

## **International infrastructure agenda. Is Russia in trend?**

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***Annotation.** Key trends in the global infrastructure practices in the context of the sustainable development paradigm are analyzed. Special attention is paid to the conceptual and doctrinal design of new approaches to infrastructure development - the concepts of “sustainable infrastructure” and “quality infrastructure investments”, as well as new approaches to the development of the infrastructure complex announced by leading international organizations.*

*Through the prism of the main trends that have formed the international infrastructure agenda, the efforts made by the Russian Federation on the infrastructure track are considered. The main barriers hindering the full-fledged development of the infrastructure complex are identified, and recommendations on ways to improve the effectiveness of infrastructure development in Russia to achieve the sustainable development goals are made.*

***Keywords:** infrastructure, sustainable development, quality infrastructure investments, ESG-approach, green financing*

### **Introduction**

In the last decade, infrastructure issues have come to the forefront of the international socio-economic agenda. The importance of infrastructure and its diverse impact on economic activity and people's lives are reflected in the “The 2030 Agenda for Sustainable Development” adopted at the UN Summit in 2015 and UN Sustainable Development Goals aimed at solving global problems facing humanity. One of the goals explicitly provides for "creating a sustainable infrastructure", in addition, many of the goals of the agenda are directly related to infrastructure development and investment (1).

For Russia, a country with a huge territory located in the center of the Eurasian continent, the importance of the development of the infrastructure complex goes beyond the purely economic framework. The political leadership of the country noted that “The infrastructure for our country is a matter of its existence. ... the scale of the country is such that in the XXI century the lack of investment in infrastructure means the degradation of the entire space of the state” (2).

Despite the recent positive developments, the state of the domestic infrastructure continues to be much to be desired. According to the World Economic Forum, Russia has significantly moved up in terms of infrastructure quality in recent years and took the 50th place in the world ranking, although five years ago it was only 100th. Nevertheless, for many important components - quality of road infrastructure, density of railway infrastructure, efficiency of air transport infrastructure, quality of electricity supplies, etc. it is much inferior to the leading countries of the world (3). Assessments of the infrastructure by domestic researchers are even more stringent: the unsatisfactory state of infrastructure in Russia covers all industries and all regions. The provision of infrastructure in Russia is insufficient and is at the level of developing countries (4).

### **Conceptual and doctrinal design of new approaches to the development of infrastructure in the world**

In the last decade, there has been a gradual change of worldview in the world – the idea of continuous improvement of well-being and increasing consumption of natural resources has been replaced by a more balanced view, according to which the needs of humanity should be met “without harm to the ecosystem and future generations”. A number of new concepts and approaches to infrastructure development have become widespread in economic policy, including the concepts of “sustainable infrastructure”, “quality infrastructure investments”, “responsible investment in infrastructure”, etc.

The concept of “sustainable infrastructure” is closely related to the problems of sustainable development. Infrastructure plays a key role in achieving sustainable development and has a direct or indirect impact on the achievement of all 17 Sustainable Development Goals (SDGs) included in the 2030 Agenda for Sustainable Development and more than 90% of the 169 individual goals (5). Sustainable infrastructure refers to “infrastructure projects that are planned, designed, built, operated and decommissioned in such a way as to ensure economic and financial, social, environmental (including climate change resilience) and institutional sustainability throughout the project life cycle” (6).

G7 and G20 play an active role in promoting the concept of sustainable infrastructure. In 2019, at the G20 summit in Osaka, the "Principles of Quality Infrastructure Investment" (QII) were agreed and adopted, taking into account the environmental, social and economic aspects of infrastructure to achieve the quality and sustainability of facilities (7). The transition from traditional infrastructure to sustainable infrastructure based on quality investments is becoming one of the most relevant topics in the international community.

The concept of responsible sustainable investment, or investment based on ESG-factors (ESG - Environmental, Social and Governance), is based on the same principle as the concept of sustainable development, but with an emphasis on the activities of companies and corporations.

Investing in infrastructure taking into account ESG factors allows to manage environmental and social risks, improve the quality of infrastructure investments, enhance management efficiency and ensure long-term profit for investors.

At the beginning of 2021, the World Bank announced a new approach to infrastructure investment, which was called Green, Sustainable and Inclusive Development (GRID). The priority of environmentally “clean” products, “clean” jobs, low-carbon technologies and intelligent risk management systems, overcoming inequality in opportunities and results through inclusiveness at all levels, is becoming increasingly important for infrastructure projects (8).

