GIIA-KPMG webinar summary:

Sustainable Infrastructure Investment: New opportunities for a new reality.

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GIIA CEO Lawrence Slade and KPMG Global Head of Infrastructure and Global Head of KPMG Impact Richard Threlfall discuss the critical role that private and public infrastructure investment has to build a better future, the relationship between infrastructure and the UN's sustainable development goals, emerging infrastructure trends and the skills and talent gap in infrastructure.

ESG as a strategic theme has made extraordinary progress in the last few years. If we go back say 18 months ago, the sustainability conversation was led by sustainability directors in most infrastructure focussed businesses. Now, it is at the top of the boardroom agenda, with boards discussing what they need to do to reset their businesses, with ESG at the heart of their actions. A recent KPMG survey with global CEOs identified that the pandemic has accelerated the focus on ESG on the corporate agenda:

- 74% of CEOs said their response to the pandemic has caused their focus to shift to the social component of their ESG programme.
- 65% of CEOs think they will not be in business in the next 3 years if they don't know the impact of climate risks to their businesses.

Infrastructure investments and multi-generational accountability. The Infrastructure Forum released a paper on infrastructure governance last week, arguing that the standard of corporate governance that applies to infrastructure boards needs to be tailored, and perhaps even enhanced, where we're dealing with infrastructure assets. The foundation of this argument is because infrastructure assets are multi-generational, we're not just investing for today's customers or clients, we're investing for our children and grandchildren. The scale of the investments, of course, are, at times, the size of GDPs of some small countries, hence the need for a fine line between the accountability infrastructure investors should have with the public and stakeholders now and with future generations that will benefit from it.

The consciousness of infrastructure investors is changing. The nature of the incentive behind embracing sustainability and impact has changed. In recent years, we've seen a growing belief that building sustainable business models with a view on ESG is actually good business and will enable companies to last longer.

Investors are getting out of carbon intense assets, and others are already actively looking to invest in already decarbonised assets. Recently, a KPMG colleague conducted a poll during a meeting with a group of infrastructure investors, and one of the questions was around the extent to which ESG is prominent in investors thinking. 60% of those who responded said that they were already applying an ESG lens across their portfolios. We then asked to what extent investors are deliberately getting out of carbon intensive assets and more than 20% said that they are actively trying to invest in decarbonized assets, while 40% of investors mentioned they are actively looking into green assets. The quicker investors embrace this the quicker we can influence and support the rest of the supply chain.

It's not just that there's been a change in consciousness, it's also that the nature of the incentive behind embracing sustainability and impact has changed. History shows that many companies don't last as long as they used to in the past. If you want to be a truly sustainable business, and be in business for the long-term, then you should be looking into building sustainable portfolios. The Business Council for Sustainable Development published an interesting paper about three months ago, where they argued that stocks that have invested in sustainable assets held up more strongly than those that were into the carbon heavy assets.

European investors and regulations are leading the ESG way. If we look into regions that are further ahead in terms of sustainable infrastructure, there is no secret that Europe is ahead of other regions. The EU regulator has been pushing much harder than the rest of the world. We've seen that in initiatives such as EU taxonomy which is very important to allow a group of industries with effectively a pathway to report against. Also, the EU has most recently set up a EU750 billion COVID-19 recovery plan, and a third of that is specifically earmarked for green investments.
Looking beyond Europe, it's been interesting to see US presidential candidate Joe Biden's recent statements, as he is promising to commit $2 trillion to green infrastructure in particular, and green energy over the four-year term, if elected.

The world is embracing ESG but we need more. Governments all over the world have raised the idea that investment in infrastructure is a keystone of economic stimulus. What I would like to see more of however is clearer ESG policies in place. It's about what assets are going to be suitable for the 'new normal'. In last week's Economist, Swiss Re reported that they've seen a doubling of the number of climate related claims in the last decade. There's a growing importance on the resilience of the assets. I would like to see an urgency of getting a grip on climate change and actually doing the right things to achieve the 1.5°C target (above pre-industrial levels). I still don't think it's sunk in enough that the implications of not managing that is a severely worse expectation of quality of life - if not for ourselves, certainly for our children. And I can't see how any of us can do anything except throw everything we possibly can, to collectively try to deal with this.

Relationship between infrastructure, ESGs and the UN Sustainable Development Goals (SDGs). The UN SDGs are critical as they are the 'world roadmap'. They are effectively a totality of things that one would seek to do in order to create the society that we would want. It covers, for example, economic and social development because it recognises that the way out of poverty for c. 2 billion of the world's population, is to make sure that they are living in a society that is growing from an economic point of view and that they are socially supported. Infrastructure is absolutely at the front and centre when it comes to creating quality of life and a sense of purpose. To me, ESG is a subset of the UN SDGs, then we come back to the infrastructure specific angle on it: underneath those 17 UN Sustainable Development Goals, there are 169 sub goals as indicators and infrastructure has an influence on 72% of all those indicators. You know you don't have to look for a sense of purpose in this industry, it's there right in front of us.

