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Crunch time for debt-ridden Argentina ahead of IMF showdown

By Oliver West and Thierry Ogier

Argentine policymakers are landing in Washington this week with its record-breaking $57bn IMF programme in grave difficulties. But it is Alberto Fernández — almost certain to be president after the October 26 elections — whose attitude to the fund will decide whether Argentina takes the easy or hard way to an inevitable fiscal squeeze.

Finance minister Hernán Lacunza and central bank governor Guido Sandleris will meet new IMF managing director Kristalina Georgieva tomorrow, but any creditors will remain mired deep in uncertainty until the new government is in place.

Doubts about the future of the IMF programme and economic policy under Fernández, who has former president Cristina Fernández as his vice-presidential candidate, triggered a sharp sell-off in the peso and sent Argentina's debt levels soaring.

Incumbent President Mauricio Macri increased welfare payments, cut certain taxes, implemented capital controls and announced a debt restructuring — dashing hopes of making fiscal targets. The IMF then suspended disbursements on Argentina's programme.

"On day one, Fernández should engage with the Fund," Graham Stock, head of EM sovereign research at BlueBay Asset Management, told *GlobalMarkets*. "Any future disbursements from the IMF will be conditional on a structural reform agenda that will

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Macri and Fernández: facing the voters

Exclusive

Brics bank on the move: NDB targets $41bn lending as new members sign up

By Elliot Wilson

The New Development Bank (NDB) is on track to quadruple its lending within just eight years as it brings in a host of new countries as partners, the fast-growing multilateral institution said yesterday.

In an exclusive interview with *GlobalMarkets*, NDB president KV Kamath said the bank would

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Taiwan CB may have vast hidden $ reserves, but Treasury could turn blind eye to currency manipulator charge

By Owen Sanderson

Taiwan's central bank may have as much as $130bn in additional undisclosed dollar reserves, according to calculations from Brad Setser of the Council for Foreign Relations.

Hidden dollar reserves of this size would clearly make Taiwan a 'currency manipulator' under the US Treasury's definition, but US-China confrontation may mean the country gets a pass.

The hidden reserves, according to Setser, arise from hedging activity conducted by the central bank. Since the global financial crisis, Taiwanese life insurers have bought huge volumes of offshore dollar bonds over the last decade, and hedged these back to Taiwanese dollars.

The central bank is the main

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FINAL WORD

Henrik Normann

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Taiwan

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counterparty on the other side of the trade, according to the evidence that Setser lays out, meaning it is selling dollars up front and committing to buy them back later. Life insurers, according to Setser's data, hedge about $250bn of their $465bn in dollar assets.

"Intervention on this scale meets the classic definition of currency manipulation, and the US administration is certainly worried about the trade deficit… but that's balanced against the current context around China," said Setser, a former staff economist at the US Treasury. "There may be pressure not to look too closely at it, and leave Taiwan a bit off the hook because it's not communist China."

The US Treasury defines currency manipulation according to three main criteria — a bilateral trade surplus over $20bn, a "material" current account surplus over 3% of GDP, and "persistent" one-sided currency intervention, totalling at least 2% of GDP over 12 months.

The Treasury's last report on currency manipulation shows Taiwan has $466.8bn of official reserves, which increased $10bn in the previous year. It had a $16bn trade surplus, and a 12% current account surplus. However, the report shows FX interventions of only 0.4% of GDP. The trade surplus is below the $20bn cut off — but any adverse movement in the US-China trade talks could easily push it over the limit.

Because the positions are continually rolled over, they reduce the size of reported reserves — Taiwan's central bank gives life insurers dollars to buy assets up front, and commits to buy them back later at a predetermined price.

Taiwan is not a member of the IMF, so does not report its derivative exposures according to the standard templates required by the Fund, making it far harder to spot the intervention. But Setser and an anonymous co-author have used regression techniques usually used for figuring out a fund's exposures to try to work back from the central bank's profit and loss data to its positioning.

