

## In Conversation with Seth Tan, Infrastructure Asia, on ESG in Infrastructure Projects

*Our Sustainability Practice brings to you the inaugural issue of the Sustainability Updates which shares with you insights distilled from conversations between our Sustainability Partners and experts across sectors and domains on key environmental, social and governance (“ESG”) developments and trends. In this issue, Lee Weilin and Soh Lip San, our Partners with the Sustainability Practice, explore ESG issues in infrastructure projects by speaking with Seth Tan, Executive Director of Infrastructure Asia (“**InfraAsia**”) on his views on green and sustainable infrastructure and ESG factors for bankable projects in the region.*

ESG themes are becoming more central in infrastructure projects. This emphasis permeates the chain of stakeholders including governments, public and private sponsors, lenders and advisors. Successful infrastructure projects are often a result of public-private cooperation, accompanied by stringent assessments and enabling regulations, not least on the ESG front.

The significance of ESG in infrastructure investments is evident in the United Nations Sustainable Development Goals (“**SDGs**”), which are adopted by all UN member states, including Singapore and a number of other Asian countries. Goal 9 of the SDGs sets out the importance of investments in infrastructure as a crucial driver of economic growth and development<sup>1</sup> and it also illustrates the need for a balance of social, economic and environmental sustainability in infrastructure projects.

The need for such a balance has been reinforced by the COVID-19 pandemic, which comes as a wake-up call to governments. In Asia, the pandemic has translated to a demand for higher quality, environmentally safer and more sustainable infrastructure projects.

In Singapore, green and sustainable activities within the infrastructure sector go hand in hand with the recently announced Singapore Green Plan 2030 (“**Singapore Green Plan**”). The Singapore Green Plan sets out the country's sustainable development agenda, which amongst others, includes an energy reset in the infrastructure sector. The reset would include tapping green energy sources from the ASEAN region and beyond, quadrupling the solar energy deployment of the country by 2025, halving the energy to produce desalinated water, building up the infrastructure for adopting electric vehicles and so on.<sup>2</sup> The Singapore Green Plan makes clear the ambitions of the country to develop a greener and more sustainable infrastructure.

<sup>1</sup> <https://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-9-industry-innovation-and-infrastructure.html>

<sup>2</sup> <https://www.greenplan.gov.sg/key-focus-areas/vision/>

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The investment and development of green and sustainable infrastructure projects involve active participation from various players across the value chain such as investors, financiers, consultants and professional advisers to work with governmental bodies. Infrastructure Asia is an organisation set up by the Singapore government to bring together these parties and facilitate the financing and development of more sustainable infrastructure projects in the region.

We spoke with Seth Tan from InfraAsia on his views on green and sustainable infrastructure and ESG factors for bankable projects in the region.

**In your role in facilitating infrastructure projects in Asia, do you see stakeholders placing more emphasis on ESG factors? If so, what do you think are the main ESG areas of focus in infrastructure investment and development in Asia, and why is it so?**

We are seeing numerous stakeholders, including investors and regional governments, place increasing emphasis on ESG factors in infrastructure projects.

We see more investors taking ESG factors into consideration in their investment mandates and processes. For example, Canada's *Caisse de dépôt et placement du Québec* ("CDPQ") requires the consideration of climate issues in all of its investment processes, according climate issues the same importance as financial risks. CDPQ has also committed to reducing its portfolio carbon footprint by 25% per dollar invested by 2025 (compared against the 2017 levels). Blackrock has also made it known that it integrates sustainability considerations into investment processes and strategies, as part of stewardship investment responsibilities. Closer to home, GIC formed a sustainability committee over four years ago, and environmental issues feature very high on the agenda.

Likewise, in the region, we see countries placing emphasis on ESG and sustainable development and setting out roadmaps for achieving their sustainable development goals. For example, Indonesia has set out 17 SDG goals with 169 targets to be achieved by 2030, the Philippines started looking into this in 2011, and Vietnam has introduced laws/environmental actions to decrease emissions of greenhouse gases. Consequentially, the emphasis by governments on sustainability is reflected in their approach towards infrastructure projects.

Environmental and climate change issues are becoming more pressing. One reason may be that COVID-19 has caused people to become more conscious of existential issues such as climate change. It is now apparent to stakeholders that there is an urgent need to stop or at least mitigate the effects of climate change, as this global issue is already causing damages and bringing real risks to human lives, cities and economies.

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**Can you give an example of a type of project which InfraAsia is facilitating, in which ESG features highly?**

InfraAsia focuses on an array of projects, but one notable example would be waste management projects.

