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# Financing Resilient and Sustainable Infrastructure in Asia and the Pacific

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# Chapter line of argument

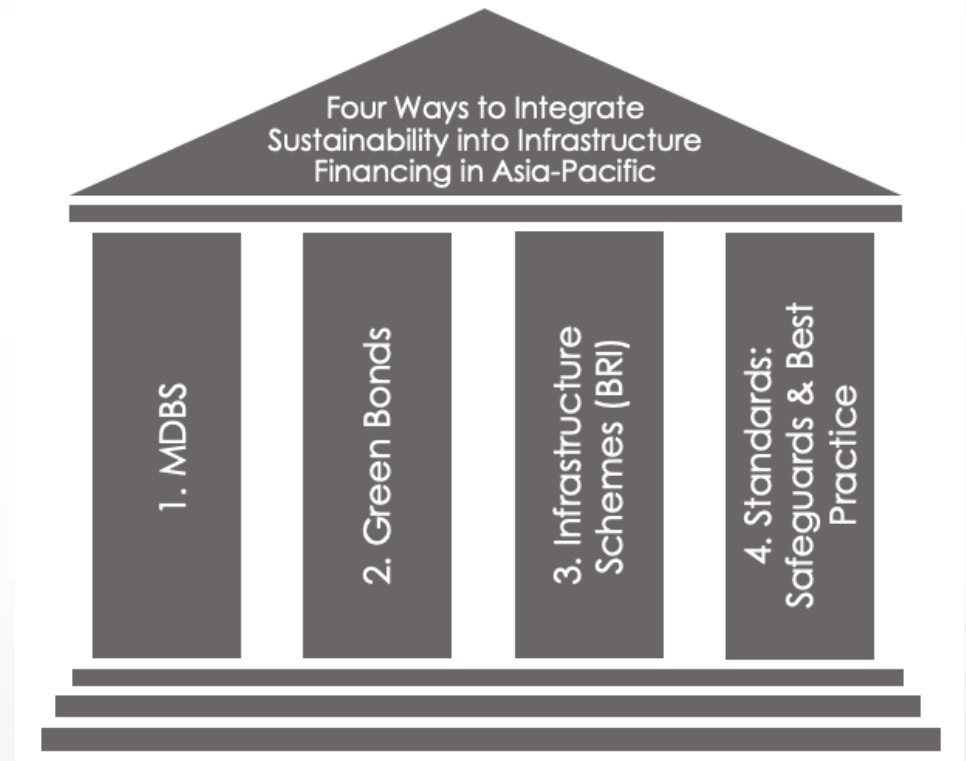
## Gap analysis:

Identifying challenges to financing sustainable infrastructure



## Topical analysis and recommendations:

Four ways to integrate sustainability into infrastructure financing



# Chapter's main content

Four ways to integrate sustainability into infrastructure financing in Asia-Pacific:

## Chapter focus:

1. The role of MDBs:
2. Green bonds:
3. Infrastructure investment schemes (BRI):
4. Standards within threshold and best practice:

## Level:

Organizational  
Financial Tool  
Policy (cross-project)  
Project



# Relation to other book chapters

**Line of argument throughout the book:** 6 ways (chapters) to increase infrastructure financing for sustainable development in Asia and the Pacific

Resilience &  
Sustainability

**Cross border:** Relation to infrastructure investment schemes like BRI; MDBs relation to cross border financiers and investors

**Capital markets:** Asian green bonds on global capital markets; sustainability factors in infrastructure as an asset class

**SIDSs & LLDCs:** Differing safeguards and best practices; differing sustainability challenges such as disaster risk

**Tax revenues:** Preferences for best practice standards on transport and utilities; using green bonds in land value capture business models

**Efficiency:** Potential of catalyzing MDBs' expertise to increase efficiency; using best practice standards in efficient management