Consistent ESG reporting. Reporting is a huge topic in ESG and how to increase ESG accountability is currently a major debate. It's analogous to the long running discussions that took place over nearly 40 years, to get the world into a position where it had one major accepted accounting standard in IFRS. When we look at ESG reporting, it is clear that we are just at the beginning of achieving a common standard.
And the last two weeks have seen two particularly important steps forward in that journey: it was only last Wednesday that the World Economic Forum published its paper: 'Measuring Stakeholder Capitalism - Towards common metrics and consistent reporting of sustainable value creation'. I would strongly encourage you to read the paper and recommendations. That initiative was achieved by a team of over 80 experts from KPMG, other big four accounting firms, the WEF and Bank of America and consulted over 130 of the World Economic Forum's major members (companies in all industries and regions) to agree a common view on the key metrics that could be used for a universal ESG reporting. The ambition for firms to increase accountability and transparency on their ESG actions. The WEF is recommending that all its member companies adopt within the next few years.

Another important piece of work being currently done is called the Statement of Intent to work together towards comprehensive common reporting, signed up to by a group of standard setters such as GRI and SASB. This work means that standard setters are going to pull up their efforts towards trying to create single global standards. That then gets us into the track of a world where those standards will have sort of regulatory force of law.
I think inevitably it is going to be very difficult because we're measuring very difficult things, described by some as 'non-material'.
All in all, things are moving at a remarkable pace and there seems to be an absolute determination across business globally, to see this through. Getting consistent measurement and reporting will be an absolute determinant to see this through.

Key sustainable infrastructure trends. There are two main trending areas: on one hand, there is the growing in demand for sustainable businesses, and on the other hand, there is technology and how it is poised to accelerate progress.
If you look across any sector of infrastructure you can see some quite significant technological change, which is driving a more sustainable outcome at the same time: renewables, smart grids, autonomous vehicles, decarbonisation of heat within the operation of buildings, etc. Looking ahead, I think we're going to see this innovation at accelerated pace. Economists previously believed that 50% of energy generated worldwide would be renewable by 2050, but we are now hoping to achieve progress a lot faster than that. Looking at the electrification of the vehicle fleet: for a long time, it's been assumed that a third of new cars will be electric by 2030. However, as cost of solar and wind has collapsed by 90% in 10 years, we are now getting very close today to reach the point at which electric vehicles are going to be cheaper than petrol and diesel vehicles.

Prioritising investments and incentivising progress. I celebrate when I see Governments having clear policies incentivising and prioritising sustainable businesses. Governments need to embrace the role of private sector to achieve sustainable futures. I would like to see Governments creating better conditions to allow private sector to work on development and innovation for the benefit of nations. One of the best examples of a Government incentivising ESG progress was the way in which the UK Government incentivised offshore wind. If there's one lesson that's got to be carried around the world, it's that example of how you take an industry that, six years ago, needed a green investment bank to be set up for it, and no sane investor would have put their money into this market.

Talent and skills in infrastructure – emerging requirements. The biggest challenge for an investment or consulting firm is to recognise the potential for data and data analytics and data visualisation, to allow the right decisions to be taken. Data analytics and data visualisation is an area we see as a gap that concerns the whole industry.
However, the skills gap exists more on the supply chain than on investment and professional advisory firms. I see an increasing demand for project managers that can deal with complex and global projects. There is also a huge technology gap with skills that are few and far from those necessary to embrace changes needed. Infrastructure owners should take more responsibility for the progress of their supply chain. It is not good enough to negotiate bargains – I believe that the entire industry would benefit from a partnership approach. It is in the long-term interest of investors to force these conversations with their boards and drive long-term asset efficiency. I see considerable short-termism on this, with some firms favouring to take advantage, rather than long-term partnership with suppliers. In the long run, the losers are the asset owners and the investors themselves.

Climate proofing existing the vulnerable infrastructure. There's been very poor and slow progress on proofing existing infrastructure against vulnerable physical infrastructure. A number of studies have been done recently highlighting the particular vulnerability to water shortage of many assets to temperature and heat. We saw the impact this year on the wildfires in California and Australia. This has significant implications for electricity, generating and distributing assets.
I'm involved as KPMG representative on the Coalition for Climate Resilient Investment that was set up by the World Economic Forum, with Willis Towers Watson last year. The group is aiming to come up with a whole set of initiatives to correct what I think is widely seen as the failure to adequately price resilience in infrastructure assets. There's no question that there aren't really significant risks of stranded assets across the infrastructure space. We're used to talking about that in the context of assets, which are, in the most sort of carbon intensive and energy generating sector. But there's also the risk of stranded assets for assets that effectively become unusable because of an actual climate risk that they face.

Sense of purpose. If you cannot find a sense of purpose as you work in infrastructure, you should not work in this industry. There is a clear connection between what we do and how this impacts economies and societies. We need to see a little bit more leadership from governments and from our industry – so we achieve a better future for the generation to come.

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