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Project Proponents: Five Tips to Use ESG Criteria in Drawing More Infrastructure Investors

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As investors become more interested in incorporating sustainability into investment portfolios, many project proponents find that incorporating ESG into infrastructure planning provides a "leg up" in securing investors and financing. An ESG disclosure, or an "environment," "social," and "governance" framework designed to disclose risk, makes it easier for investors to match projects with their own sustainability goals.

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Financial news reports abound with stories that ESG issues are increasingly important to companies and their investors. For example, there has been an uptick in due diligence requests for ESG data in the last few years. Investors are also using ESG to rule out certain investments. Therefore, infrastructure project proponents who evaluate and disclose ESG-related risks and opportunities early in a project's planning phase are at an advantage in terms of boosting investor confidence and making their project more attractive to the investing community by highlighting opportunities and value. By deploying the ESG acronym and evaluating an infrastructure project through an ESG filter, a proponent can better identify and mitigate risks early in the life of a project.

Project developers already think about ESG when putting together projects because infrastructure projects are subject to many types of risks, including risks resulting from long planning and implementation timeframes, which can lead to risks raising necessary capital, and risks related to public acceptance and engagement.

Here are five tips to incorporate ESG into project risk management:

1. **Due Diligence**: Use the best practice guidelines of the proponent company and compare them to the more standardized ESG lists. This can increase a proponent's understanding of its own unique ESG issues. Due diligence can then be structured and presented to investors to promote the sustainability aspects of the project. Take for example a new wind energy project that implicates many ESG concerns. A wind project may take an extremely long time to develop and permit. First, location studies need to demonstrate the wind potential and ecosystem studies need to determine the impact on natural resources. Land must be leased or purchased to house the turbines and the community must be engaged to allow siting of the project. All of this occurs over several years prior to obtaining siting permits, so early investment and risk to the project proponent and investors can be significant. Also, wind projects are increasingly becoming subject to NIMBY-ism, and what may seem desirable to a community in the early planning phase may change over time.
2. **Disclosure**: Use an ESG framework to outline the sustainability risks, the means to address those risks, and the timeline for completing the project. This process is not significantly different from the normal project planning process, but explaining ESG issues upfront in project planning documents can help sell the project to investors in spite of potential for delays or cost overruns. While there are many recommended ESG disclosure frameworks, no uniform or required reporting standards exist for ESG data in the infrastructure space, so project proponents consequently can target certain investors by integrating the investors' preferred ESG goals into the plans from the start.
3. **Risk Management over Time**: Integrate ESG considerations into a project management plan to help

provide flexibility and nuance where it is needed most, showing how hurdles can be overcome and goals can be met. Infrastructure projects implicate concerns from across the ESG spectrum, ranging from land use, waste management, and emissions to community impact, employment, and supply chain issues. Infrastructure projects also have long planning and implementation horizons. A large infrastructure project might take more than a decade to complete, during which time many factors affecting the project could change. Laws and regulations, economic conditions, and other risks may affect infrastructure more directly than other types of investments. Investors need to trust that the project proponent will complete the project, despite these factors. Additionally, ESG helps account for less measureable risks. Environmental factors such as waste reduction, water conservation, and limitations on air emissions can be identified and managed relatively easily. However, certain social risks – such as land acquisition and community acceptance – are much less predictable and harder to manage and measure.

4. **Managing Multiple Stakeholders**: Use ESG to account for multiple stakeholders. Infrastructure projects in particular require engagement with many different stakeholders – the owners, planners, local community, financiers, and beneficiaries. ESG management plans and policies that are tailored to individual projects and keyed to specific metrics of interest to proponents and investors help demonstrate the value of and the potential payback of an investment to a wider array of stakeholders.
5. **Transparency and Cost Savings:** Promote transparency and allow investors to align their capital with their sustainability and financial goals by using an ESG process. Outlining the ESG criteria to be promoted by the project can improve the timelines for resource reviews and result in process improvements that can either save investor time and money or, conversely, prove that a project is too costly.

Not only does ESG match investors with projects that align with their goals, but proponents *and* investors can take advantage of the many benefits ESG offers, including the ability to identify, measure, and manage the many potential risks to infrastructure projects over time.

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