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Trump sanctions hit Russia where it hurts

By Elliot Wilson

Global investors who thought they understood US president Donald Trump's strategy for sanctions against Russia are still reeling from the latest round of penalties announced on April 6. The White House rolled out new and sweeping sanctions, targeting seven powerful oligarchs and 12 of their businesses, as well as 17 senior government officials.

These were much tougher than previous Russian sanctions that were imposed in a series of rounds since 2014. The new ones differed from those that came before in many ways: in military terms they would be seen as "asymmetrical" or "disproportionate".

They were prompted not by a specific act of aggression on Russia's part, but by what the US government described as "malign activity" around the globe, from meddling in Western elections and Syria, to an

alleged attempt to assassinate a former Russian intelligence officer on British soil.

The investors got a shock because the new sanctions were precision strikes that targeted individuals not corporates. They hit prominent oligarchs, including aluminium tycoon Oleg Deripaska,

Suleiman Kerimov, a senator whose family controls Polyus, Russia's largest gold producer, and Viktor Vekselberg, owner of Switzerland-based engineering group Sulzer. Also, on

the new hit list was Alexei Miller, chief executive of Gazprom, which delivers more than a third of the EU's gas, and Andrei Kostin, head of state-owned VTB.

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Putin and Trump: US has targeted Russian premier's business allies

Fast social and economic change rings in a new era for Uzbekistan

After decades in the economic wilderness, Uzbekistan wants to reintegrate itself into the global value chain. A Eurobond is on the way and regional integration has become a key priority

By Virginia Furness

In the year and a half since the death of Islam Karimov, the first leader of Uzbekistan, former prime minister and now president Shavkat Mirziyoyev has embarked on an ambitious reform agenda that has been welcomed by the international community, as well as Uzbeks themselves.

"There is new air blowing in Uzbekistan society," said Alkis Vryenios Drakinos, the EBRD's country head for Uzbekistan. "There is a lot of optimism. The president is clearly supported by the vast majority of the population, and people do enjoy more freedom of expression and more access to social media. They can now talk directly to politicians via social media and post critiques and make suggestions. These are real signs of social evolution and social progress."

Centred around its Development Strategy for 2017-2021, the new government is working hard to boost economic



Mirziyoyev: has signed \$57bn of business deals

growth by reforming governance, improving the rule of law and improving the business climate to attract foreign investment, promote exports, and encourage regional co-operation.

In September last year, Uzbekistan liberalised its exchange rate regime, marking a "watershed in the history

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New socially-aware bond index feeds funds' need to spot shabby dealing

JP Morgan's launch of an environmentally and socially conscious version of its EMBI index is well timed as fund managers realise that dodgy morals can lead to shabby financial statements

By Jon Hay

The launch of new emerging market bond indices that take environmental, social and governance (ESG) factors into account has been hailed by fund managers who are under an increasingly powerful obligation to invest in a more sustainable and responsible way.

In April, JP Morgan, author of the EMBI index family that dominates emerging markets (EM) bond investing, launched new versions of three of its most followed indices that incorporate ESG analysis.

JPM was already compiling bespoke ESG indices for clients, but it was a specific demand from BlackRock's EM debt team that spurred it to create public benchmarks for the EMBI Global Diversified, the benchmark for sovereign and quasi-sovereign dollar bonds from 67 countries, the GBI-EM Global Diversified, which tracks local cur-

rency bonds of 18 sovereigns, and the CEMBI Broad Diversified, which follows corporate dollar bonds.

Increasingly, investors are deciding they do need to pay attention, not just to issuers' financial metrics, but to how well they behave. "In the last couple of years, we have seen an intensification of interest from clients to invest in a more sustainable and responsible way," says Giulia Pellegrini, a portfolio manager in BlackRock's EM debt team in London. "Most of the interest has been institutional, but we've also picked up some retail. There have been new clients [asking] 'how do you incorporate ESG into the investment process?' And existing clients have come to us and said 'we need to increasingly respond to our own boards about what we do in this space'."

The motivation is partly ethical — investors want to do good and be seen

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Success is a journey

EBRD's sub-Saharan ambitions reveal appetite for expansion

Not content with pushing into North Africa, the EBRD has set its sights further south in a move that could see it potentially lend an extra €2.5bn-€3bn a year without needing to raise additional capital — taking total annual lending to over €12bn

By Elliot Wilson

In the past, you knew where you were with development banks. The first big players, the World Bank and the IMF, were designed expressly to keep the world on an even keel, to lend to worthy projects in developing nations, and to aid sovereigns facing or enduring financial distress.

Then regional development banks — powerful in their own right, highly capitalised, and catering to a variety of more localised needs — began to emerge. The Inter-American Development Bank was founded in 1959 to serve Latin American states in need of money, leadership and supervision. Five years on, the African Development Bank was born, followed two years later by the Asian Development Bank.

The relatively new kid on the block is the European Bank for Reconstruction and Development, perhaps the most curious case of them all. It is a regional development bank that cannot stop expanding into other regions, and a multilateral that becomes larger, better capitalised and more world-savvy and multi-layered with every passing year.

Founded in 1991, shortly before the dissolution of the Soviet Union, the EBRD was at first a narrow institution. It focused on the needs of 15 post-Soviet states (including the now sanctions-hit Russia, once the bank's biggest market but now excluded from EBRD lending) and 15 central and eastern European (CEE) markets stretching from the Baltics to the Balkans. The bank unearthed private sector projects and invested in them both directly and via local lenders, with the aim of transforming state-heavy economies into open markets powered by private capital.

But everything changed in December 2010, when the self-immolation of a Tunisian stallholder, in reaction to his harsh treatment by public inspectors, led to an uprising that affected states stretching across the Maghreb to the Gulf. Some governments were toppled; others descended into civil war or faced serious civil unrest. Few were unaffected.