The IMF's Asia-Pacific division is preparing a big new report on capital flows in Asia, presented on Tuesday at the Annual Meetings in Washington DC. But the authors, contacted by *GlobalMarkets*, said that a lack of data on hedging flows meant that these could not be properly incorporated into the study — and that Taiwan, due to a lack of disclosure, was excluded from the scope of the study.

Bank chief pledges to get 'biggest bang for the dollar' in fight on poverty

By Phil Thornton

van Trotsenburg: no more capital increases

The World Bank Group will be judged on how it delivers on the mandate it was given as part of its recent $65bn capital increase to deliver results "on the ground", particularly in low income countries, its incoming managing director has said.

Axel van Trotsenburg told *GlobalMarkets* that the bank's president David Malpass was determined to translate the financial packages into effective country programmes to get the "biggest bang for the dollar".

In his first comments since he was appointed managing director earlier this month, van Trotsenburg also appeared to rule out going back to shareholders for further funding or embarking on more cost savings.

Last year shareholders approved a package of $7.5bn of paid-in capital for the International Bank for Reconstruction and Development (IBRD) that lends to middle income countries as well as a $52.6bn callable capital increase for IBRD, and $5.5bn paid-in capital for the International Finance Corporation that works with the private sector.

"Over the last couple of years, we have negotiated pretty much the most far-reaching financing packages ever for the bank," he said. "These agreements were accompanied by a vision for the World Bank as a very proactive multilateral force in the development area."

He said Malpass, who was the lead negotiator for the US Treasury on the financing package, was determined to ensure they delivered results in terms of improving the welfare situation in many countries, particularly by reducing poverty.

Malpass, who took over as president in April, has inherited the twin goals set by his predecessor, Jim Yong Kim, to end extreme poverty by 2030 and promote shared prosperity by improving the living standards of the bottom 40% of the population in every country. The bank is also focused on helping achieve the United Nations' sustainable development goals.

Asked whether the huge task ahead might mean that the bank would need to go back to shareholders for further funding, van Trotsenburg said: "Any additional capital increase? No. That was also explicitly discussed during the capital increase discussions."

He also played down fears of further cost cutting or reorganisations that have typically followed the appointment of a new bank president, saying that Malpass had put a lot of stress on continuity.

He said the finance package had included a commitment to find $1.1bn of savings by 2030. "We are on track and we are going to deliver on those commitments."

NDB

Continued from page 1

use its annual summit next month in Rio de Janeiro to decide which sovereigns it will invite to join the institution that was established by the Brics countries — Brazil, Russia, India, China and South Africa — just five years ago.

He said membership was both "under active consideration", and "open to all members of the United Nations". Once new members were in place, he said, new net annual lending to projects would rise "very quickly" to $18bn, from a projected $10bn in 2020, and $7bn-$8bn this year.

Kamath expressed his pride at the rate of lending growth managed by a development bank that did not exist until 2014. "Ten billion dollars [in new annual lending] is a sizeable number," he said. "Other banks took far longer to hit that number, which we are reaching in just over five years."

Leslie Maasdorp, the bank's finance director, projected new annual lending would more than quadruple to $41bn by 2027. "That's a very conservative number, and I believe we will exceed it as we are planning to bring in more partners," he said. He tipped the NDB's roster of sovereign members to increase five-fold or more by the middle year of the 2020s, and to include developed and developing countries alike.

Kamath: NDB is open to all

UNDER THE RADAR

The NDB has matured into an effective multilateral institution that has remained under the radar, rarely giving sit-down interviews with the media. But Kamath and his team have a clear sense of their identity and destiny. Based in Shanghai, it has an outstanding loan book of $10bn and a triple-A credit rating, and is focused on two specific ambitions: making local-currency lending more prevalent, and alleviating the negative environmental impact of new infrastructure, agriculture, energy and industrial projects in the emerging world.

Kamath pointed to lessons learned from the heady rate of development in China, one of the NDB's five founding members, along with India, Brazil, Russia and South Africa.

Rapid growth has resulted in "a lot of damage to [China's] environment. As India and much of Africa develop, damage will occur, and we will work to mitigate that damage happening and, where possible, repair it. A lot of our projects will focus on that."