# Chapter's table of cotents

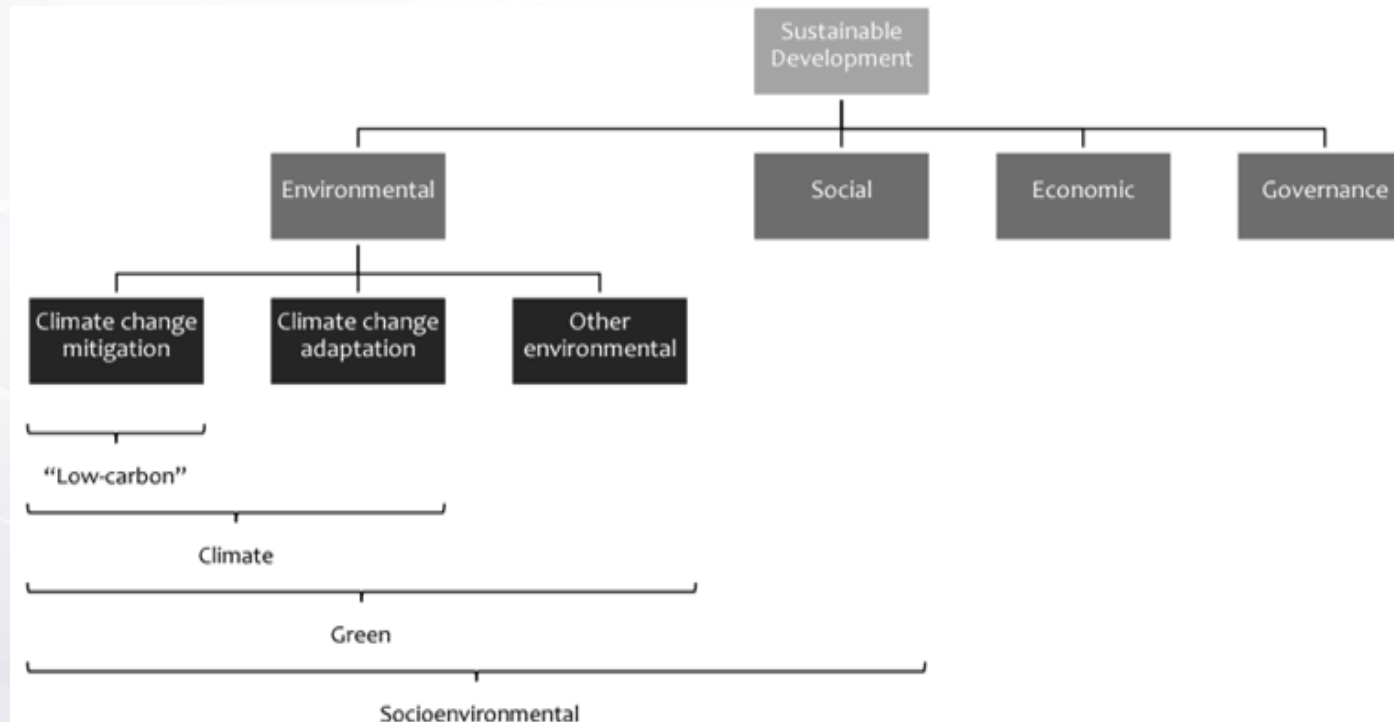
(introduction)

1. **Challenges** to Financing Sustainable Infrastructure in Asia and the Pacific
2. The Role of **MDBs** in Project De-risking and Pipeline Development
3. Asian **Green Bond** Issuers Accessing Investors on Global Markets
4. Regional **Infrastructure Investment Initiatives**: Sustainability Integration in the BRI and Similar Schemes
5. **Standards**: Defining, Targeting, and Coordinating Infrastructure Development through Sustainability Practices
6. **Conclusion: Four Key Ways** to Integrate Sustainability into Infrastructure Financing in Asia and the Pacific