As the dust settled, Western political lead-

ers found themselves with a decision to make. The sprawling affected area was in dire need of its own international financial institution to help glue it back together, but that would likely be a politically charged and costly process. The African Development Bank could hardly be asked to channel funding to states like Yemen, while the Islamic Development Bank lacked the deep institutional skills required to rebuild tattered countries and develop private-sector capabilities.

So, in 2012, prodded by then-US president Barack Obama, the West turned to the EBRD for help. It was not an easy decision to make or to justify — indeed, many at the bank's headquarters in London wondered if it would work at all.

In hindsight, 2012 was a landmark year for the EBRD. Out went the steady-but-dour German politician Thomas Mirow, and in came Sir Suma Chakrabarti, a buzzing-and-busy British civil servant and veteran of the development community.

Under its new president, the EBRD bought in entirely to its new role. Egypt became a recipient country in 2012, along with Jordan and Tunisia, with Lebanon joining five years later. In March 2018, the bank made its first foray in West Bank and Gaza, its newest area of operation, when it extended a \$5m loan to Cairo Amman Bank Palestine, to help channel more capital to smaller enterprises. The EBRD is set to invest around €2.2bn in projects in Middle Eastern and North African (MENA) states in 2018, on a par with last year's figure — taking the bank's outstanding capital commitments in the region to nearly €10bn (\$12.2bn).

AFRICAN EXPANSION

Not content with managing a growing portfolio of staff, offices and investments in the northern half of Africa the EBRD is now looking to extend its presence into nations south of the Sahara.

In April, Chakrabarti said the bank would “gradually” expand into sub-Saharan Africa states that were committed to market democracy. Insiders at the multilateral said the most

likely route into new sub-Saharan markets would, in the near term, involve the EBRD working with and investing in regionally-based or focused private equity firms and funds.

Asked about the positive and negative challenges facing the institution in yet another new territory, the bank's president replied: “Every time the EBRD has been asked to go into a new place it has done so and really scaled up fast”. He said sub-Saharan Africa was the “biggest gap” in the bank's geographic reach, adding that it could potentially lend an extra €2.5bn-€3bn each year without needing to raise additional capital, taking total annual lending to over €12bn.

Is Chakrabarti's confidence misplaced? The fact that his comments garnered so little reaction in the international press, or on social media, is in itself telling. When the EBRD started to put down roots in North Africa and the Levant, many tipped it to fail, or at very least, to struggle to gain traction in a notoriously reform-resistant region. Others said the new southern strategy, with the bank now committed to virtually every market in a “Greater Mediterranean” region, would reduce its ability to lend to projects in its original stamping ground in Central Asia and the CEE. Another fear was that expansion would result in the dilution of its democracy-promoting mandate.

Neither concern came to pass, helping to explain why many in the development community assume the bank will do a good job if, or when, it decides to open branches in and extend capital to states and projects in sub-Saharan Africa.

Nor has the EBRD struggled for recognition or respect in the Maghreb and the Middle East. If anything, it was embraced by its new partners. “We arrived in 2012, at the most difficult time, when no one wanted to invest,” says Janet Heckman, the Cairo-based head of the bank's Southern and Eastern Mediterranean (SEMED) region. “This gave a real sense of confidence to private sector investors looking to come in to the

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“When countries are more reform-minded, you will always see inward investment accelerate”

— Janet Heckman, head of the EBRD's Southern and Eastern Mediterranean region



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Much more to do
Into the Sahel



Transitions

The fall of the Berlin wall (1); Private sector development in Russia and the CEE (2); Local expansion into Slovenia (3); Widening operations to include Serbia (4) and Kazakhstan (5); Expanding projects in Mongolia (6); Operations in Turkey (7); Responding to a changing world in Egypt and Tunisia (8 & 9); New frontiers Cyprus (10)

region. A number of regional central bank governors have thanked the bank for coming when no one else would."

This attitude has clearly paid dividends. In Egypt, 80 EBRD projects have been approved since 2012, taking outstanding lending to €3.6bn, and making it the multilateral's second largest country of operation in 2017 behind Turkey.

"We have doubled our annual investment in Egypt to €1.4bn," says Heckman. "That has been possible because of how committed Egypt is to reform, from its \$12bn IMF bailout, to floating its currency, to its focus on reforming its tariff policy. When countries are more reform-minded, you will always see inward investment accelerate."

Indeed, the bank has been embraced across the region: 33 outstanding projects in Tunisia, with a cumulative investment of €677m; 38 projects worth €996m in Jordan; and in Morocco, 40 projects worth €1.54bn. The involvement of the EBRD and its triple-A credit rating, in a country and on a project, helps to draw in sources of private-sector capital that may be new to a market or to an entire region. Chakrabarti reckons every €1 of EBRD lending attracts an additional €2.30 in investment from external sources.

If there is a criticism here, it relates to the relative lack of private capital in any given

MENA-area project. In Jordan, the private-sector share of the bank's investment portfolio runs at an impressive 85%. But that number falls to 62% in Egypt, 60% in Tunisia, and just 49% in Morocco. They will undoubtedly improve, and the relatively low share is the result of focusing on major infrastructure projects that enjoy a mixture of private and public investment. But for now, they fare poorly in comparison to figures in more developed CEE states like Poland and Hungary (91%) or the Slovak Republic (100%).

BACK TO THE FUTURE

The EBRD's greatest asset, which makes it well placed to continue to succeed in MENA, and to thrive in whichever markets it decides to invest in south of the Sahara, is its institutional memory. "Going into SEMED, we were able to take advantage of a quarter-century of experience operating across multiple post-Soviet states," says Heckman, who ran the bank's Kazakhstan operations before moving to Egypt.


She draws a comparison between emerging Europe and the bank's newer sphere of operations in the Greater Mediterranean. "It's amazing to see the similarities between the two regions. When it comes to growing the private sector, tackling government sub-

sidies, and preparing companies for privatisation — this is very similar to the work we did early on in CEE states.

