GUGGENHEIM

6 Must-Haves for Sustainable Development in the Arctic and Around the World

New data on the health of the Arctic emphasize the urgent need for responsible development in this fast-changing region and beyond.

The 5.6 million square miles of frigid ocean and frozen land that comprise the Arctic represent both unprecedented climate change impact and massive opportunity for global trade. According to the National Oceanic and Atmospheric Administration's recent Arctic Report Card, rapid warming has caused a 95 percent decline in the region's oldest and thickest ice. And as the climate transforms the Arctic, so will the Arctic transform the world.

An open channel through the Arctic could cut shipping time from Asia to New York by 25 to 35 percent, depending on the route. But this economic opportunity carries significant risk. As much as $1 trillion in investment will be needed to develop the Arctic's infrastructure—ports, highways, icebreakers, communications systems—and it's critical that those investments support safe, sustainable development that protects both the environment and the region's indigenous peoples while allowing the Far North to realize its economic potential.

"The good news is that we no longer need to sacrifice economic growth for environmental protection or give up compelling returns in order to make responsible investments," says Scott Minerd, chairman of Guggenheim Investments and its global chief investment officer.

But if sustainability is ignored, the region could easily become yet another instance—like deforestation in South America or urban sprawl in countless cities across the world—in which failure to invest responsibly has had far-reaching ramifications.

Such potential and pitfalls loom not just in the Arctic: Globally, there are significant infrastructure investment gaps. In its 2017 "Global Infrastructure Outlook," the G20's Global Infrastructure Hub reported that an estimated $97 trillion must be spent on infrastructure by 2040, but the current pace suggests that nearly 20 percent of that is at risk of being unfunded. There is, however, an appetite to fill this void. "Institutional investors with long investment horizons are becoming more interested in sustainable development opportunities," Minerd says, "but they must be engineered so that they adhere to principles of sustainability and deliver compelling investment returns."

In the Arctic, a group of regional and financial stakeholders organized by the World Economic Forum took an important first step in this direction when it adopted the Arctic Investment Protocol, a set of guiding principles for responsible economic development. Guggenheim Investments participated in developing the protocol and was the first financial services firm to officially endorse it.

The firm believes that in order for development to occur in a responsible, sustainable manner—in the Arctic and elsewhere—the following six factors must be in place:

1. Environmental Soundness

Respect for a region's natural capital is an essential starting place. Poorly managed projects can be environmentally and financially disastrous for local communities. What's more, environmentally sensitive approaches may offer long-term cost savings: Consider the decades, and billions of dollars, it can take to remediate environmental disasters such as oil spills or chemicals leaching into the local water supply. These costs—which also affect investment returns—can likely be avoided by managing projects to the highest environmental standards from the outset.

2. Reliance on Science and Traditional Ecological Knowledge

Sustainable development must incorporate rigorous scientific research about the effects of commercial activity. This approach includes both studying the existing scientific knowledge base and conducting new research to understand the impact of investment projects. Developers and investors must also tap local and traditional ecological knowledge—the deeply held expertise of indigenous peoples and local residents.

3. Inclusion of Local Communities

The people who live in proximity to an infrastructure project or other development project have an undeniable stake in any development that occurs, and they must be part of the conversation. For example, the Arctic Investment Protocol calls for building the capacity to support local communities' and indigenous peoples' active participation in discussions and processes related to the land and environmental resources.

Meanwhile, Guggenheim's Sustainability Quotient developed for institutional investors notes that it's no longer enough for a project to simply do no harm. Instead, developments in the Arctic—and elsewhere in the world—must provide transformative social benefits for and with local people.

4. Effective Partnerships

While the need for sustainable development is great, it simply will not be possible for one government or organization to solve the infrastructure and development challenges of our time. Meeting these challenges requires collaboration. For instance, in the Arctic it's critical for organizations to work together, as they did during the creation of the Arctic Investment Protocol, to protect the region's resources and encourage sustainable economic development. On a broader scale, Guggenheim and the World Wildlife Fund, which have a long-running partnership, commissioned the Stanford Global Projects Center to examine the metrics that various organizations use to assess the environmental impact of infrastructure development projects.

5. Common Standards

As the Stanford study noted, standards and tools for gauging environmental, social and governance (ESG) criteria are proliferating across the investment world, particularly in the area of infrastructure. But without agreed-upon protocols, these construction projects remain highly complex and idiosyncratic. To help promote the practice of measurable sustainable development and attract institutional investors, the industry must settle on consistent evaluation practices and systems.

6. A New Institutional Asset Class

As the Stanford study noted, standards and tools for gauging environmental, social and governance (ESG) criteria are proliferating across the investment world, particularly in the area of infrastructure. But without agreed-upon protocols, these construction projects remain highly complex and idiosyncratic. To help promote the practice of measurable sustainable development and attract institutional investors, the industry must settle on consistent evaluation practices and systems.