New conceptual approaches to the development and modernization of infrastructure have been implemented in a number of areas of practical activities, which, taking into account its global scale, can be considered key trends in global infrastructure practices. Let's look at some of the most significant ones.

### **Long-term planning of infrastructure development**

In recent years, the number of countries applying long-term infrastructure development planning has been growing markedly. This phenomenon reflects the growing desire of governments, taking into account bitter lessons of the global economic and financial crises, to form a clearer vision of the vector of infrastructure development, calculate the quantitative and qualitative parameters of this development, and create guidelines for funding sources. Examples of systematic long-term planning of infrastructure development are given by the United Kingdom, Australia, Canada, etc.

Strategic goal-setting and long-term planning of infrastructure development is gradually becoming one of the important tools of the authorities in Russia. In 2019 The Government of the Russian Federation has approved the “Strategy of Spatial development of the Russian Federation up to 2025”, defining the priorities, goals and objectives of regional development of Russia (9). Very important is the “Comprehensive Plan of modernization and expansion of the core infrastructure until 2024” adopted by the Government of the Russian Federation in 2018. The plan provides for implementation of projects for construction of high-speed highways, reconstruction of more than 60 airports, development of transport hubs, ports of the Azov-Black Sea basin, reconstruction of major highways, transport bypasses of a large number of large cities, creation of hub transport and logistics centers, etc. (10).

### **Improving the quality of infrastructure projects**

In recent years, the global infrastructure policy has taken a line not just to reduce infrastructure gaps, but also to radically improve the quality of infrastructure. The Principles of Quality Infrastructure Investment (QII) adopted by the G20 cover various aspects of the preparation and implementation of infrastructure projects — economic, managerial, social and environmental.

Projects that meet these requirements are most resistant to shocks, including those that the world has faced for the last two years.

At the corporate level, the concept of quality sustainable investments is expressed in the “ESG-approach” which indicates a serious transformation of the paradigm of modern business. According to the Global Alliance for Sustainable Investment (GSIA), the share of investments that take into account ESG factors, or sustainable investments, in total assets under management in various regions is steadily growing and in 2020 was 41.6% in Europe, 33.2% in the United States, 61.8% in Canada, 37.9% in Australia and 24.3% in Japan (11).

In Russia, the "ESG-transformation" is still at the very beginning. As of March 2021, there were only 81 companies and 19 banks in Russia that had implemented the principles of sustainable development (12). The position of leading corporations and banks, unfortunately, does not yet “make the weather” on a national scale. A recent study on the opinion of infrastructure market participants towards sustainable infrastructure in Russia shows that the ideas of sustainable development and quality infrastructure investments have yet to take hold of the minds of Russian business. Almost all companies (92%) agree that most of the infrastructure projects implemented in Russia cannot be classified as sustainable investment. According to more than half of the respondents, now the Russian infrastructure market is dominated by the focus on economic efficiency of projects (54%), in second place is the quality of life of people and the convenience of using an infrastructure facility (32%). Environmental aspects and environmental protection are considered a priority by only 6% of respondents (13).

#### **Development of tools and mechanisms for assessing sustainability of infrastructure projects**

To facilitate the implementation of the QII principles in practice, many countries have created and successfully operate systems for evaluating and certifying the quality of infrastructure projects, which provide investors and financing organizations with comprehensive information for making investment decisions on the project. Today, more than 50 tools have been developed in the world aimed at implementing sustainable development approaches and helping investors evaluate financial, economic, environmental, social, managerial and other aspects of infrastructure projects. Among these tools, CEEQUAL, Envision, Infrastructure Sustainability and Greenroads have become the most widespread in the world practices.

Russia has also started moving along this path. In 2021 the State Development Corporation VEB.RF and the National PPP Center developed IRIIS (Impact and Responsible Investing for Infrastructure Sustainability) - the national system for assessing quality and sustainability of infrastructure projects. The system is designed to help investors, national and international banks correctly calculate the risks of entering into infrastructure projects in Russia. The specificity of this tool is an integrated approach that includes an assessment of all the risks of an infrastructure

project, including economic, social and environmental aspects (14). The IRIIS system is currently running in test mode. Based on the results of testing, edits and clarifications will be made to the methodology in order to prepare for scaling the system to the whole country.

### **Development of digital and platform solutions in the field of infrastructure investments**

One of the notable trends in infrastructure market is the active development of digital and platform solutions to support the implementation of infrastructure projects at both the international and national levels.