"The same is true in the financial space, where MENA countries are still dominated by state-owned banks. What we did in eastern Europe was to help move financial institutions out of state hands as they are big burden on the budget, and they result in too much lending to firms with state connections."

So what now? Chakrabarti's ambitions in sub-Saharan Africa are palpable, but any expansion will have to be signed off by the bank's 68 shareholders, with a decision possible as early as this week in Jordan, at the bank's annual meetings.

The EBRD could open its first office south of the Sahara perhaps as soon as the end of this decade. The consensus is that the EBRD will be a success in yet another region crying out for the kind of expertise the bank possesses in spades — the ability to corral private sector capital and to then put it to work in energy, infrastructure, retail and logistics projects.

The only question that then remains for the EBRD, now a genuine pan-regional development bank with operations that may soon stretch from the Pacific Ocean to the Cape of Good Hope via the heart of Europe, is a simple one: what's next? 

“A number of regional central bank governors have thanked the bank for coming when no one else would”

—Janet Heckman

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Sanctions

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For Russia with love
Aluminium ingots at the Rusal Krasnoyarsk aluminium smelter in Krasnoyarsk, Siberia

The sanctions imposed a blanket freeze on any US assets being held by those targeted and barred those on the new list from doing business with US citizens — effectively cutting them off from trading with, investing in, or securing finance from, any US-based individuals or institutions. They also apply to non-US citizens, an additional proviso that could, analysts said, vastly increase their impact.

RUSAL'S PAIN

The new restrictions left their targets reeling and in shock. But no one felt the pain more than Deripaska, an aggressive dealmaker who was personally targeted along with the eight industrial companies that comprise his fortune.

Shares in Rusal, his Hong Kong-listed aluminium producer, collapsed, losing more than 50% of their value in the next trading session. Shares in En+, the London listed energy firm that Deripaska controls, and which owned nearly two-thirds of Rusal, fell nearly 60% over the next three weeks.

Rusal's pain was also amplified by what it does. A leading global producer of aluminium, the US is one of its largest markets, accounting for around 10% of sales in 2017. When Trump imposed separate tariffs of 25% on imports of steel and aluminium goods on March 8, it was one of the firms hit hardest by the measures.

Mark Bodon, a portfolio manager in the emerging markets debt team at First State Investments, says sanctions “hit Rusal especially hard because it operates in an international commodity market and transacts in US dollars”.

So, what happens now? There is a short view at work here, as well as a series of long-term consequences, none of which is likely to be palatable, either to the Russian government or to its leading globally-facing corporates.

As *GlobalMarkets* went to press, the near-

term ramifications were still being assessed. Oligarchs targeted by the sanctions typically reacted with cold, commercial rationality, by ceding outright control over their most valuable and visible assets. Vekselberg, who amassed his fortune during the controversial privatisation schemes of the 1990s, cut his stake in Sulzer to 48.83%, by selling 5 million shares controlled by his holding company Renova, to the engineering group. Deripaska's reaction to the news — disappointed but restrained — led him to announce, on April 28, that he would in principle reduce his stake in En+ to less than 50%.

But there are longer-term implications here that are likely to play out over a period of years, and which could deal a shattering blow to the ability of Russian corporates to raise capital in the international markets, harm the country's economic prospects, and even loosen president Vladimir Putin's grip on power.

The new sanctions hurt in part because they are so vague. Analysts struggled to join the dots between the oligarchs targeted by the new sanctions. Some, like Alexei Dyumin, a former bodyguard of Putin, who oversaw the annexation of Crimea and was rewarded with the governorship of Tula, a region in western Russia, boast strong Kremlin links. Others, like Vekselberg and, it can be argued, Deripaska, are not part of the Russian president's inner circle.

Yet they all have one thing in common: they have profited, and continue to profit, from what US Treasury Secretary Steven Mnuchin described as Russia's inherently “corrupt system”. Drawing a line between Russia's actions in Crimea and Syria, and its interference in Western elections, the US Treasury secretary said: “Russian oligarchs and elites... will no longer be insulated from the consequences of their government's destabilising activities.”

It also raises the issue of what — or who — comes next. Deripaska and the other oli-

garchs may for now have weathered the worst of the storm, by ceding control of some of their main assets. Rusal is, in the near term at least, unlikely to suffer the indignity of being nationalised. But what happens if, or likely when, more sanctions are drawn up that target the many other oligarchs or elites with strong Kremlin links, and with assets that rely on dollar financing?

First State Investments' Bodon says: “Any entity whose business is US dollar-based and which relies on US dollar funding and international payment systems would be equally at risk under similar sanctions”.

There are also doubts hanging over investors or individuals with financial or personal connections to the many powerful and visible Russian companies. Institutional investors were quick to dump their stakes in Rusal and En+, but just as worrying was the speed with which powerful individuals also cut their ties to the newly sanctioned corporates. Two of En+'s directors, French banker Dominique Fraisse and Chinese investor Zhao Guangming, quit the firm's board as soon as the April sanctions were announced.

Traders have struggled since the sanctions were introduced to find accurate pricing for Rusal and for other Russian corporate debt. Some banks refused to trade Rusal given the uncertainty that surrounds their ability to clear it.

First State Investments' Bodon says the sanctions “shocked investors and caused a significant re-pricing of risk. Since then the market has been re-assessing risks of sanctions across all Russian companies and banks. Credit spreads... remain elevated, [which] makes refinancing costs much higher.”

RISK PREMIUM

But the lasting change is likely to be felt when Russian firms return to international capital markets in search of funding. The question is whether how investors will welcome them — if at all.

Investors believe deals are there to be made — but that they are likely to be far more fraught with uncertainty than before. “While Rusal's sanctions are fresh in investors' minds, access to international debt markets will be narrow and pricing difficult,” says Bodon. “The market

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“While Rusal's sanctions are fresh in investors' minds, access to international debt markets will be narrow and pricing difficult”

—Mark Bodon, emerging markets portfolio manager, First State Investments

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Ewald Nowotny, Governor, Oesterreichische Nationalbank, and Member of the Governing Council, European Central Bank

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ESG

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"There's a Hotel California effect — once companies are in these benchmarks they do not want to drop out, because it's embarrassing"

—Will Oulton, global head of responsible investment at First State Investments

to be doing good by their customers — and partly that they believe ESG can improve investment performance.

