

## Building infrastructure compatible with climate change

DIRECT INVESTMENTS SHOULD SUPPORT LOW-EMISSION AND RESILIENT INFRASTRUCTURE

- ▶ While Mexico needs to increase investment in infrastructure, the government should be mindful of environmental impacts and international commitments.
- ▶ Good governance is essential for successful infrastructure projects that meet time, financing and quality criteria, including environmental.
- ▶ Mexico should ensure that infrastructure planning and investment is aligned with the country's long-term climate goals, while supporting women's economic empowerment and ensuring equal opportunities and access.
- ▶ The OECD would be ready to work with Mexico on sustainable infrastructure, for instance with a country review on sustainable infrastructure development, governance and financing.

### What's the issue?

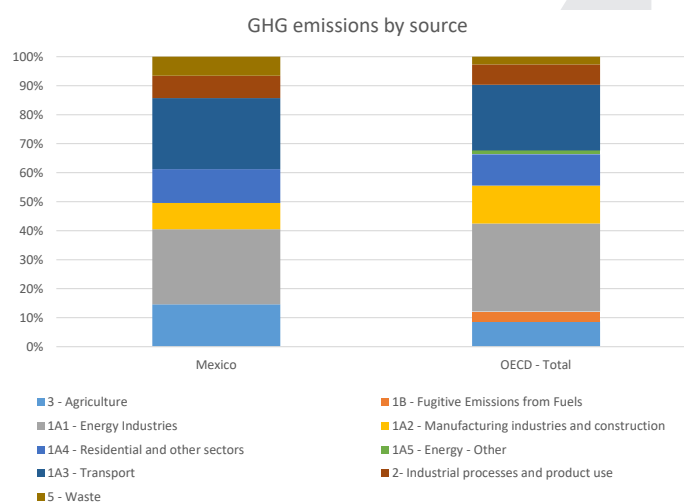
Mexico's need to increase its investment in infrastructure is well documented. The G20's Global Infrastructure Outlook estimates Mexico's infrastructure investment gap is about USD 544 billion (see Figure below). Mexico ranks 54<sup>th</sup> in the infrastructure pillar of the 2019 *Global Competitive Index*, below countries like Chile (42), Turkey (49), or Morocco (53) (WEF, 2019). Furthermore, there are significant disparities in infrastructure investment among states.

While the need to increase investment in infrastructure is evident, Mexico should carefully account for environmental considerations. Mexico's greenhouse gas emissions have been growing rapidly since 1990, with a slight slowdown after the global financial crisis. Energy production and transport account together for half of the total emissions (Figure below). Mexico should therefore orient its infrastructure investment decisions towards decarbonising these sectors.

The government's new strategy to power Mexico's development plans through the oil industry, together with the plans to build a coal-fired power plant and a refinery in the port of Dos Bocas, can have extensive environmental impacts. In addition to hampering compliance with the country's own clean energy laws, the strategy potentially compromises the achievement of emissions reduction targets that the country has agreed to under the Paris Agreement.

Aligning infrastructure development plans with social goals can support more inclusive growth and deliver better environmental outcomes. For example, studies show that women have different travel patterns from men and prefer to use public transport more, as long as it is safe (Ng and Acker, ITF, 2018). Thus, policies to address different users' needs can encourage the development of more sustainable modes of transport.

### Energy and transport account for the largest share of greenhouse gases



Source: OECD.Stat.

### Why is this important for Mexico?

In planning to close the infrastructure investment gap, Mexico should make sure that public and private investments are directed towards low-emission and resilient infrastructure. This is essential to avoid further emissions lock-in, and deliver on climate objectives and the Sustainable Development Goals. Mexico is one of only 13 UNFCCC's 197 parties that have submitted long-term low-emission development strategies (SEMARNAT, 2016), according to which infrastructure planning must be aligned to the country's long-term climate goals.

Natural infrastructure has a significant role to play in filling the infrastructure gap, both in terms of increasing the efficiency of delivering essential ecosystem-based services and of reducing the cost of infrastructure. Some states are already seizing the opportunities offered by natural infrastructures, for example the state of Quintana Roo established a "Coastal Zone Management Trust", a fund that combines taxes collected from the local tourist industry and local government funding to maintain the reefs.

Local taxes with a dedicated climate focus can also support resilient infrastructure investments. Mexico City offers a property tax reduction, averaging a 10% cut, to all new and existing building owners that install green roofs (OECD, 2018).



### Further reading

Effective Delivery of Large Infrastructure Projects: The Case of the New International Airport of Mexico City: <https://www.oecd.org/gov/effective-delivery-of-large-infrastructure-projects-9789264248335-en.htm>

Getting Infrastructure Right: A Framework for Better Governance: <http://www.oecd.org/gov/getting-infrastructure-right-9789264272453-en.htm>.

High-level Principles for Integrity, Transparency and Effective Control of Major Events and Related Infrastructures: [http://www.oecd.org/gov/ethics/High-Level\\_Principles\\_Integrity\\_Transparency\\_Control\\_Events\\_Infrastructures.pdf](http://www.oecd.org/gov/ethics/High-Level_Principles_Integrity_Transparency_Control_Events_Infrastructures.pdf).

OECD (2019), *Accelerating Climate Action: Refocusing Policies through a Well-being Lens*, OECD Publishing, Paris, <https://doi.org/10.1787/2f4c8c9a-en>.

OECD (2019), *Updating the OECD Framework for the Governance of Infrastructure*.

OECD (2019), "Sustainable connectivity: Closing the gender gap in infrastructure", *OECD Environment Policy Papers*, No. 15, OECD Publishing, Paris, <https://doi.org/10.1787/6350ba66-en>.

OECD/The World Bank/UN Environment (2018), *Financing Climate Futures: Rethinking Infrastructure*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264308114-en>. OECD (2017), *Gaps and Governance Standards of Public Infrastructure in Chile: Infrastructure Governance Review*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264278875-en>.

SEMARNAT (2016), <https://unfccc.int/process/the-paris-agreement/long-term-strategies>.

World Economic Forum, *Global Competitiveness Index 2019*, <http://reports.weforum.org/global-competitiveness-report-2019/competitiveness-rankings/#series=GCI4.A.02>.

### What should policy makers do?

- ▶ Develop a long-term strategic vision for infrastructure, which supports the achievement of long-term policy objectives including decarbonisation and sustainable growth.<sup>1</sup>
- ▶ Adapt the financial system in line with long-term climate risks and opportunities.
- ▶ Strengthen public governance, to increase the institutional capacity to channel resources for public investment towards projects that effectively address infrastructure service needs and ensure value for money throughout the full project life-cycle<sup>1</sup>.
- ▶ When appraising and selecting projects, apply rigorous ex ante assessment processes, which support fiscal sustainability, affordability, and value for money; and include environmental costs and benefits<sup>1</sup>.
- ▶ Ensure systematic and effective stakeholder participation during all phases of the project life-cycle<sup>1</sup>.
- ▶ Promote a coherent, efficient, and predictable regulatory framework<sup>1</sup>.
- ▶ Empower city governments to build low-emission and resilient urban infrastructure (OECD/The World Bank/UN Environment, 2018).
- ▶ Ensure accessibility to safety and affordability of infrastructure services for women in support of more sustainable connectivity modes.
- ▶ Address social and environmental spillovers of infrastructure projects, in particular their impact on the well-being of affected communities<sup>1</sup>.

1. Aligned with OECD Recommendation on the Governance of Infrastructure: currently under discussion by several OECD bodies (i.e., committees and working groups).