# Introduction to chapter

Defining 'sustainable' in an infrastructure context





# Challenges to Financing Sustainable Infrastructure

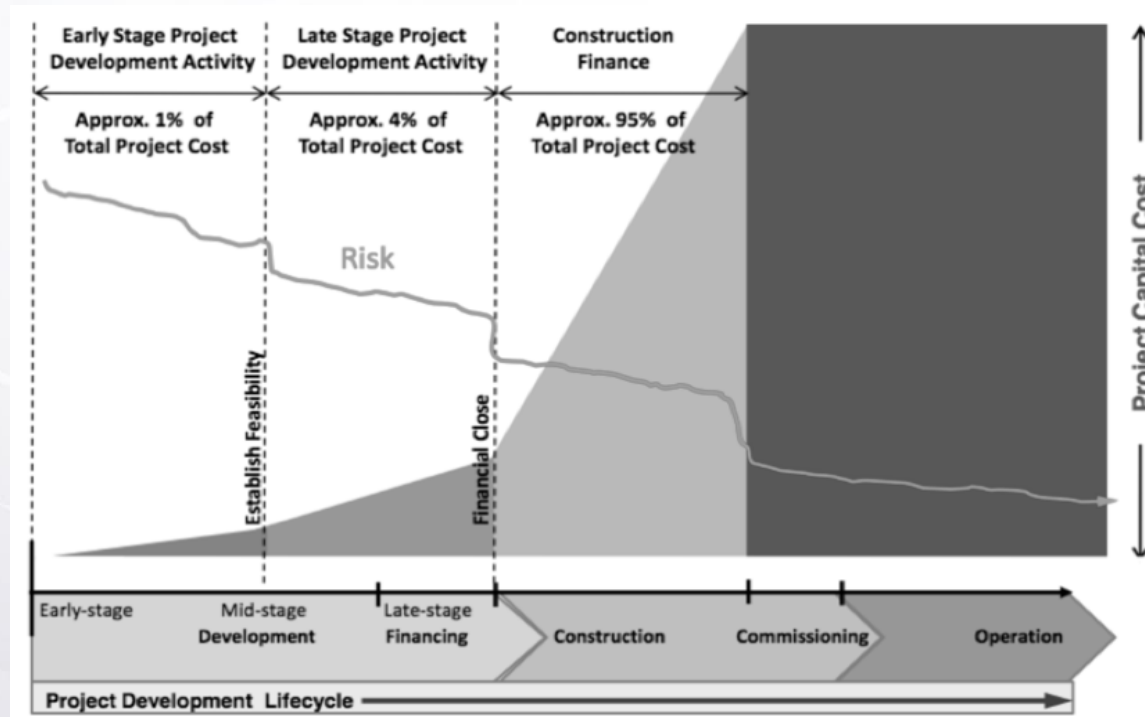
Category of Challenge	Key Aspects	Current Efforts
Institutional Framework	Political instability, policy reversals, distorting subsidies and feed-in tariffs, uneven playing field to SOEs.	Streamlining of policy implementation at national, regulatory and local levels - often through NDCs
Project Financiers	High project development costs, overemphasis on short-term returns, portfolio restrictions.	Improving ESG awareness of investors, and implementing green finance requirements in SOEs
Project Owners	Limited awareness of green finance mechanisms, inexperience in leveraging non-traditional finance, limited capacity for structuring projects as green, lack of publication of transparent and comprehensive project pipelines	Improving guidance available provided by ministries, regulatory institutions, or private sector associations
Financial Markets	Lack of green asset classes, shortage of specialized funds, mismatch in risk profiles, non-monetized positive environmental externalities, lack of data, incoherent application of green standards, low ability to accurately assess green project risks.	Improving information availability and quality through platforms, standards, and third-party assessments initiated by both public and private sides.