But there is also a strong push from government. France's Energy Transition Law of 2015 obliges asset owners — and hence asset managers — to report on how they manage climate and other ESG risks.

The indices' ESG analytics come from Sustainalytics and RepRisk, two providers that already score the relevant issuers. All companies involved in weapons, tobacco or thermal coal, or that have violated the UN Global Compact on human rights and anti-corruption standards, are excluded. JPM has given special prominence to green bonds. Any bond classed as green by the Climate Bonds Initiative, an NGO, is bumped up a weighting band.

as MSCI and RepRisk, which are used by many asset managers. Union lowered its ESG rating on Vale, prompting its ESG-focused global and emerging market debt portfolios to exclude the company.

Three years later, a toxic waste dam at the Samarco mining site, owned by Vale and BHP Billiton, collapsed, killing 17 people, destroying a village and polluting a river with 60m cubic metres of iron waste. It has been called Brazil's worst environmental disaster. In 2018, Vale is still negotiating with public prosecutors about civil claims totalling \$50bn.

"The breaking of the dam and the associated ecological and social costs have affected Vale's performance massively, but we were not invested in Vale debt in our EM ESG mandates," says Sergey Dergachev, portfolio manager in EM rates at Union in Frankfurt.

especially among passive investors, which can only create funds if they have a benchmark to track.

But even active managers that have been doing ESG for a long time are enthused. NN Investment Partners, based in The Hague, applies ESG criteria to all its investments. "For EM sovereigns, we conduct an in-depth analysis on a country's governance, competitiveness and institutional quality," says Roy Scheepe, senior client portfolio manager for EM debt at NN.

NN assigns its own scores and builds its own index. Scheepe says the JPM indices are "a useful initiative that is meeting demand from investors," and will "provide a useful comparison versus the traditional indices".

He says it is too early to tell if the indices will prompt NN to launch new products or increase allocation to ESG strategies but says that NN will "constantly monitor closely" how well accepted this benchmark becomes.

Ultimately the purpose of ESG investing is to drive improved behaviour among issuers.

"We do hope that this index launch is taken as an incentive for issuers to do more work in improving their ESG standing, and hence lead to a virtuous circle of capital going to better performers," says Pellegrini.

The creation of ESG equity indices such as the FTSE4Good appears to have made at least some companies try harder. "There's a Hotel California effect," says Oulton. "Once companies are in these benchmarks they do not want to drop out, because it's embarrassing."

Bond issuers engage with investors when they market new issues, giving investors plenty of opportunity to make their feelings known.

Issuers are beginning to notice it. Batuhan Tufan, head of financial institutions at Garanti Bank in Istanbul, says the bank increasingly faces questions from investors about ESG issues. "To be more conscious about our world and resources becoming scarce — any person or institution at an individual level would be interested in this and find it welcome," he says. "I don't have enough information to know if this translates into a specific benefit for issuers financially yet. However, it's clear that if there is a benefit, the banks that have spearheaded on this will get it."

PENETRATING THE STATE

In the private sector, the financing of the business is a concern very close to the top management's heart. It is different with governments. The debt management office may have little chance to influence the president's view on human rights or the environment.

However, Pellegrini said there is an increasing awareness among sovereigns too. "To the extent that policymakers talk to each other, the message does eventually filter through," she says. "Routinely, a minister of

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Smog free

External smog vacuum cleaner in Krakow, Poland

VALE'S TRAVAILS

A clear illustration of the impetus for developing such an index is the twin crises that hit Vale of Brazil, the world's largest iron miner. In 2012 sustainability research analysts at Union Investment in Frankfurt found weaknesses in its environmental and social performance as part of their routine work analysing companies the €320bn asset manager invests in.

In January that year, Vale had been given an (In)famous Award by Public Eye, a Swiss NGO. It was criticised for its "repeated human rights abuses, inhumane working conditions and the ruthless exploitation of nature". In particular, Vale was a shareholder in the Belo Monte Dam being built in the Amazon, which the NGO said could mean 40,000 people being forcibly relocated.

Ugly headlines and activism like this do get picked up by ESG rating providers such

This is a textbook case of how ESG investing is supposed to work. The Samarco disaster was an unpredictable accident — but investors listening out for other ESG noise around Vale were forewarned.

WIDER VIEW OF RISK

Emerging market bond investors are not, traditionally, the most attuned to such issues. EM investing requires buying into some countries where human rights, social welfare and environmental standards are far below those in the West.

But that trend is changing and investors have welcomed the JPM initiative. "It's welcome, and I think we'll see the other bond benchmark providers follow suit," says Will Oulton, global head of responsible investment at First State Investments.

The indices are likely to stimulate interest in applying ESG to emerging market debt,



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A new era for Uzbekistan

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“We are capable of using any advantage the world is giving us. Any changes in global trade gives advantages and disadvantages and if you are smart enough you will be able to profit”

—Alisher Shaykhov, Uzbekistan's ambassador to the UK



of post-independence Uzbekistan” and has “begun to remove obstacles for the development of Uzbekistan’s economy”, according to Hans Holzhaacker, lead economist at the EBRD.

“This reform, along with others, is aimed at improving the business climate, facilitating foreign trade, overhauling the tax system, and will free the private sector, crucial for both sustaining growth and the diversification of the economy,” Holzhaacker says.

The government’s progress has received endorsements from many international bodies after decades of condemnation of Karimov’s authoritarian leadership and poor human rights record. The EBRD returned to Uzbekistan in 2017 after a decade, opening an office in Tashkent in November. As of February 28, its cumulative investment in the country stood at €860m and it has worked on 60 projects. It is running a current portfolio of projects worth €72m.

