s are a requirement only for projects that exceed a certain level of risk as determined through applying the IFC risk categories or through internal analysis.

A majority of civil society organisations consider that ESIs should be a standard requirement for all projects however a significant percentage (35\%) felt that it should only apply for projects above a certain size.

It was also proposed that the certification framework could go beyond reducing environmental and social impact to consider how infrastructure can serve to reconstitute natural and social capital as expressed by this comment:

> All of the objectives above are important. I would add that as part of infrastructure development, we need to shift from a framework of reducing environmental and social impact to a reorientation of infrastructure as opportunities to maximize human and planetary flourishing, considering how infrastructure leads to the regeneration of scarce natural capital and social capital... Social capital is a key determinant for economic mobility out of poverty and yet it is often an afterthought in modern infrastructure development, having detrimental impacts on mental social cohesion and trust in government. (Civil society respondent)

*Existing grievance mechanisms are viewed as ineffective by civil society*

The implementation of grievance mechanism for workers and communities is also an important requirement in a number of international standards (e.g. IFC Performance Standards and OECD Guidelines for Multinational Enterprises). This includes operational-level grievance mechanisms as well as more broad effective, secure, adequately funded and publicly accessible remedy processes, be they judicial or non-judicial. A well-funded grievance mechanism that provides an important independent avenue for stakeholders to voice concerns and seek redress without fear of retaliation can help to build trust with stakeholders and affected communities. Civil society participants were asked whether grievance mechanisms used by project developers were effective in identifying and resolving concerns of affected communities or workers. For a majority of respondents, existing grievance mechanisms are viewed as inadequate. Civil society respondents explained that the poorest and most marginalised have little or no access to such mechanisms even where they exist, and that companies rarely adhere to agreements with communities.

---

\(^{6}\) Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

\(^{7}\) The survey did not ask respondents to specify the coverage of their ESIs. Some respondents that answered affirmatively may therefore conflate Environmental Impact Assessments (EIAs), which do not consider social risks, with ESIs.
5. Complementary measures to and incentives for the Blue Dot Network

Survey participants highlighted, in particular, the potential role of financial incentives in contributing to the success of the certification framework

As highlighted above, mobilising private investment in infrastructure is a complex multi-dimensional challenge that is subject to multiple obstacles and risks. While respondents have clearly expressed the potential benefits of a certification framework in terms of promoting private investment, they also provided more general feedback on incentives and complementary measures that could support the development of the Blue Dot Network:

- **Financial support:** Respondents mentioned a range of financial incentives that could encourage participation through increasing access to or lowering the cost of finance. Specific measures that were suggested by participants include the provision of grants and/or loans from Multilateral Development Banks (MDB), the provision of grants and financial guarantees from host governments, lower KPI-linked interest rates for loans, and tax incentives. Respondents also highlighted incentives aimed at mitigating risks such as reduced rates for Multilateral Investment Guarantee Agency (MIGA) coverage, protection against political, corruption and currency risks, and support for the protection of investor rights.

- **Capacity building:** Having capable public sector counterparts is viewed as important for developing quality infrastructure projects. The provision of capacity building could support the development of projects that can satisfy BDN requirements. However, it was also felt that the BDN shouldn’t abandon projects or countries that fail to meet the criteria or standards. In addition, the provision of support should go beyond the immediate focus on projects and seek to strengthen governance, regulatory frameworks, and the rule of law, factors that represent fundamental risks for investors. Capacity building would also need to be focused on those undertaking the assessments through, for example, a programme for “training the trainers”. It was also suggested that the certification process should seek to promote continuous development, and serve as a learning process for infrastructure stakeholders.

- **Procurement:** A few participants mentioned the potential role that procurement could play in promoting certification by, for instance, prioritising tenders that commit to obtaining a certification for the project.