As countries in Asia become more urbanised, environmental public health issues become increasingly important. One such issue that the governments in the region have to resolve relates to solid waste management. Poor solid waste management can lead to air, water and soil pollution. It may also lead to various diseases as waste is a breeding ground for many vectors.

InfraAsia has played an active role in facilitating infrastructure projects dealing with solid waste management. Together with its partners, InfraAsia has worked with governments on a number of options available for waste management projects. For example, in 2019, InfraAsia collaborated with several Singapore-based companies to assist the Cambodian government in conducting a pre-feasibility study for the first waste-to-energy project in Phnom Penh. Another project that InfraAsia was recently involved in was the Phnom Penh waste collection and transportation tender. In this tender, the joint venture set up by 800 Super, a Singapore public waste collector, and GAEA Waste Management, a Cambodian waste management company, was awarded the waste collection and transportation contract for one of three zones in Phnom Penh City by the Phnom Penh Capital Administration. In supporting the Cambodian government to develop the tender process, InfraAsia had, together with Enterprise Singapore and the Singapore National Environment Agency, shared with the Cambodian authorities Singapore's solid waste management experience, and the best practices that Singapore waste management companies adopt to ensure sustainable waste management.

We also see similar needs in waste management in other regional countries including Indonesia and the Philippines.

**Are there specific ESG or sustainability-related principles or industry standards which apply to infrastructure projects in general? Do you consider the lack of commonality in principles across countries, regions and sectors to be a problem?**

There are various ESG standards and frameworks that many organisations and countries have come up with, such as the Equator Principles, the World Bank Environmental and Social Framework and IFC's Performance Standards which are part of IFC's Sustainability Framework. In financing, there are the APLMA Green Loan Principles and Sustainability Linked Loan Principles. However, there are no mandatory standards which apply across countries or regions as yet. Notwithstanding the lack of commonality, there is an upward trajectory for green and sustainable infrastructure projects. The fact that the industry has taken the initiative to work together and come up with industry standards shows a common commitment towards becoming more green, sustainable and ESG-compliant. This is evidenced by Singapore's Green Mark Certification Scheme, which started in 2005, and has since propelled the development and construction of more green buildings in the country.

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In the short term, having good implementors is important when there are diverse ESG standards. Good implementors are crucial to ensure that the right types of criteria are adhered to. Good implementors can help support the smooth and successful implementation of ESG standards and frameworks in infrastructure projects, which in turn would attract investors and financiers.

The role of implementors can be taken up collectively by assurance or certification firms, accounting firms and law firms. ESG issues which crop up during the implementation of standards and frameworks in infrastructure projects can be complex and broad and would therefore require input from professionals with a breadth of areas of expertise for an in-depth analysis, verification and certification of the implementation. It is therefore important that implementors have an in-depth understanding of the fundamental issues related to ESG. Rajah & Tann, with its specialised Sustainability Practice, is an example of a law firm which can take the role of an implementor.

**Do you think a more legislated environment, instead of one which is regulated by industry standards, will help push forward the development of green and sustainable infrastructure projects?**

ESG legislation and industry standards are not mutually exclusive. There is a need for both to evolve in parallel for the market to scale up the sustainability awareness and investments. Industry standards may first be put in place for specific projects within that industry, and perhaps even in a particular region. Legislation set out what is allowed or not allowed, and enabling legislation (e.g. putting a price on carbon) has been shown to create market clarity and provide a trajectory for more projects. Other than to ensure that green and sustainable activities, transactions, services or products are properly categorised and to create a level playing field for industry players, legislation and standards also help to create a clear and cohesive environment for increased ESG adoption and to discourage greenwashing or sustainability washing. This in turn gives investors and financiers more confidence in green and sustainable infrastructure projects.

**What do you see as the driving force or forces which could help propel more green and sustainable infrastructure projects?**

The driving forces would come from both the private and public sectors, improvements in technology, and last but not least, a collective positive movement of stakeholders, consultants and professional advisers, towards the direction of green and sustainable infrastructure projects.

Within the private sector, the increased interests in ESG and the sustainability initiatives of investors and financiers have certainly driven the demand for greener, environmentally safer and sustainable projects. As investors and financiers shift their investments and funding away from the “brownier” projects (for example, coal-fired power plants), there will be a natural increase in interests by project owners in developing green and sustainable projects to maintain continued investments and funding.