At a meeting at the Uzbekistan Embassy in London, Alisher Shaykhov, ambassador to the UK, told *GlobalMarkets* the next step for Uzbekistan was to be integrated into the world economy, and to be in the global value chain.

The government has set its sights on issuing its first Eurobond, having been emboldened by neighbour Tajikistan’s \$500m trade last September. Successful completion is seen as a key step towards international integration.

Uzbekistan has a lot to offer global investors: a strong credit profile, low public debt, strong FX reserves of \$28bn and an enviable rate of economic growth which is predicted to be 5.6% for this year, and 5.7% for next year, following the devaluation of the som and even after the official statistics have been redefined to meet global standards.

While Uzbekistan certainly has a lot to offer the world, the challenge for the government after so many years in isolation is fine tuning its message, understanding global market needs, and adapting its offering accordingly, says Alisher Djumanov, founder and president of New York-based asset manager A100 Financial and one of the founders of Silk Capital, a Tashkent-based investment bank.

He says the Eurobond would enable the country to showcase its wares on a global stage, and crucially in a language which will bring it

into line with the global financial community. Putting Uzbekistan on the Eurobond map is also expected to prompt further inflows of foreign direct investment. Shaykhov says the target is to attract \$4bn-\$10bn a year. Foreign investment will also be key to the development of Uzbekistan, and Djumanov says the country is already seeing faster flows of foreign investment, both direct and portfolio.

CAPITAL MARKETS

With private businesses underinvested for many years, attractive valuations are already attracting interest from foreign investors, says Silk Capital’s Djumanov. He says his firm is already seeing increased activity by foreign investors who have been approaching local businesses and making investment proposals. Uzbekistan’s State Statistics Committee reports \$3.2bn in foreign investments and loans, including \$2.42bn of FDI in 2017.

However, Drakinos says more legislation is needed, particularly regarding how foreign investors could participate in local companies, and what sort of partnerships would be formed. “Better governance is a must-have for corporates,” he says.

“Some clearer signalling and political will for privatisation would make a difference for large private sector investments including more FDI to take place. Reforms are happening, the environment is becoming more conducive for business, but compared to Kazakhstan, it is not as ready. There may be more time needed until we see a steady flow of genuine FDI.”

It is also early days for Uzbekistan’s capital markets, but attractive valuations and an expected re-rating of Uzbek stocks are expected to generate inbound demand, according to Djumanov. The Tashkent Stock Exchange, which is managed by the Korea Exchange, has a market capitalisation of only \$1.6bn but has no restrictions on foreign investment, apart from needing to gain permission from the central bank to invest in publicly listed banks.

While Uzbekistan’s economy is dominated by the state, there are many small to medium size enterprises that have plenty of potential for growth, many of which Djumanov says he expects to list locally.

However, Uzbekistan still has some way to

go in terms of bringing governance in line with international standards and creating the regulatory environment which would allow for the creation of a secondary market for government securities, for example. Illiquidity as well as a lack of transparency are likely to hold back investment. There are only \$325m of daily trades, despite 186 listed companies, according to analysis by Silk Capital.

“The government is looking into developing the country’s capital markets and the EBRD is availing its expertise to help. Other international players are also willing to chip in this effort as there is a lot to do,” Drakinos says. The EBRD also has an important role to play in developing Uzbekistan’s local bond markets and is working towards lending in sum to support non-hard currency earning SMEs.

GLOBAL TRADE

Ambassador Shaykhov says Uzbekistan is in a strong position to negotiate with its global trader partners, and that it will not let politics get in the way of sound economic policy. Uzbekistan has an abundance of natural resources with gold its top export as of 2016. It also has supplies of oil and gas, and is one of the world’s biggest cotton producers.

Shaykhov says that even in the midst of great divisions in global trade, with threats of further trade conflicts between the US and China never far away, Uzbekistan does not feel the need to choose sides. “We are capable of using any advantage the world is giving us,” he says. “Any changes in global trade gives advantages and disadvantages and if you are smart enough you will be able to profit. If you are too politically driven, you will lose a lot. This is why we make very strong divisions between politics and economics.

“We would like to co-operate with Afghanistan, Iran, Middle Eastern countries, the United States, Israel and others [and] that is based on economic sense.” President Mirziyoyev has already signed more than \$57bn deals and memorandums of understanding with many of the largest global economies. At the first UK-Uzbekistan Energy Forum in London at the end of April, Uzbekistan signed a memorandum of understanding with the UK government worth \$1.8bn.

Given its location, Russia and China are natural trading partners. In April 2017, the government signed \$16bn worth of deals with Russia and in May last year, it signed \$23bn worth of deals with China. Uzbekistan is also set to benefit from China’s vast Belt and Road initiative but while Shaykhov acknowledges this is a “very important opportunity,” he reiterates his country’s desire to keep an independent stance. “China is a strategic partner,” he says. “But you should not forget about your sovereign rights and interests, your national

Continued on page 12



TBC BANK

Shota Rustaveli, Medieval Georgian Poet
Niko Pirosmani (1862-1918)
Oil, Cardboard
Mirzaani Museum Collection

TBC Bank remains an avid supporter of Georgian culture. In 2017, a masterpiece by prominent Georgian painter was restored.

Sanctions

continued from page 6



should expect a permanent risk premium for Russian bonds. The market will open for new debt issuance but there will be more differentiation between issuers based on sanction risks."

Looking ahead, life for Russia's leading corporates has now probably changed for good. Karen Vartapetov, global ratings director at Standard & Poor's, says international sanctions on Russia would "remain in place in the coming years". She says that the new sanctions merely create "additional barriers to their removal," adding: "This means that Russia's access to international capital markets will continue to be restricted."

This will not bring the country's biggest firms, particularly those whose focus remains predominantly domestic, to their knees. "From Russia's perspective, limited access to international capital markets is not a big issue — at least in the short term... because Russia is not overly dependent on external financing," says S&P global ratings senior director Tatiana Lysenko. Indeed, for now at least, with oil prices edging higher, Russia's economy is likely to continue to slowly improve, with its current account surplus likely to continue to widen.

