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Environmental Investments and State Funding as Mechanisms of Corruption: The Case of Russia



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BASEES (April 2024)

Research context

- Russia has always paid little attention to environmental problems
- USSR has made some 'recycling' programs in the 70s
- However, the economy has been over reliant on polluting industries such **oil, gas, heavy metallurgy, mining, nuclear industry and recycling**, etc. (Peterson, 2019)
- In 1956, the XX Congress of the Communist Party of the Soviet Union (CPSU) passed a resolution to develop productive forces and increase the population's well-being: resolving environmental issues and the violation of the ecological balance in the country's industrially developed and developing regions by modernising production (Pryde & Mcauley, 1991).
- The collapse of the USSR exacerbated transboundary and interregional environmental problems. During 1991–1995, there was a decline in industrial production.
- In 1996, under the influence of the main declarations of the 1992 United Nations Conference on Environment and Development Forum "Earth Summit", the "Concept of the Russian Federation's transition to sustainable development" was developed and approved as a national environmental policy (Crotty, 2003).



- In 1996, President Yeltsin downgraded the Ministry of the Environment to the State Committee for Environmental Protection (*Госкомэкология*). In 2000, it was liquidated by President Putin.
- One of the arguments was that mitigating environmental barriers to economic development would lead to faster economic growth and increased investment in the real sector of the economy.
- This was an urgent move after the financial crisis in 1998 (Crotty, 2003).
- Later, the Environmental Doctrine of the Russian Federation (2002) and the Fundamentals of State Policy in the Field of Environmental Development of the Russian Federation (2012) were implemented.

- Russia participated in the implementation of the United Nations Framework Convention on Climate Change (hereinafter - the Convention), the Kyoto Protocol of December 11, 1997, and the Paris Agreement of December 12, 2015.
- Large enterprises in Russia employ a few environmental management specialists. Small and most medium-sized enterprises (SMEs) do not have such specialists (Middleton, 2015).
- In 2019, the green theme was actively discussed at government and expert meetings, and new issuers of green bonds appeared.
- For the first time in Russia, an expert platform on sustainable development and green finance was created: ***the Centre of Competencies and Green Expertise***.
- After 2022, many environmental projects are still operating but with some specifics...

Theorizing corruption

- Corruption refers to the abuse of entrusted power for private gain.
- It can manifest in various forms, including **bribery**, **embezzlement**, **nepotism**, and **fraud**.
- Corruption undermines legal and ethical standards, erodes public trust in institutions, distorts markets, and hampers economic development and democracy. (Wu et al., 2023)
- It affects all levels of society, from local to global, and can have profound social, economic, and political consequences.
- ❖ **Institution-based view** suggests that the strength, efficiency, and integrity of institutions play a crucial role in either curbing or facilitating corruption.
- ❖ It underscores the importance of legal frameworks, regulatory bodies, and governance mechanisms in shaping the incentives for corrupt behavior.
- ❖ By focusing on reforming and strengthening institutions, strategies can be developed to reduce opportunities for corruption, enhance accountability, and promote transparency, thereby creating an environment where ethical conduct is encouraged, and corruption is less likely to thrive. (Jepperson & Meyer, 2021)

Formal institutions

- Codified laws and regulations designed to prevent and punish corruption or keep corruption
- Strengthening these through robust legal systems and transparent regulatory mechanisms can deter corrupt activities.
- However, there are policies that help to evade or corruption, or make it legal (i.e., donations)

(Jepperson & Meyer, 2021)

Informal institutions

- Societal norms, cultures, and unwritten rules that influence corruption.
- Tackling corruption effectively requires improving informal aspects, such as changing cultural attitudes towards corruption, to foster an environment where integrity and ethical behaviour are valued and reinforced
- Reinforcing corruption due to lack of trust in the governing bodies
- Insufficient formal institutions

Institutional asymmetry - disparities between and within formal and informal institutions: effectiveness, enforcement, or ethical standards across different institutional frameworks. (Ostapenko & Williams, 2016)

Harmonizing laws, regulations, and societal norms can fail due to:

- 1) *Government officials resist to change*
- 2) *Population resist to change*

Another focus...

Market liberalists suggest that markets are capable of regulating themselves, through innovation, customers' expectations, competition and innovation. Further regulations can be achieved through market-based policies such as carbon credits, green bonds and other financial mechanisms

Green socialists support institution-based view and advocate for state intervention and non-market policies such as taxes, green infrastructural projects, subsidies, and total bans.

Schoenmaker & Schramade (2018)

The focus of this research is public procurement and state investments in green projects as mechanisms of corruption.



