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SERGEY STORCHAK: USE OF INTERNAL RESOURCES FOR INVESTMENT

To achieve the Sustainable Development Goals (SDGS), the world lacks a whopping $4 trillion in investment annually. However, at a recent conference held in Spain, the developed donor countries have proposed nothing but only new discussion platforms and ”moderate” commitments instead of a large-scale increase in investments. Sergey Storchak, senior banker at the Russian state development corporation VEB.RF, in an exclusive interview with BM.Moscow Foresight reveals some details of the reached agreements, the gist of blended finance mechanisms and describes his views on reforming the international financial architecture.

In July, Spain hosted the 4th International Conference on Financing for Development (FfD4), draft documents of which were scrutinized by VEB.RF experts. The discussion concentrated on measures to stimulate wide-ranging investments in developing countries for the purpose of ensuring their sustainable development. The specialists considered procedures to overcome the debt and development crisis, and put forward initiatives to reform the international financial architecture. Could you provide details of the decisions taken at the forum?

The Ministry of Finance and the Ministry of Foreign Affairs of Russia engaged the VEB.RF team in the deliberations over the final document of the FfD4 forum – the document, which incorporates the obligations assumed by the parties. Seeing the development of the document from the earliest stage of its preparation, at the so-called “zero” stage of drafting, to its final version offered us the opportunity to size up the gap that separates the positions of donor states (developed economies) and

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recipient countries. While the former placed at the forefront the issues of mobilizing domestic financing (modernization of financial and fiscal policies, for example, the fight against corruption related to government spending, etc.), the latter insisted on the need for a significant - often manifold - increase in Official Development Assistance (ODA), including assistance within the framework of the currently fashionable global climate agenda.

The catalyst and at the same time the “irritant” of the multilateral dialogue was the thesis promoted by UN experts that the “financial gap” or deficit of funds necessary to

achieve the SDGs, amounts to $4 (!) trillion per year. Meanwhile, it is well known that it took developed economies almost 15 years to fulfil the promise made during COP15 in 2009 to annually “provide and mobilize” for developing countries “around” $100 billion in funding needed to implement only the climate-related projects. The result of lengthy disputes and mutual reproaches was a new commitment by donor countries: by 2035 - to increase the volume of “climate” aid to $300 billion per year with a broader target for all actors to mobilize $1.3 trillion. However, one has to realize that the broader target is just a “soft” obligation.

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In order to somehow sweeten this “bitter pill,” about 130 different initiatives were supported during the FfD4. True, upon closer examination, these initiatives are difficult to assess as monetary by nature, and even more so as a breakthrough. For example, FfD4 announced its intention to establish a “Borrowers Forum” to exchange experience in solving sovereign debt problems. Obviously, sharing knowledge is a sound idea. However, what is the rationale behind establishing a new Forum, if since the beginning of the 2000s, on the initiative and with the direct participation of UNCTAD, the World Association of Debt Management Offices (WADMO) has been operating, where I had a chance to participate in very expedient meetings, including

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in the capacity of the speaker.

Another administrative and organizational outcome of the FfD4 is the decision to establish a blended finance platform to scale up and replicate its effective models. Considering that the private sector, which has huge accumulated resources (at least $430 trillion), is reluctant to uphold projects focused on the SDGs and/or the climate agenda, the bet on blended finance mechanisms is quite justified, as evidenced by the experience of VEB.RF in using “The Project Finance Factory” tools.

Russia is now limited in its ability to attract foreign direct investment. There are also problems with access to foreign financial markets. Therefore, the role of development finance institutions (DFIs), including multilateral and national development banks (MDBs and NDBs), in supporting sustainable development projects is becoming crucial. Do the DFIs have enough resources for development projects implemented in Russia, and which projects have the greatest chances of support by VEB.RF?

I fully agree with your thesis that the role of development financing institutions in ensuring the sustainable development of national economies is growing upward from year to year. It is worth noting that this idea is consistently promoted in the final document of the FfD4. Moreover, those countries that have not yet established public development banks (PDBs) are encouraged to close this gap in the national economic policy.

The financial model of the DFI/PDB is based on the existence of large paid-up capital, on high investment-grade credit ratings and on the active use of national and/or international debt markets. This is exactly what VEB.RF has been doing for many years. However, external circumstances made it impossible for us, like for many others, to rely on the previously functioning financial model.

Nevertheless, this does not mean that there are not enough funds in the Russian financial system to propel investment projects. The balances of funds in the accounts of legal entities in commercial banks of Russia amount to 42 trillion rubles plus 60 trillion rubles on private deposits. These are the potential sources of funding for projects. Another thing is that the “cost” of this resource and the period during which it can be retained in investments, as a rule, do not always meet the expectations of the project initiator.

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The task is to offer investors such solutions and products that would correspond to their interests and would make it possible to finance projects essential for the development of the Russian economy. Here are the five key areas in VEB.RF Group's strategy mapped out until 2030: financing of large infrastructure and investment projects; integrated development of key settlements and geographical regions; promoting technological leadership and sovereignty; support for non-resource non-energy exports and entrepreneurship.

In one of your published statements, you mentioned the emergence of new opportunities generated by the development of blended finance practices. Could you explain how this works providing as an example the so-called "green" projects now being implemented in Moscow, which are part of the VEB.RF investment portfolio?