But that will be cold comfort to Rusal and to the handful of global-facing Russian corporates in industries from mining to energy to telecoms, many with equity listed in the likes of London and New York, and debt held by myriad global investors.

"If we see more sanctions of this type introduced, it will increase the uncertainty and volatility that already exists when assessing Russian risk," says one Moscow-focused debt markets banker. "More sanctions will mean everything selling off — and there will be no buyers." All of which means more confusion, chaos and uncertainty for Russia's leading firms, and a painful absence of order and logic. But then, maybe that was Trump's aim all along. **GM**

A new era for Uzbekistan

continued from page 10

interests so you should be strong enough to defend your interests."

Perhaps more important than Uzbekistan's larger partners is its commitment to regional integration. Alongside enhancing the competitiveness of Uzbekistan's economy and promoting green energy and resource solutions, supporting regional integration and economic co-operation is one of the EBRD's three focus areas for Uzbekistan.

"Uzbekistan has a relatively small GDP," Drakinos says. "It cannot be a major player in global trade right now. It is a double landlocked country and its closest port takes many days to reach. It will have to prioritise neighbourhood trade first. China and Russia are obvious trade partners but Kazakhstan is closer with more potential, and much less guilt."

Uzbekistan is the most populous country in Central Asia, home to nearly half of the region's population. Though the country has historically been distrustful of its neighbours, Mirziyoyev

Growth story



has made multiple visits to his Kazakh counterpart Nursultan Nazarbayev and signed \$1bn of deals in March last year. He is also focussing on improving relations with Kyrgyzstan, Turkmenistan and Tajikistan.

The president wants to work towards a strong and unified Central Asia with the countries working together, rather than competing, Shaykhov says. Leaders of the five countries came together on March 15 for a Central Asian summit in Astana, the first of its kind and a major step forward for the region, he says.

Regional integration is key not only to trade, but also to improve the stability of the entire region, according to Drakinos. "Having a stable Central Asia resolves a number of problems — one being possible manifestations of religious extremism," he says. "The underlying thinking is that stability and economic success will work as a buffer to lots of social and other pressures in the region. It is important that the international community including the EBRD, the World Bank and other IFIs support the country's international integration." **GM**

ESG

continued from page 8

finance or some other cabinet member does go on the road [to market a bond issue]. If you show you care about these issues, it is noticed, maybe not the first or second time, but eventually."

Poland has certainly noticed. It has started to co-operate with Sustainalytics on its ESG rating and took its environmental image seriously enough to issue the first ever sovereign green bond in December 2016.

"Nowadays, different aspects are taken into account by investors, and the overall perception of the issuer can very often influence an investment decision," says Piotr Nowak, Poland's deputy minister of finance. "People are more aware of climate change, and this attitude is also reflected in the financial market.

"We are in permanent contact with investors and we see the interest in our ESG activities. We try to be transparent with our environmental targets, that's why we take every opportunity to talk about these important issues."

Despite its recent brushes with the European Commission over judicial independence, Poland stands to benefit if EM investors focus more on ESG. It gets the largest weighting increase in the ESG EMBI index, up 2.3 percentage points. Nowak also thinks the green bonds have helped broaden the investor



base for Poland's ordinary bonds.

If more EM investors had been switched on to ESG six years ago, and had dumped Vale like Union Investment, might it and BHP have smartened up their act and prevented the Samarco disaster?

Counterfactuals can never be proved. But Scheepe at NN points to how it cut its weighting in "an Asian technology contract manufacturer" that hit the headlines in 2016 for "many weak labour practices". The issuer underperformed the benchmark for a time but has not collapsed — perhaps a sign that stakeholder pressure has corrected its course.

The growth of ESG has been gradual so far. But there are signs that it might be about to become exponential. While incremental improvements to investment performance are unlikely to bring this about, regulation is more likely to have that impact.

Until recently, many asset managers

Buried

Geamana village in central Romania partially submerged by polluted water tainted with cyanide and other chemicals

thought their fiduciary duty to maximise returns for clients prevented them from taking into account softer factors such as ESG. But in March, the European Commission's Sustainable Finance Action Plan turned this on its head. Investors now have a duty to consider ESG — and more than that, will have to ask clients about their sustainability preferences.

Before long, JP Morgan might find its ESG indices have supplanted the regular EMBI as the go-to benchmark. At that point, EM companies and governments will certainly sit up and take notice. **GM**

Welcome to the 2018 EBRD Annual Meeting and Business Forum



By Sir Suma Chakrabarti,
President of the EBRD

Welcome to our 2018 Annual Meeting and Business Forum in Jordan. It is a special moment for us, because it is our first such conference in the Middle East, a region where we started investing only six

years ago but where we are already making a tangible difference. The Annual Meeting will provide an opportunity to take stock and look ahead.

Under the theme “Energising Economies”, we will examine the challenges that the economies where we invest face in the immediate future, and also in the longer term.

Our panels will discuss topical issues such as the “Future of Work”, examine whether the fintech revolution in the financial sector is an opportunity or a threat and consider ways to mobilise “impact investment”. These are timely debates that will inform the future orientation of our institution.

Identifying today’s challenges and converting them into tomorrow’s opportunities has always been our guiding principle. The EBRD was a pioneer in promoting the private sector, which remains one of our core competencies and tasks. Early on we recognised sustainable energy as a key task and we are walking the talk: since 2006, the Bank’s green investments have amounted to more than €26 billion, with expected emission reductions of around 90 million tonnes.

Last year alone, our financing for the green economy rose – from €2.9 billion in 2016 – to €4.1 billion, accounting for 43 per cent of total annual financing. The Bank had pledged, ahead of the 2015 Paris Agreement, to devote 40 per cent of its financing to green investment by 2020. This goal has been met three years early.