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Notably, public policies and initiatives, whether on a country level or a regional or international level, are important driving forces that push industries towards a certain direction. At a country level, governments can set out clear sustainable development goals for their respective countries. At a regional or international level, having a collective commitment, such as that set out in the Kyoto Protocol and Paris Agreement in relation to carbon emission, helps propel a focus area for the participating countries. Setting that trajectory helps to create the impetus, environment and gives the signal to the private sector that there are opportunities and scale in green and sustainable infrastructure investments and projects. Carbon pricing, an important policy tool adopted by many governments to reduce emissions to help them honour international climate commitments, can send a clear signal to the industries about the governments' focus on climate mitigation. This in turn has given rise to a slew of renewable energy projects, and the costs of renewable energy projects are decreasing as more market participants seek to be more efficient and productive.

Technology also has a significant part to play. What may have been considered costly or inaccessible in the past may become affordable and accessible with technological advancements. This is particularly evident in climate adaptation and mitigation projects, such as solar power projects. Compared to solar power projects in the early 2000s, many solar power projects today are getting very close to, if not already achieving, grid parity.

At the end of the day, the efforts from the private and public sectors, and the improvements in technology go towards creating a virtuous and an ethical cycle for green and sustainable initiatives in infrastructure investments and projects. We have seen the successful implementation of green and sustainable projects in Singapore and similar successes across the world. This shows that there is a global movement toward a green recovery from the pandemic. The conversations on climate change and the importance of sustainability are now louder and well expressed, and there is also a recognition of stewardship amongst organisations, corporates and governments. As long as stakeholders and implementors continue to devote resources and stay committed to green and sustainable initiatives, we can expect to see deepening ESG focus on infrastructure projects in the years to come.

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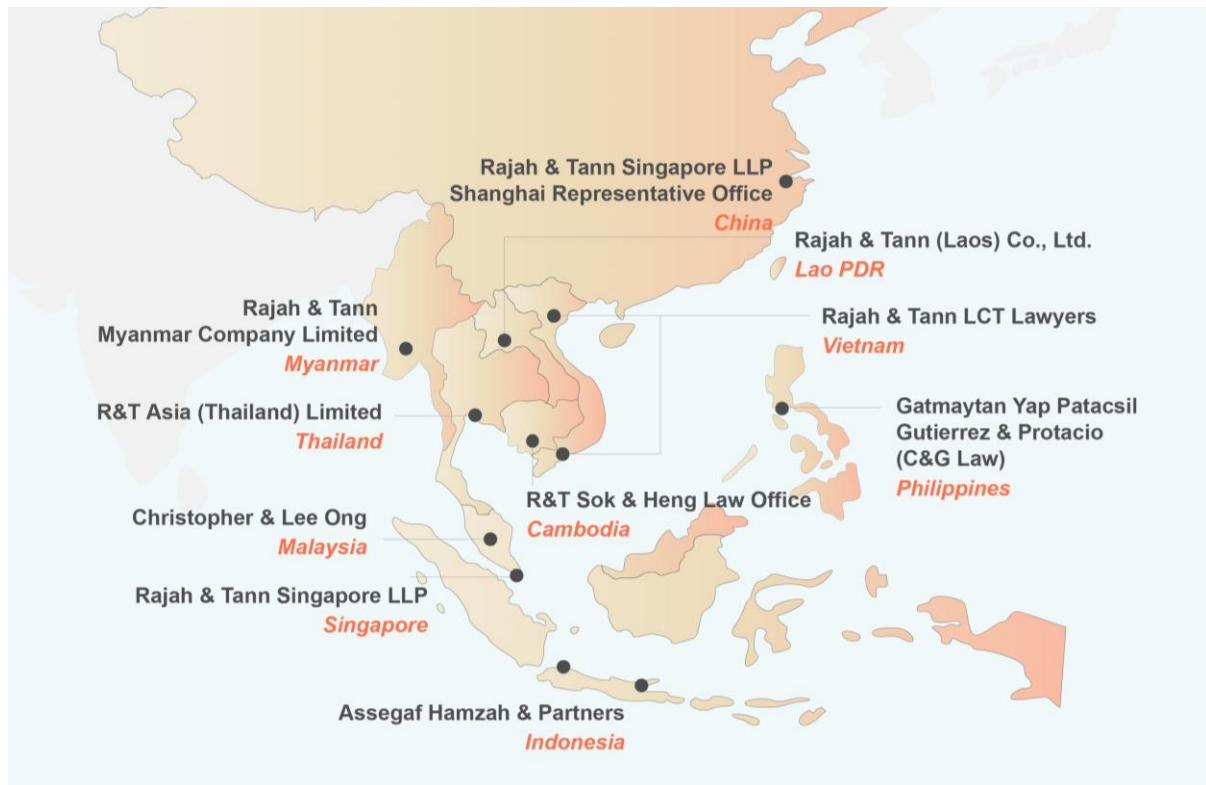
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