Maasdorp pointed to the importance of, wherever possible, pricing every loan the NDB does in the relevant local currency. "The IMF has been providing loans to fragile countries denominated in US dollars for decades," he said

Both Kamath and Maasdorp are as set to step down next year in line with the NDB's single five-year fixed-term limits on senior executives. Kamath says he will step down in July 2020, to be replaced by the next president, whose identity will be chosen by Brazil.

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• / **Pols' Pizza Pals:** The idea that central bankers are automatons who love little more than wrangling spreadsheets flies out the window when you walk into Il Canale, a gloriously iconoclastic Georgetown pizza joint. Yes, the wall of fame boasts glossy snaps of actress Julianne Moore tucking into a spicy pepperoni, but pride of place is reserved for a cheery looking Mark Carney, head of the Bank of England, and a grinning Ignazio Visco, governor of the Bank of Italy. Say cheesy deep dish!

• / **Grounded:** The conference rooms and auditoriums, not to mention the bars and saloons, are full as ever with bankers looking to hitch their wagon to active debt management offices, but one big-ticket investor is notable only for its absence. France's BNP Paribas Asset Management is nowhere to be seen in Washington this year. The reason: all their executives have been grounded until January next year, thanks to a bank-wide travel ban. Austerity ahoy!

• / **Hedge it is:** News from the Ronald Reagan Building, the only building in the nation's capital whose façade looks like it escaped from the set of the film Roman Holiday, and whose inside resembles a branch of the Church of Scientology. When *OOTW* dropped by to pick up his press badge, a whey-faced staffer at the IIF was busy rolling out a long snaky line of green plastic hedges, to make the granite backdrop blend in a bit. We'd venture a joke about the dangers of unregulated hedging flows, but perhaps we'll leave that up to you, dear reader.

• / **Creaky crooners:** Is Russia changing its ways? A nation famous for flooding every public event with leggy blondes dealt a blow against age and beauty discrimination. The 'Cultural Event' Russia laid on in the IMF Atrium featured five musicians in traditional attire — cotton thread-count 1,00-plus — earnestly strumming balalaikas. Average age: 65. Hair: crispy white. Complexion: vodka. Glory to the Motherland!

• / **Heeeeeere's Signore:** Like the first cuckoo of spring, there's something comforting about *OOTW*'s inaugural autumnal sighting of Italy's premier business writer, known by his admiring Roman colleagues as 'Signore Primero Uno'. This year he was spotted outside a World Bank panel on faith and development agencies, sporting a jaunty yellow tie and a toothy smile that would put the former Juventus manager Max Allegri's wolfish grin to shame.

Trump's Turkey sanctions threat has no teeth, say investors

By Virginia Furness and Lewis McLellan

Investors remained sanguine yesterday about the threat of a Turkish retaliation against US sanctions over its invasion of northeast Syria that came a day after the US filed criminal charges against Halkbank.

The currency held up, hovering in a range between TL5.85 and TL5.9 to the dollar despite the risk of escalating tensions and huge fines that could hit Turkey's state-run bank. Turkish bank stocks were up 3% last night, having dropped 10% the day before as investors said there was little will to see geopolitical escalation between two Nato members.

However, with Turkey's economy in recession, and its high debt levels, they warned that any move to impose tougher sanctions could be catastrophic.

Yesterday foreign minister Mevlut Cavusoglu told Parliament that Turkey was ready to retaliate, saying that all threats and sanctions against his country were unacceptable. The comments marked a ramping up of tensions between the two countries, and come a day after the US filed criminal charges against Halkbank accusing it of fraud, money laundering and violating US sanctions against Iran.

US president Donald Trump tweeted on Tuesday that the US would stop negotiations on a bilateral trade deal and re-increase steel tariffs on Turkey to 50% — the level they were before a reduction in May.