Equally impressive is the delivery in our newest region, the southern and eastern Mediterranean (SEMED) region, where we have been investing in Egypt, Jordan, Morocco and Tunisia since 2012. Last year we welcomed both Lebanon and the West Bank and Gaza into the SEMED family and we launched our first investments there in March 2018.

In fewer than six years we have invested more than €6.8 billion in more than 175 projects in SEMED. During 2017 alone we saw record investments exceeding €2.1 billion in 60 projects in the region and €103 million of donor funds were committed.

Our investments cover the full depth and breadth of what the EBRD can offer: we financed the largest solar park in Africa with a US\$ 500 million investment in Egypt’s Benban development. We are equally committed to support for a microfinance institution such as Tunisia’s Enda Inter-Arabe, through which we reach out to private entrepreneurs who all too often remain below the radar screen of lenders.

This year’s Annual Meeting is a perfect opportunity to experience the full extent of the EBRD’s activities. We will display our pioneering work in financing women’s entrepreneurship and show how our economic inclusion strategy reaches out to those members of society who are left on the margins of economic progress.

The conference will also be a great opportunity to learn more about our host country, Jordan. At the centre of a volatile geopolitical region, the country has made impressive progress in its economic development in recent years. It has responded with generosity and resilience to an unprecedented refugee crisis caused by the civil war in Syria.

The EBRD and its donors have stood by Jordan with our refugee response aimed at strengthening infrastructure and fostering entrepreneurship and supported by investments that are overwhelmingly in the private sector.

We have also worked alongside the authorities in Jordan as they created the conditions needed to develop renewable energy sources and take advantage of the country’s abundant sunshine.

It was the authorities’ creation of a stable regulatory environment and the adoption of sustainable tariffs that allowed for the creation of a competitive and viable renewables sector. We now note with great satisfaction that other countries are embarking on a similar path.

On this journey the EBRD remains a trusted guide and a reliable, long-term partner, inspired by a powerful mandate and driven by its shareholders’ support and commitment. The Annual Meeting provides the perfect opportunity to join our voyage.

What's happening

For the most up-to-date schedule information, please download the MyEBRD app available from the Apple, Android and Blackberry store

Don't Miss

5.00pm – 6.00pm Wednesday

Country outlook: **Russia: Macroeconomic Developments and Investment Opportunities**

Moderator: **Denis Morozov**,

Executive Director, EBRD

Speakers: **Anton Gubkin**, Chief Executive Officer, Hlebprom; **Vladimir Kolychev**, Deputy Minister of Finance, Russian Federation; **Igor Kustarin**, Director, development of regions and investment climate, Agency for Strategic Initiatives; **Maxim Lapin**, Chief Financial Officer, Moscow Exchange; **Dominic Reed**, Partner, UFG Private Equity

Location: Mount Nebo Hall, Sea Level (-1)



Moderator: Laurie Spengler

Keynote: Jurgen Riegerink

Speakers: Daniel Calderon, Jay Collins, Jacco

Minnaar, Hashim Shawa, Muna Sukhtian

Location: Wadi Rum Hall, Ground Floor

4.30pm – 5.30pm

Forum partner session: **Innovation in Banking, (UniCredit session)**

Moderator: Andrea Diamanti

Speakers: Joze Lenic, Giovanni Luigi Lucini,

Zeki Onder

Location: Al-Harannah 5, Level 1

Of Note

11.30am – 12.30pm Thursday

Country outlook: **Ukraine: An Attractive Destination for Investors- How to Maintain the Momentum?**

Moderator: Francis Malige

Speakers: Sevki Acuner, Roman

Borysenko, **Oleksandr Danyliuk**, Lenna

Koszarny, Yuliia Kovaliv, Maksym

Nefodov, Igor Tynnyi

Location: Dead Sea Hall, Sea Level (-1)



Wednesday, May 9

10.00am – 11.00am

Board of Governors' Opening Session

Speakers: His Majesty King Abdullah II ibn Al Hussein, Imad Najib Fakhoury, Suma Chakrabarti

Location: Philadelphia Hall, Ground Floor

10.00am – 11.30am

Seminar: **Working with Civil Society to Increase Resilience to Climate Change and Water Scarcity**

Moderator: Marianna Wiedenbeck

Speakers: Basim Al Saleh, Susan Goeransson, Tarek Hosny, Khaled Irani, Dureid Mahasneh

Location: Petra Hall, Sea Level (-1)

11.30am – 1.00pm

Discussion panel: **The Future of Work: Addressing Tomorrow's Skills and Jobs Challenges**

Moderators: Barbara Rambousek, Mattia Romani

Keynote: Lucy Hockings

Speakers: Ayman Ismail, Mark Keese, Barbara Rambousek, Dana Reizniece-Ozola

Location: Philadelphia Hall, Ground Floor

12.00pm – 1.00pm

Country outlook: **Uzbekistan:**

Now is the Time to Invest

Moderator: Natasha Khanjenkova

Speakers: Dilek Demir Fulat, Sukhrob

Kholmuradov, Cyril Muller, Sardor Sagdullayev

Location: Wadi Rum Hall, Ground Floor

1.00pm – 2.00pm

Networking Lunch

Location: Terrace, Sea Level (-1)

2.00pm – 2.30pm

Special Event: **The World in 2018 – Opportunities and Challenges**

Moderator: Jonathan Charles

Speakers: Neil Buckley, Sergei Guriev, Alexia

Latortue, Tarek Osman

Location: Mount Nebo Hall, Sea Level (-1)

2.00pm – 3.30pm

Seminar: **Supporting Youth Inclusion**

Through Civil Society Engagement in SEMED

Moderator: Alessandra Antolini,

Speakers: Rakan Al-Rwad, Eman Alaraj, Rasha

Barakat, Hafez Neeno, Barbara Rambousek,

Mays Sharari

Location: Petra Hall, Sea Level (-1)