Methodology

Corruption in public procurement

- 50 semi-structured interviews
- *Sample:* 18 construction companies, 5 banks, 4 state authorities in Moscow, Leningrad, Sverdlovsk, regions, Tatarstan Republic.
- *Time period:* 2019, 2021, 2023

Environmental policies and state funding

- 12 interviews with state authorities
- *Location:* Moscow, Leningrad, Sverdlovsk, Chelabinsk, Tyumen, Tatarstan, Lipetsk, Nizhny Novgorod, Kemerovo regions, Tatarstan Republic, Krasnoyarsk krai, Bashkortostan Republic, and Perm krai.
- Rosstat («*Poccmam*») database and *Consultant Plus*
- *Time period:* 2020, 2022

Current activities

- Staying in touch with participants for further data collection
- It's getting challenging and almost impossible to communicate with state authorities

Findings

- ❖ Most of environmental projects have been suspended, as has Russia's participation in important agreements and councils on environmental issues after 2022.
- ❖ Western countries have stopped cooperation with Russia in the field of environmental protection: project financing has been suspended, Russia's presence in advisory bodies is in question...
- ❖ ... As well as Russia's activities in such associations as the **Arctic Council**, the **Council of Europe**, the **Baltic Sea Council**, the **Barents/Euro-Arctic region**, where countries cooperated on a wide range of environmental issues: joint environmental expeditions, water resource monitoring, implementation of environmental technologies, green energy, environmentally friendly waste management and many other important areas.
- ❖ Russia remains the fourth largest CO2 emitter in 2022. However, China (1), USA (2), India (3).
- ❖ Western universities no longer share environmental assessments with Russian ones.
- ❖ Local governments focus only on the level of local economic development and selectively ignore indicators of social well-being such as environmental quality.



Environmental protection costs in Russia 2003-2019 (in actual prices, million rubles)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Volume of environmental costs	173,807	197,047	233,930	259,228	295,200	368,627	343,368	372,382	412,014	445,817	479,169	559,703	582,128	590,865	658,035	720,905	871,993
Including the areas of environmental activities:																	
Air protection and climate change prevention	37,151	45,777	53,765	60,722	64,065	76,773	60,101	80,071	88,362	89,236	93,251	112,412	102,765	102,307	122,830	130,918	139,191
Collection and treatment of wastewater	76,933	87,306	105,369	111,705	126,816	159,299	162,175	169,152	197,073	186,445	204,354	223,439	234,112	235,553	239,092	246,917	257,214
Waste management	14,975	19,799	22,739	26,076	28,247	40,326	38,806	41,510	44,172	41,022	51,611	60,885	68,482	66,652	79,517	91,735	112,216
Protection and rehabilitation of land, surface and groundwaters	9,954	9,095	13,444	16,770	21,607	27,321	18,696	17,219	23,435	36,498	33,486	36,105	37,952	44,535	33,649	30,746	35,570
Conservation of biodiversity and protection of natural areas	12,016	11,899	12,542	16,052	21,681	26,597	21,463	22,975	13,381	28,091	28,089	34,489	44,593	35,926	42,487	46,152	49,699
Others	22,788	23,171	26,071	27,903	32,784	38,311	42,127	41,455	45,591	64,525	68,378	92,374	94,224	105,891	140,460	174,437	278,103
The volume of environmental costs as a percentage of GDP	1.3	1.2	1.1	1.0	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8