# The Role of MDBs

De-risking sustainable infrastructure at the project level  
& supporting project pipeline development



# The Role of MDBs

## Instrument type

### **De-risking at the project level:**

- Technical assistance
- Risk assessment disclosure
- Public-private partnerships (PPPs)
- Concessional and non-concessional loans
- Guarantees and insurance
- Risk sharing facilities

### **Supporting project pipeline development:**

- Feasibility studies
- Early stage financing
- Special purpose vehicles (SPVs)
- Project preparation facilities

## Examples

WB IFC: Sustainable Finance Network  
EBRD: FSB-TCFD disclosure commitment  
EIB: MEP5P  
All: Loans make up 85% of MDB financing  
WB IFC: Global Index Insurance Facility  
EIB: Private Finance for Energy Efficiency

WB IDA: Designated Afghani MoF fund  
EBRD: Direct Investment Facility  
AfDB: Lake Turkana Wind Power SPV  
ADB: Green finance Catalysing Facility



# How Asian Green Bond Issuers can Access Global Capital Markets

## Outset circumstances:

- Green bonds is the most mature sustainable finance instrument
- Fixed income securities are well suited for infrastructure financing
- Most sustainable investors are in Western capital markets

## Challenges to realizing potential of green bonds

**Standards:** Different definitions of 'green' across environmental objectives, economic activities, and indicators.

Solution: ICMA GBP as common framework (Rosetta Stone)

**Policy support:** Lack of assistance to overcome transaction costs.

Solution: Interest rate subsidies, green project guarantees, coverage of verification costs, investor guidance, state-owned institutional investor's investment

**Demonstration effect:** Few public institution issuers

Solution: Sovereign / quasi sovereign / intergovernmental issuers



# Infrastructure Investment Initiatives: The Belt and Road Initiative (BRI) and Similar Schemes

## Approach:

- BRI is the largest and most ambitious scheme in the Asia-Pacific region
- Policies defining the BRI impact sustainability integration into infrastructure financing
- Direct and indirect effects from BRI on similar schemes in the region

## Belt and Road Initiative coverage:

- 65 countries (and counting)
- 30% of global GDP
- 62% of population
- 75% of known energy reserves
- \$1-8 trillion

## Key parallel schemes in Asia-Pacific:

- ASEAN
- European Union
- United States
- Japan
- ACMECS
- Shanghai Cooperation Organization
- Euroasia Economic Union



# Infrastructure Investment Initiatives: The Belt and Road Initiative (BRI) and Similar Schemes

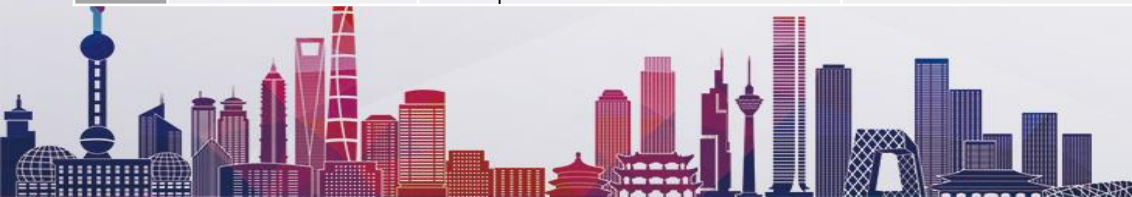
Increasing importance of host countries' understanding of how to deal with Chinese financiers and construction companies

Key policy documents on Chinese overseas investment

Year	Issuing Agency	Policy Title	Primary content
2018	MOFCOM, PBOC, SASAC, CBRC, CSRC, CIRC and SAFE	Interim Measures for the Reporting of Outbound Investments Subject to Record-filing or Approval	Requirements for information sharing on online platform used for approval processes
2017	NDRC	Administrative Measures on Overseas Investments	Determines process and scope of overseas investments
2017	State Council	Further Guiding and Regulating the Outbound Investment Direction	Defines encouraged, restricted, and prohibited Sectors of investment
2017	NDRC, MOFCOM, PBOC, MFA, ACFC	Regulations on Outbound Investment and Business Activities of Private Enterprises	Investment practice and assessment, including on green variables
2009	MOFCOM, SAFE	Notice on the Joint Annual Inspection of Overseas Investment	Evaluation of compliance with Chinese and host country laws
2008	MOFCOM, MFA, SASAC	Notice on Further Regulating the Foreign Investment Cooperation of Chinese Enterprises	Process of inspection, approvals, and fines for breaches of practice