2.30pm – 3.30pm

Discussion panel: **Energy in Fast Forward**

Moderator: Nandita Parshad

Speakers: Nick Butler, Khaled Irani, Andrea

Lovato, Katarina Mathernova

Location: Al-Harannah 5, Level 1

2.30pm – 5.30pm

Board of Governors' Plenary Session

Location: Dead Sea Hall, Sea Level (-1)

3.00pm – 4.00pm

Forum partner session: **An Exceptional**

Growth Story in the European Cable and

Media Industry (United Group session)

Moderator: Tihomir Ladiši

Speakers: Victoriya Boklag, Alain Pilloux, Jean-

Pierre Saad, Dragan Šolak

Location: Mount Nebo Hall, Sea Level (-1)

4.00pm – 5.45pm

Discussion panel: **Mobilising Impact Investments**

Thursday, May 10

8.15am – 8.45am

Networking Breakfast

Location: Dead Sea Hall, Sea Level (-1)

8.45am – 9.45am

EBRD Sustainability Event

Moderator: Jonathan Charles

Speakers: Alistair Clark, Jan Piotrowski

Location: Dead Sea Hall, Sea Level (-1)

10.00am – 11.30am

Country outlook: **Jordan: Fostering**

Investment, Trade and Innovation

Throughout the Region and Beyond

Moderator: Jonathan Charles

Keynote: Suma Chakrabarti

Speakers: Suma Chakrabarti, Sahl Dudin,

Sheldon Fink, Omri Gainsburg, Reem Goussous,

Sergei Guriev, Zeid Husban, Ahmad Khalifeh,

Loay Malahmeh, Tamam Mango, Ines Rocha,

Muhammad Shehadeh, Steven Yoogalingam

Location: Philadelphia Hall, Ground Floor

12.00pm – 1.00pm

Country outlook: **Turkey: Economic Inclusion**

for Competitiveness

Moderator: Arvid Tuerkner

Speakers: Lida Kita, Selin Oz, Kivanc Ozer,

Nazli Soydan, Kemal Çağatay Imirgi

Location: Wadi Rum Hall, Ground Floor

1.00pm – 2.00pm

Networking Lunch

Location: Terrace, Sea Level (-1)

2.00pm – 3.15pm

Discussion panel: **FinTech – Opportunity or Threat?**

Moderator: Andre Kuusvek

Keynote: Jiang Yang

Speakers: Urmas Peiker, Bassem Salfiti,

Vilius Sapoka

Location: Mount Nebo Hall, Sea Level (-1)

2.00pm – 3.15pm

Event: **Green Infrastructure: Setting High Quality Standards For The Emerging Asset Class (EBRD/WEF event)**

Moderator: Alex Wong

Speakers: Iyad Dahiyat, Susan Goeransson,

Lasse Ringius, Katharina Schneider-Roos,

Anne de Pazzis

Location: Al-Harannah 2, Level 1

2.00pm – 3.30pm

Event: **The EU External Investment Plan (EIP): a New Frontier for Development Finance (EBRD/European Commission event)**

Location: Al-Harannah 5, Level 1

2.00pm – 7pm

Event: **Trade Facilitation Programme***

Location: Dead Sea Hall, Sea Level (-1)

*by invitation only Kamola Makhmudova

makhmudk@ebrd.com

4.30pm – 5.00pm

Event: **Community Initiative**

Charitable donation by the EBRD Community Initiative. Location: Networking Area, Sea Level (-1)

5.00pm – 6.30pm

Reception: **EBRD Alumni Reception***

Location: Wadi Rum Hall, Ground Floor

*by invitation only

DownTime

6.30pm – 8.00pm Wednesday

Reception: **Cultural Performance and Reception***

Location: Mövenpick Resort & Spa

Dead Sea

*for all participants



SARAJEVO
2019



European Bank
for Reconstruction and Development

2019 ANNUAL MEETING & BUSINESS FORUM

We look forward to
welcoming you next
year in Sarajevo.

8–9 May 2019

The EBRD Business Forum will bring together prominent investors, senior business executives and policy-makers from around the world for an extensive programme.

Programme to include:

- Challenging and insightful discussions
- Investment Outlook Sessions
- Numerous networking occasions
- Associated events
- Opportunities to exchange views with the people who make things happen across the EBRD region.

For information and regular updates:
www.ebrd.com/am



Recent Capital Market Solutions provided by RBI:



Republic of Belarus

USD 600,000,000

6.20% Sovereign Bonds due 2030

Bookrunner

Feb 2018 Belarus



USD 300,000,000

5.075% Loan Participation Notes due 2023

Bookrunner

Feb 2018 Russia

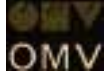


USD 500,000,000

3.949% Senior Bonds due 2023

Bookrunner

Jan 2018 Russia




EUR 1,000,000,000

1.00% Senior Notes due 2026

Bookrunner

Dec 2017 Austria



EUR 800,000,000

2.50% Senior Notes due 2024

Bookrunner

Oct 2017 Switzerland



Republic of Tajikistan

USD 500,000,000

7.125% Notes due 2027

Bookrunner

Sep 2017 Tajikistan



EUR 1,500,000,000

0.25% Fixed Rate Notes due 2024

Bookrunner

Sep 2017 Austria



EUR 120,000,000

Schuldscheindarlehen

Bookrunner

Jul 2017 Hungary




Republic of Belarus

USD 1,400,000,000

Dual Tranche Fixed Rate Notes due 2023 and 2027

Bookrunner

Jun 2017 Belarus



USD 700,000,000

8.875% Perpetual Additional Tier 1 Bonds

Bookrunner

Apr 2017 Russia



Republic of Slovakia

EUR 2,000,000,000

1.875% Fixed Rate Bonds due 2037

Bookrunner

Mar 2017 Slovakia



USD 600,000,000

5.125% Senior Bonds due 2022

Bookrunner

Jan 2017 Russia

Experience extending beyond Central and Eastern Europe.
Customised solutions for all Issuer's needs.

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