The largest global digital platforms - Global Infrastructure Hub (GIH), World Bank's PPP Project Database, IJ Global, InfraPPPnet, etc. - provide data on global infrastructure and investment needs, country risk profiles and guidelines that help investors improve the quality of preparation of investment projects, their launch and implementation.

National products, as a rule, offer data adapted to the rules and practices of a particular country. Their main task is to promote the growth of the market and attract investment. At least a third of the G20 countries have and actively use databases of infrastructure projects, and some have already switched to the introduction of full-featured infrastructure platforms, which also include state support measures, expert platforms, "Facebook" of market participants, interactive analytical and other tools.

Since 2019, the ROSINFRA Infrastructure Project Support Platform has been operating in Russia, which is a unique digital solution for the preparation and implementation of infrastructure projects (15). The core of ROSINFRA is the database of infrastructure projects and organizations involved in their implementation, which currently contains information about more than 3,900 ongoing projects and 1,400 project initiatives. Since 2020 The "Digital Project Office" service operates on the ROSINFRA platform, which allows regional and municipal authorities to conduct joint online work on launching investment projects, including involvement of external experts, investors and financing organizations. More than 5,700 market participants are already working with the platform as registered users. More than 70 industry experts provide support for ongoing projects and project initiatives.

### **Introduction of new infrastructure financing mechanisms**

The relevance of sustainable development and interest in sustainable investments have led to the emergence of new financial instruments - transitional, green, social, blue bonds, which allow investors to direct capital into projects to solve environmental and social problems.

Green bonds are one of the tools for attracting investment in projects of clean production, renewable energy and introduction of circular economy solutions. The largest issuers today are the USA, China and the EU countries, and among interstate associations - IBRD, WB, IFC, EBRD, African Development Bank and Asian Development Bank There are also other types of

“green” instruments - for example, climate bonds which are designed to achieve a certain environmental or energy result (16). One of the most relevant topics is the reduction of greenhouse gas emissions and the achievement of the goals of the Paris Agreement. In this regard, transitional bonds have emerged, which allow to step up efforts to transition to a low-carbon economy. Recently, blue bonds have been gaining popularity in the financial market, which are aimed at implementing projects to protect oceans, coastal areas and support the blue economy.

Green finance appeared in Russia in 2018, when the country's first issue of green bonds of the company “Resource Saving of Khanty-Mansi Autonomous Okrug” was placed on the Moscow Stock Exchange. Over the past three years, the system of green finance in Russia has made some progress: as of the end of 2020, the Register of Green and Social Bonds of Russian Issuers (INFRAGREEN) includes 20 issues of green and social bonds of seven Russian issuers worth more than 216 billion rubles (17).

Nevertheless, a stable framework of the domestic system of green finance has not yet been formed in Russia. To solve this problem, the order of the Prime Minister on the creation of system of financing green projects and initiatives in the field of sustainable development was signed in July 2021. The financing will be carried out by “green” financial instruments. With their help, businesses will be able to attract extra-budgetary funds on favorable terms. The document also defines the directions of green financing - in particular, energy, construction, industry, waste management, transport, agriculture, water supply and sanitation (18).

### **Conclusion**

The analysis of the main trends of infrastructure development in the world, as well as its projection on Russian realities, show that Russia is undergoing a serious reconsideration of infrastructure issues, its content and direction. This is reflected not only in general intensification of efforts on infrastructure track, but also in the development of new approaches to infrastructure development that increasingly correspond to key international trends.

Russia's turn to infrastructure issues is becoming more systematic, planning is being strengthened in this work, the regulatory and legal framework is being improved, the organizational and institutional framework is being modernized, Russia is opening up new directions for moving towards sustainable development.

At the same time, serious barriers still remain on this path, the key of which are:

- problems with strategic planning, the ambiguity of the authorities' plans for projects with the expected financial participation of private sector;
- regulatory instability, introduction of new regulatory barriers;

- lack of the flow of “long money” into the infrastructure, insufficient use of the potential of pension and insurance funds;
- the need to improve the speed and quality of project preparation;
- inertia of officials in the regions;
- low activity of Russia's participation in multilateral infrastructure projects and the use of the potential of international financial institutions.

The removal of these barriers could give a significant impetus to infrastructure development in the country, improve its quality and efficiency, which would fully correspond to the objectives of achieving the Sustainable Development Goals.

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