- **Widespread engagement and recognition:** Involving a wide range of stakeholders and engaging with other initiatives, particularly within the international investment community (MDBs/DFIs, banks, etc) is viewed as important for building the BDN’s credibility and generating recognition which in turn will foster adoption. Respondents from civil society stressed the need for local ownership and oversight from local communities. Further, it was felt that broad industry support will serve to generate interest among governments as suggested by this comment:
The broader it is used, and strongly supported by the investment and construction groups, the better. Jurisdictions have to feel they will not gather the same level of interest or participation if they are not part of this certification scheme. (Research organisation respondent)

**Communicating benefits and success:** Measures that provide recognition for projects and companies that successfully achieve certification could incentivise participation in the scheme. Efforts to measure performance of certified projects over the longer-term could serve to demonstrate the benefits of certification. In addition, the benefits to end-users and society-at-large should also be communicated as expressed by this comment from a respondent:

> Trying to make a clear connection between the requirements for certification and the benefits and value added to end users and society at large, not only in terms of jobs but through project design choices that increase access and positive impacts of the infrastructure for the day-to-day life of people (you will have a better neighbourhood, you will get faster home from work, your children will have better schools and hospitals, your water will be clean, your region will grow more, etc) (Asset management respondent)

**Limit the burden and cost:** Ensuring that the process of getting certified doesn’t represent an overwhelming burden is important for promoting adoption. Some participants expressed concern over the capacity of certain countries to meet the criteria or the costs that a certification regime could add to projects, particularly in the case of low-income countries. One respondent provided the following reflection on the need for the certification to be achievable locally and to incentivise continuous improvement:

> The above objectives are all nice-to-have aspirations but not always achievable on every project, there should be a measured approach to each one and an incentivisation process incorporating continuous improvement. Simple requirements at the outset that are largely achievable locally without the need for a large task force to descend. Need to be clear what the benefits are for entities to enter into such a certification regime, how straightforward it is to be certified and what are the upsides and roadmap to certification. (Institutional investor respondent)

However, as expressed by a number of participants, this should not come at the cost of the credibility of the regime by, for instance, certifying weak projects. The need to balance these two positions is well expressed by this comment:

> It is important to take into consideration the existing regulatory framework and development level of countries in order to establish a set of criteria that can be more inclusive and adherent to diverse realities, yet preserving a reliable standardized global certification possibly with different levels of compliance. (Infrastructure operator respondent)
Infrastructure investment has a particularly crucial role to play at this critical juncture when the world is facing two major crises: the pandemic and the effects of climate change. However, in the absence of the appropriate policies, governance frameworks and processes, low and middle-income economies may not be getting good value and maximum impact for their money, even if the upfront cost may be lower. Quality infrastructure investment will be key to ensuring that this investment contributes to a strong, sustainable, resilient and inclusive recovery in a way to maximises the efficient use of scarce public and private resources. It will also be instrumental in delivering the low-carbon infrastructure systems that are central to keeping climate change within the limits set by the Paris Agreement. The Blue Dot Network, through operationalising quality infrastructure investment, would help to ensure that infrastructure investment delivers its expected benefits and to attract private investment into quality infrastructure projects.

The report outlines the key obstacles identified by stakeholders that inhibit investment in infrastructure in low- and middle-income countries including weak governance, excessive risk and inadequate legal and regulatory frameworks. Social issues such as corruption, labour rights and the risk of negative impacts on the livelihoods of communities are of particular concern to stakeholders when it comes to investing and/or operating in low- and middle-income countries. The Blue Dot Network can help to overcome some of these obstacles and risks to private investment in infrastructure by increasing transparency and ensuring that infrastructure projects are aligned with commonly agreed-upon international standards and best practices in these areas.

Further, through streamlining and promoting existing reporting standards, building consensus among all players in the infrastructure value chain, and setting clear requirements regarding data, the Blue Dot Network can simplify the integration of sustainability considerations in infrastructure development and investment, build greater confidence around the value and integrity of ESG data, and introduce greater efficiency in the infrastructure investment process. It would also enable governments to signal to both markets and domestic constituencies their commitment to quality infrastructure, enabling them to attract greater investor interest and public support for projects. Thus, BDN would contribute to mobilising the necessary levels of private investment through aligning the interests of governments and investors by ensuring that projects satisfy ESG criteria and present acceptable risk profiles over the long-term.
References