Cavusoglu: ready to hit back

BUY THE DIP

Bryan Carter, head of emerging market fixed income at BNP Paribas Asset management, said that there seems little appetite from the geopolitical community to impose harsher sanctions. His funds have been neutral on Turkey this year.

"Turkey is a Nato member, and because of their pivotal role in the region for the Syrian conflict and the refugee issue, investors want to discount or dismiss any rumours," he said. "People got hyped up by the new sanctions but the Trump tweet had little teeth. It is a buy the dip story — and it has been all year."

Colin Croft, a fund manager at Jupiter, said the attractive valuations of Turkish equities have also meant that there has been very little selling since the invasion. "There is a sense that the US and Turkey want to keep their relationship. If they sanction Turkey too hard, they risk pushing it away into the orbits of other countries such as Russia, people are looking at this and taking some comfort from this fact."

But he warned the situation was fluid. "You could come in tomorrow and find a ceasefire or a very serious situation and that might have some economic effect, but the sanctions they have put in place so far haven't been that tough," he said. "Were the US to place any restrictions on the banking system, or lending to Turkey, then that would certainly prompt concern."

Sri Lanka debt trap with China claim is 'rubbish' — central bank

By Rashmi Kumar

The Sri Lankan central bank has dismissed claims that it is trapped by excessive debt exposure to China, insisting that the south Asian country is encouraging more equity investments from the Asian country than debt.

"There is a misperception," P Nandalal Weerasinghe, senior deputy governor at the Central Bank of Sri Lanka, told *GlobalMarkets* in an interview. "If you look at Sri Lanka's debt, only around 10% is from China. All the Chinese debt is project based, they are 20 to 30 year loans with sustainable grace periods and interest rates that are much below the commercial rates at which we raise international sovereign bonds.

"The perception that we are in a Chinese debt trap is just complete rubbish," he added. "It's all rubbish. We're not in a Chinese or any other debt trap."

The IMF said in a country report in May that China's outstanding official loans to the Sri Lankan central government amounted to around $3bn at the end of 2018, or 9% of external central government debt, versus 13% to the ADB, 10% by Japan and 10% by the World Bank.

EQUITY SWAP

However, it has become clear over the years that ties between Sri Lanka and China are strong, reflected in the numerous bilateral tie-ups between the two countries on projects and funding. Hambantota Port in the southern coast of Sri Lanka was originally financed using $1.1bn of bilateral loans from China that mature in 15 to 20 years. That loan was restructured in 2017, with Sri Lanka reaching a 99 year concession agreement with China Merchant Port Holdings, which saw the company take an 85% stake in the port and pay Sri Lanka $1.1bn in return.

Weerasinghe admitted that Sri Lanka had a strategic place in China's Belt and Road initiative but pointed out that the South Asian country had been trying to wean itself off of China debt, by signing equity agreements instead, citing the example of the Hambantota port.

"Our debt exposure has to be reduced not just to China but all the countries. The medium to long-term plan is to address the major reasons for this high debt to GDP ratio, which is that we are running very high fiscal deficits. That is the underlying reason why we have high debt," he said.


Weerasinghe: China debt levels overdone

Alicia Garcia Herrero, Asia Pacific chief economist at Natixis and a former IMF economist, told *GlobalMarkets* that China was not investing in the BRI but was simply lending to the BRI. But she added that it's not a "debt trap" in the sense that China traps the countries, but instead the countries are trapping themselves. "And they do so because there is more funding available. It is not fair to just blame China for this," she added.

Oil rush ahead for Brazil as Guedes talks up Petrobras sell-off

By Thierry Ogier

An imminent programme of oil auctions will alleviate Brazil's fiscal burden in the short term while a major pension reform will address long-term issues, the country's economy minister has told *GlobalMarkets*.

Big oil companies are expected to scramble early next month for the first major auction for five years of pre-salt oil, ultra-deep water reserves, as investors are returning to Brazil thanks to a more friendly business-friendly environment.

"Everybody is coming to bid. It should be a huge auction," Paulo Guedes told *GlobalMarkets* in an interview. "This will unlock the oil and gas frontier. Brazil will be the oil capital of the world investment for a certain time."