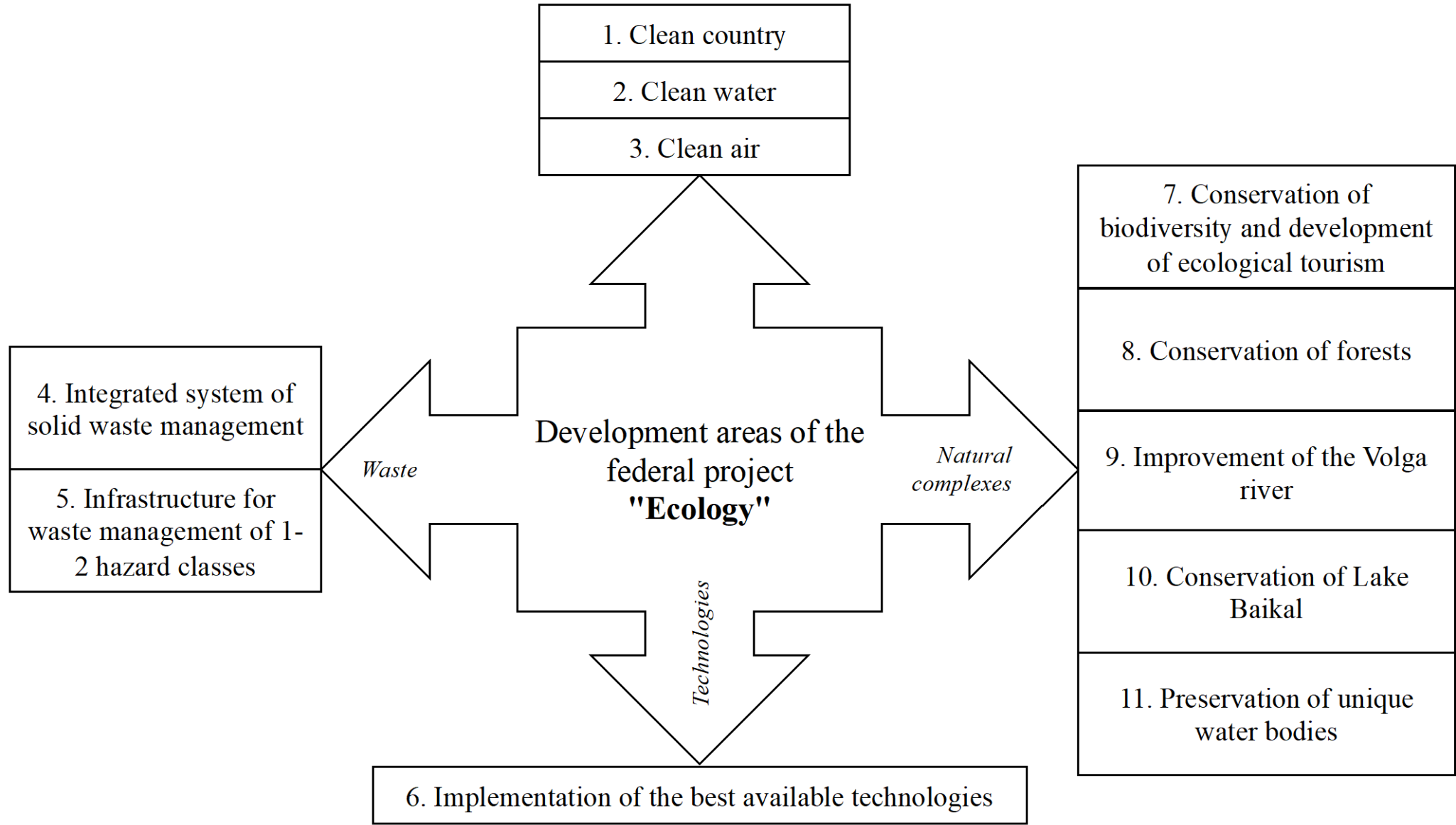
- ❖ The amount of government spending on environmental protection is insufficient.
- ❖ From 2003 to 2019, the share of environmental expenditures as a percentage of GDP **decreased from 1.3% to 0.8%**
- ❖ According to the interview findings, it is estimated that environmental spending should be at least 2003 levels (i.e., 1.3% of GDP) in order to steer Russia towards sustainable development.

Transition to green technologies

- ❖ It is estimated that the implementation of the best available technologies requires the funding of 4–8 trillion rubles (up to \$86 billion)
 - ❖ The estimated potential of Russia in terms of investments, taking into account climatic factors in selected industries, is approximately US\$313 billion for the period from 2016 to 2030.
 - ❖ Additional funding from the public and private sectors will be required to support the transition to green infrastructure.
-
- Currently, the transition to a green economy in Russia is regulated by the national project “**Ecology**”, which was introduced in 2019 and running until 2024.
 - It proposes to ensure the effective management of production and consumption waste, including:
 - the elimination of all unauthorised landfills identified in 2018 within the city boundaries
 - a dramatic reduction in the level of air pollution in large industrial centres
 - a reduction of at least 20% of the total volume of emissions of pollutants into the air in the most polluted cities,
 - improve the quality of drinking water
 - ecologically improve the water bodies
 - conserve biological diversity.



Structure of the national project "Ecology"



Infrastructural projects (2023)

Federal project “Clean Country”:

- 77 of the most dangerous objects with accumulated environmental damage were eliminated;
- 19 Municipal solid waste landfills were reclaimed in the Moscow region;
- 66 landfills have been eliminated (however, new ones are appearing in both cases)

Federal project “Integrated municipal solid waste management system”:

- 238 infrastructure facilities in the field of MSW management were put into operation with a total capacity of 19.493 million tons/year for processing, 5.743 million tons/year for recycling and 4.152 million tons/year for disposal (disposal).