Key policy documents on sustainable finance in Chinese overseas investment

Year	Issuing Agency	Policy Title	Overseas Investment Provision
2016	PBOC, MOF, NDRC, MEP, MOF CBRC, SCRC, CIRC	Guidelines for Establishing the Green Financial System	Article 31: Enhance the "greenness" of China's outward investment.
2012	CBRC	Green Credit Guidelines	Requires compliance of local environmental rules on banking and adherence to international best practice
2014	CBRC	Key Indicators of Green Credit Performance	System for assessment of performance of banks overseas engagements
2015	GFC	Green Bond Endorsed Project Catalogue	Relations and compatibility with ICMA's Green Bond Principles



# Standards: Safeguards & Best Practices

Coverage varies by:



- Infrastructure type
- Development stage
- Organization
- Sustainability goal
- Geography

## Safeguards

Avoiding harm: Setting a threshold through environmental & social safeguards and impact assessment

## Best Practice

Doing good: Best practices for maximizing sustainability impact by industries, sectors, and infrastructure types



# Standards: Safeguards & Best Practices

## Examples of social and environmental safeguards

Name	Actor(s)	Coverage	Key Characteristics
Performance Standards on Environmental and Social Sustainability	International Financial Corporation (World Bank Group)	All infrastructure	Global benchmark standard for safeguards
Environmental and Social Management Guidelines	Food and Agriculture Organization of the United Nations	Food and agriculture	Tailored to FAO's own project cycle and process
Environmental and Social Safeguards Framework	Laos Environmental Protection Fund	All infrastructure	Explicitly follows the World Bank's standard
Guidance for Assessing Social Impacts	European Commission	All infrastructure, and any other EC supported project	Separate documents dealing with social and environmental components
Article 10 of the Statute	Brazil National Bank for Economic and Social Development	All infrastructure	Details of safeguards updated in strategic documents such as the Social and Environmental Responsibility Policy of 2010.



# Standards: Safeguards & Best Practices

## Examples of infrastructure development best practices

Name	Actor(s)	Coverage
SuRe Standard for Sustainable and Resilient Infrastructure	Global Infrastructure Basel	All types All geographies All SDGs
International Water Stewardship Standard	International Standard Development Committee	All types All geographies Only water management
Hanoi Principles for Construction and Engineering	Asia Pacific Economic Cooperation (APEC)	Only construction and engineering stage Only Asia specific All SDGs
Extractive Industries Transparency Initiative Standard	Extractive Industries Transparency Initiative	Only extractive industries All geographies All SDGs
Hydropower Sustainability Assessment Tool	International Hydropower Association	Only hydropower All geographies All SDGs
Risk and Responsibility Programme	Government of the Netherlands	All types Only Netherlands Only risk management





# Conclusion: Four Ways to Integrate Sustainability into Asia-Pacific Infrastructure Financing

1. **The role of MDBs:** Applying a variety of instruments towards de-risking sustainable infrastructure projects to reach bankability, as well as towards supporting project pipeline creation
2. **Green bonds:** Leveraging global capital markets by addressing green standards, providing comprehensive policy support, and using demonstration effect by public institutions
3. **Infrastructure investment schemes (BRI):** Integrating sustainability into the BRI and similar schemes, as well as into how host countries deal with Chinese financiers and construction companies
4. **Standards within threshold and best practice:** Applying standards at project level to avoid harm through social and environmental safeguards, as well as by maximizing sustainability impact through infrastructure development best practices