Brazilian officials say that at least R4$100bn ($34bn) will go to the government and other federal entities. As a result, the government's primary fiscal deficit is expected to be less than R$90bn for the first time in five years and well below its official target of R139bn.

Total state revenues have been estimated at around $150bn over 35 years. In addition, the government expects some $220bn in fiscal savings from the pension reform over 10 years. The key reform is now in the final stage of voting in Congress and the Senate is due to approve it next week.

Fiscal deficits have long been a key weakness of the Brazilian economy, and markets have been supportive of Guedes' efforts. "Guedes' message is very clear. There is a broad agreement on the economic policy direction. That is the underlying force," said Martin Castellano, chief Latin America economist at the Institute of International Finance.

PRIVATISATION DEBATED

Guedes is also in favour of privatising Petrobras, the oil company that was at the centre of a vast corruption scandal in recent years, although he has yet to convince President Bolsonaro that Brazil should do so. "I keep saying what I have always said," Guedes said.

"I would privatise all state companies, but the president and Congress may not want to privatise all of them. But as a rule, I do," he said. "The president understands that, and he is giving us his support. How far will he go? It still remains to be seen."

Guedes: Brazil will be oil capital of the world

Many other reforms are in the pipeline prompting some market analysts to say the government may have opened too many fronts at the same time.

"There are many interesting initiatives in the pipeline. The market is curious to know what the next priority is. It seems very ambitious, but it would be rather difficult to approve all of them due to Brazil's very fragmented political system," said Mario Mesquita, chief economist at Itaú Unibanco, Brazil's largest bank.

Libra bounces back as central banker hails digital currency benefits

By Lewis McLellan

Libra, Facebook's digital currency project, received a boost yesterday in the wake of last week's exodus of several high-profile backers with a leading central banker hailing the potential benefits of a global digital currency.

Mark Carney, governor of the Bank of England, said he favoured a global digital currency, backed by a basket, as a means of reducing the world's reliance on the dollar and for making global payments cheaper and more efficient.

Carney said he favoured a public currency, but praised Libra for exposing the shortcomings of the status quo, saying: "[Libra] has put these questions on the table — why doesn't a public infrastructure exist yet? At the core, a central bank digital currency should be there. Which raises the question of a horse race with other ways to reform the payment architecture."

David Marcus, CEO of the Libra Association made up of supportive companies, said: "It takes time to address those regulatory concerns, but once that's done, we expect to see more banks and traditional financial services firms join the association."

Facebook's ambitions for Libra were dealt a blow last week when it lost several of its highest profile backers including Visa, Mastercard and Paypal in the wake of a critical hearing in front of a committee of the US House of Representatives.

However, Facebook's reach means that it remains the digital currency project with the best chance of global adoption.

The concerns over Libra have been offset by enthusiasm for the advantages central bank digital currencies could bring in terms of expanding financial inclusion. Jingdong Hua, treasurer of the World Bank, said: "A central bank digital currency transformed financial inclusion in Kenya. The M-Pesa brought financial participation from under 20% to over 90%."

Hua pointed out that a digital cross-border transaction system offered savings to some of the poorest members of society. "A maid working in Hong Kong sending money home to the Philippines might pay 5% to 7% on her remittances. By removing those costs, a digital currency can provide a real, tangible benefit."

Carney: favours a public digital currency

NEW RISKS

But some analysts said a global digital currency, whether private or created by a public entity, created new risks. Sonja Davidovic, an IMF economist and digital advisor, said that economies that adopted a global digital currency would face a risk of what she called "libra-isation", analogous to dollarisation, which could cause dangerous depreciation to emerging market currencies.

"In a sense, it is even more dangerous than dollarisation, because dollarisation is constrained by the ability to get hold of dollars," she said. "With Libra, there would be no such barriers, and it could have a huge effect very quickly."

Multilaterals accused of funding forest destruction

By Elliot Wilson

Multilateral development banks are not doing enough to stem the rate of forest destruction around the world — and in some cases are funding projects that speed up the loss of tree cover, experts warn.