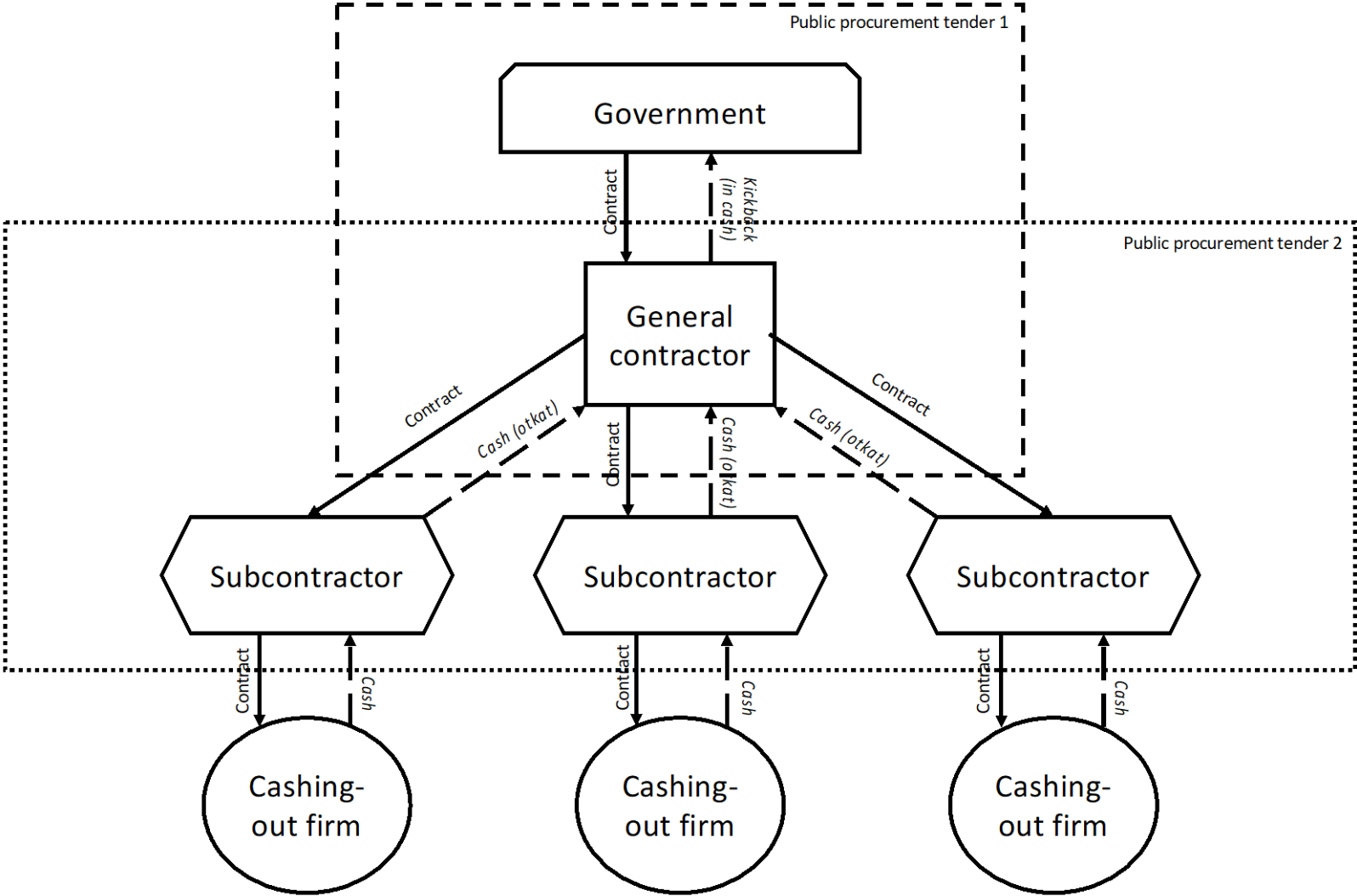
Federal project “Infrastructure for waste management of I-II hazard classes”:

- 4 production and technical complexes for processing, recycling and neutralization of waste of hazard classes I and II are being created on the basis of property complexes of chemical weapons destruction facilities in the Saratov, Kurgan, Kirov regions and the Udmurt Republic;
- 2 production and technical complexes are being created “from scratch” in the Irkutsk and Tomsk regions.