Improvement of blended finance practices evolves in several directions. One option, which has not yet been implemented in Russia, is holding auctions among project initiators wishing to receive free non-refundable funds or a grant when "blending." This technique is practiced by the Brazilian BNDES in order to use the limited funds allocated to it from the budget more effectively. The targeted investment is forest protection and reforestation projects implemented by local SMEs in the Amazon

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Basin. This method ensures a combination of project and climate activities of BNDES, as well as support for private entrepreneurship.

The Moscow government took a different path, placing green bonds on the Russian debt market in 2021. The proceeds from their sale were used to renew environmentally friendly urban electric transport (modernized subway cars, innovative trams, electric buses).

The general approach to tackling key tasks seems to be changing: from overcoming the consequences of climate change to investment in infrastructure. Is it true? Especially in light of the new US President Donald Trump rejection of the green agenda and the failed EU policy of greening the economy, which contributed to the worsening conditions for the European industry. Is the interest in ESG projects waning?

If we proceed from the texts of the G20 final statements - decisions agreed upon both at the summits and at the ministerial level - as well as from the documents adopted in the last two years within the framework of the SCO Interbank Consortium (SCO IBC) and the BRICS Interbank Cooperation Mechanism (BRICS ICM) with regard to both the authorities and the DFIs, general approaches to solving the most pressing problems of modern development remain unchanged: the focus is on multilateral cooperation and partnership, depoliticization of solutions, and the exchange of best practices.

In this context, of course, the positions of Russia (as the target of countless sanctions) and the United States stand out. In 2026, the United States will preside over the G20, and this will make it possible to test how pragmatic and verified Washington’s approaches to actually ensuring its global leadership in the field of sustainable development are.

The approach to the solution of sustainable development problems taken by the business elites of the developed and emerging market countries remains confusing and ambiguous. On the one hand, on the whole, adherence to business practice based on ESG principles is confirmed, albeit with different interpretations in the USA and, for example, in India. On the other hand, the so-called “alliances for net zero”, established at the suggestion of the current Prime Minister of Canada, Mark Carney, as part of the activities within the global climate agenda, have collapsed.

The largest and most influential “banking alliance,” as well as the “alliance of financial asset managers” de facto disintegrated. For private sector entrepreneurs, refusal to provide funds for carbon projects has proved simply unacceptable. As a result, if any conversation focuses on the importance of decarbonizing economies, then more and more references are made to the key role that national development banks (NDBs) play in this area.

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Reform of the international financial architecture was also discussed at the Conference mentioned earlier. What is your vision of this topic?

I insist on the position I have already repeatedly stated: it is necessary to talk not about reforming the international financial architecture (IFA), but about modernizing the inter-national monetary and financial system (IMFS). In this sense, the definition of IFA used in §52 of the final document of the FfD4 looks rather strange. The “architecture” is claimed to be “a set of international financial frameworks, rules, institutions and markets that oversee the stability and functioning of global monetary and financial systems.” How markets can “oversee” the stability of these systems remains a mystery, as well as ambiguity on how the IMF Charter could be a “framework agreement.”

Another important area of reform of the IFA/IMFS presupposes improving the activities of credit rating agencies (CRAs). However, I note that after overcoming the consequences of the global financial crisis of 2007-2008, the G20 has developed and adopted recommendations on how to “properly” interact with CRA. The main point of these “instructions” specifies less reliance on rating agencies and a shift of accent on borrowers’ own assessments of solvency/creditworthiness.

Apparently, in jurisdictions with developed and well-established traditions of financial analysis, the implementation of the G20 recommendations have not met with conspicuous difficulties. With regard to developing countries, the situation does not look so positive, although already in the middle of the second decade of the 21st century, many of them have received ratings of at least a non-speculative level and moved into the category of “frontier borrowers” in international debt markets. The thing is that CRAs are extremely conservative about these bond issuers, which makes their borrowing excessively expensive. In general, Russian borrowers are very interested in the success of the UN in terms of developing the rating methodology jointly with CRA to make it more focused on solving sustainable development problems.

According to the Central Bank statistics, the share of ruble settlements in Russian exports in June rose to a record 55.5%. How is the ratio of currencies in international trade changing?

The use of national currencies in mutual trade and investment is actively discussed mainly within the SCO and BRICS platforms. For other multilateral formats, such as the G20 or APEC, this topic is not part of the agenda, since most of their member states prefer to use the reserve currencies. However, in regional trade, significant changes are possible in favor of local currencies, as is the case with the ruble in the EAEU.

In this context, it is interesting to observe the actions of the fiscal and monetary authorities of India. Slowly but consistently

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this country implements the policy of internationalization of the rupee. As you know, one of the landmark decisions in this area was the initiative of the Reserve Bank of India (RBI) to open special vostro accounts or special accounts for non-residents by local commercial banks, which receive the rupee proceeds of foreign exporting companies that sell goods to Indian buyers. For some time, the opening procedure (only with the permission of the regulator) and the mode of using funds in these accounts (only for the purchase of Indian goods) were strictly regulated by the RBI.

However, in the summer of 2025, both of these conditions were subject to liberalization: first, it is no longer required to obtain special permission from the regulator, and second, holders of rupee funds were granted the right to invest in financial instruments traded in the Indian market. Therefore, the threat of “over-accumulation” of rupees, which has loomed over Russia for the last few years, seems to have disappeared. НИ

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