

Bilateral and multilateral sources of development finance: evidence from Russia

Post-2015 development agenda implies a broader approach to finance for development (FFD) which supposes a wide range of financial mechanisms that enable sustainable growth including various domestic and international private and public resources.

For a decade Russia enjoyed rather high rate of gross domestic savings and the current account surplus that promoted private and official capital export in form of FDI, loans, equity investments, remittances and development assistance. The net international investment position of Russia reached \$227,62 billion as for the end of 2014. The offer of capital together with a relatively low level of financial intermediation in comparison with the dimension of Russian economy and closure of long-term European capital markets enable Russian public and private capital to search for additional external spheres and geographical diversification of capital application, especially in the Commonwealth of Independent States (CIS), Asia and Latin America.

Official development finance both multilateral and bilateral is provided by Russia in accordance with the “New State policy concept of the Russian Federation in the area of contribution to international development” (2014). In 2014 the amount of Russian ODA reached \$875 million which represents 0,049% of GNI, the highest share since the financial crisis of 2009.

Russia as re-emerging donor actively uses multilateral channel of development finance and takes responsibility to implement international community initiatives and action plans which makes Russian multilateral aid rather predictable. Together with contributes to international organizations to finance global public goods (mainly health), provide food security and budget support, promote education Russia designs its own multilateral aid agenda by founding earmarked trust-funds for specific purposes and to concrete recipients. Russia also implements its development assistance policy through regional and sub-regional development banks. Most of them operate in Europe and Central Asia which is the priority region for Russian development assistance. Among multilateral development institutions Eurasian development bank became an important source of investments for development and anti-crisis actions in post-Soviet area.

Recently created New development bank (NDB) and Asian Infrastructure Investment Bank (AIIB) where Russia is one of the main shareholders both broaden the geography of Russian development finance to Asia, Latin America and Africa (Russia still lacks the membership in Asian, Inter-American and African development banks) and allow to attract Russian business to participate in the realization of investment projects. The effectiveness of NDB would depend on the independency of its management, transparency policy and its

rating which will be influenced by recent rating downgrade of Brazil and Russia. NDB together with national development institutions, direct investment funds, business actors will provide financing for realization of Strategy for BRICS economic partnership. The priorities of Russian cooperation within BRICS are mining, machinery, manufacturing industries, energy and innovative technologies sector. AIIB is expected to be a more sound institution due to broad membership and possible AAA rating that allows to attract cheap capital on international markets.

Bilateral development finance is more targeted compared with the multilateral assistance and is provided in the form of grants, technical assistance, loans and debt relief. Russian bilateral aid still lacks the autonomous aid agency and the functions of aid delivery are distributed between different ministries and Federal agency Rossotrudnichestvo. Russia bilateral aid is often crisis responsive and more adopted to Russian development assistance priorities.

Private FDI are considered to be an important source of finance for achieving SDG. The investment financing of developing countries faces a dilemma: on one hand, the global financial turbulences reduced the offer of long-term investments, on the other hand, developing countries undergo the lack of high-quality investment projects and have demand for stable long-term financing. In modern economic situation investment project financing is risky without guarantees from domestic and international community (local governments, multilateral banks, guarantee agencies, etc.). Russia is a significant source of private capital in Commonwealth of Independent States and seeks to diversify its investments.

Russia is also an important source of migrant remittances for Commonwealth of Independent States the amount of which reached \$19 billion (out of \$68,9 billion total) in 2014. The remittances account for 41,7% of GDP in Tajikistan and 30,3% in Kyrgyz Republic.

The experience of Russian FFD shows that commercial sources are much larger than official ODA but they are highly dependent on the economic cycle though public or quasi-sovereign assistance is often counter-cyclical.