- Russian government conducts these projects through public procurement projects
- This is arranged in cooperation with state-owned or state-affiliated organizations or with private companies but with individuals affiliated with organizations
- This also occurs due to nepotism, kickbacks (*откат*), tax evasion (*обналичка*), and money-laundering.
- The national strategy for financing sustainable development is currently not formed as a single document. It is characterised by an unclear structure, incomplete coverage, and an unsystematic approach.
- There are no specific and approved indicators on the federal level to measure the effectiveness of environmental policies and project implementation: hence, it's difficult to regulate it further and form other national mechanisms
- Various 'national programs' are implemented with no purpose or to gain profits from construction procedures



Cashing-out scheme within public procurement tender in Russia



Conclusions

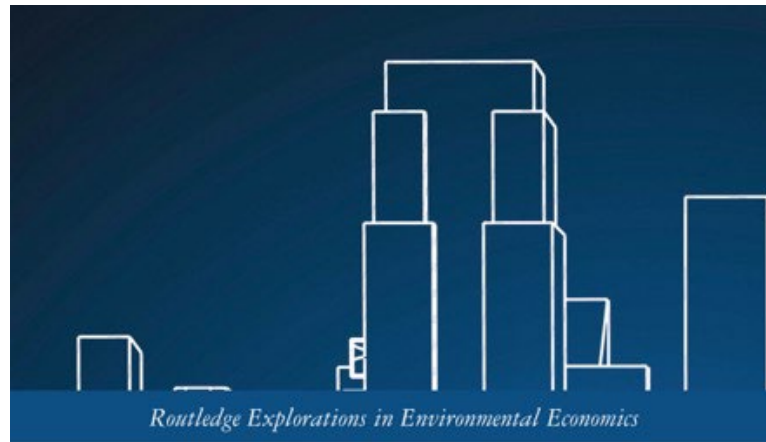
Market liberal vs. social green views

- Russia is known as an authoritarian regime or 'Interventionist Entrepreneurial State' (Wright et al., 2021)
- State intervention and involvement are significant and seen as a necessity
- Environmental projects are expected to be and are being financed, supported and regulated by the government at all levels

Institution-based view

- We can observe an institutional asymmetry
 - The economy is reliant on polluting industries
 - One part of the society is ready for the ecological agenda, another part is not (majority)
 - Some businesses participate in the ecological programs with direct positive impact, others imitate that participation and involvement (majority)
- For the government, it is a challenge to balance the interests of different stakeholders also considering internal issues (corruption and opportunist behavior among state officials)
- The government uses environmental infrastructural projects as mechanisms for self-enrichment and maintaining power

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ENVIRONMENTAL FINANCE AND GREEN BANKING

CONTEMPORARY AND EMERGING ISSUES

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9 Environmental Policies in Russia

Problems of State Funding and
Implementation

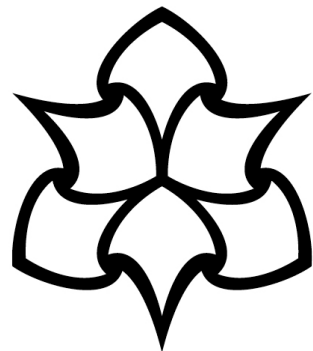
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Introduction

The priority areas of a state's development policy typically reflect the most socially significant tasks. The issues of environmental protection and ensuring the rational use of natural resources are one of them. The direction, content, forms, and methods of management activities largely depend on the development of society as well as an awareness of the essence and severity of the ecological contradiction. Many issues are included in a country's policy with the emergence of new, previously unobvious problems that require appropriate regulation (Bush, 2020). The Soviet Union had a centralised system of state management. The protection of natural resources was managed by the Department of the Council of Ministers of the USSR. Similar environmental departments were in the republican councils of ministers (Khorev, 1987). The middle of the 20th century was a turning point in the country's environmental policy. In 1956, the XX Congress of the Communist Party of the Soviet Union (CPSU) passed a resolution to develop productive forces and increase the population's well-being. It also included resolving environmental issues and the violation of the ecological balance in the country's industrially developed and developing regions by modernising production using the achievements of scientific and technological progress (Pryde & Meauley, 1991). During the second half of the 20th century, certain government decisions were made to actively develop environmental legislation and conserve natural resources, including special measures to prevent pollution of the Caspian Sea, Lake Baikal, the Volga and Ural rivers, and more (Peterson, 2019). Legislation on nature protection was adopted in the Union Republics. However, these measures were not fully implemented due to the subordination of environmental goals to production development plans and the pressure from resource operating departments such as the Ministry of Water Resources, the Ministry of Medium Machine Building, and Ministry of the Chemical Industry. In the mid-1960s, it was estimated that 78% of industrial enterprises in the country had no treatment facilities, and the air of 1,750 cities was seriously polluted (Ziegler, 1987).

The collapse of the USSR exacerbated transboundary and interregional environmental problems. During 1991–1995, there was a decline in industrial production. In 1996, under the influence of the main declarations of the

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Thank you for your attention!



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