Ladd Connell, environment director at the Bank Information Centre, a Washington-based non-profit that lobbies for sustainability in development finance, said the worst culprits were the African Development Bank, the Inter-American Development Bank and the International Finance Corporation.

He pointed to the example of a palm oil plantation in Gabon, set to be financed by a $285m facility from the IFC. The private sector arm of the World Bank has since postponed the facility, without actively cancelling it, but Connell questioned why the multilateral had offered it at all, "given that it would have clear-cut primary tropical forest in one of the most heavily forested countries in the world".

The World Bank, he said "was doing a better job" than some development banks but warned that it "still was not doing enough". He noted that the multilateral "doesn't have an active policy against [funding projects that] log in primary forests", a startling fact given that deforestation has been a global issue of concern since at least the 1990s, and that this year has been dominated by images of forests ablaze in places as far afield as Indonesia, Siberia and the Amazon.

JOINED-UP THINKING?

Development banks faced three obstacles, Connell said. The first is funding: the World Bank spends just 4% of the amount it allots to agriculture to projects that preserve and protect forests. The second is a lack of joined-up thinking, with forestry management seen as less valuable to agencies that preach the values of growth and employment, than, say, agriculture or new infrastructure.

Finally, he said multilaterals mislead themselves into believing they do more than they are.

Garo Batmanian, lead environmental specialist at the World Bank, admitted that the Bretton Woods institution "can do more and should do more" to protect disappearing forests in areas like Africa, Asia and Central America.

But he said the larger and more layered challenge was to convince governments, notably in the developing world, to view forests as valuable and irreplaceable resource. "We have to work with governments everywhere to do that," he said.

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Europe to fix focus on SMEs in revamped CMU project

By Tyler Davies

Finland's finance minister has said that EU member states should focus on the needs of small and medium sized companies as they mull measures to reinvigorate European capital markets.

Finland is in an important position to drive the direction of new EU legislation, given that it holds the presidency of the Council of the EU until January.

Mika Lintilä, the country's finance minister, told *GlobalMarkets* that he thought SMEs should be a "priority" for financial policy in the next legislative term of the European Commission.

"Especially start-ups and small, innovative companies, which often require a mix of debt and equity funding or have limited access to bank funding," he said.

"In order to contribute to growth in an environment that fosters investment, barriers to cross-border growth for young, small and innovative companies should be eliminated."

Lintilä's comments arrive amid a renewed political push towards deepening financial markets in Europe — an initiative referred to as Capital Markets Union under Jean-Claude Juncker's Commission.

Last week, for example, a high level EU expert group published a report suggesting a series of ways in which member states could move the project into a "new phase".

The suggestions included numerous measures aimed at helping smaller European companies broaden their access to capital.

OFFICIAL SUPPORT

One of the more eye-catching proposals was the suggestion that the EU could set up a fund to support SMEs and mid-cap companies through the costly process of launching an initial public offering.

The new fund could be financed through the structural resources of the EU, through the member states themselves or by the European Investment Bank, according to the expert group's report.

"Closer and visible co-operation between public and private funding can lead to anchor investors showing willingness to invest," said the authors of the paper, who were commissioned by the finance ministers of France, Germany and the Netherlands.

The proposal builds on an earlier pledge from Ursula von der Leyen, president-elect at the European Commission.

In her political guidelines for the next European Commission, she said that any EU investment in an IPO fund for SMEs could be matched by commitments from private investors.

Economists push for ECB policy rethink under Lagarde

By Tyler Davies

Nielsen: how long can low rates last?

Leading private sector economists have hit out at the strategy of the European Central Bank, calling for incoming president Christine Lagarde to undertake a fundamental review of monetary policy when she takes charge later this year.

The ECB has dropped some of its key interest rates to -0.5% and has been clear in stating that they will remain in negative territory until there are signs of growth in inflation. But economists are keen to see some soul-searching at the top levels of the eurozone's central bank.

Erik Nielsen, global chief economist at UniCredit, told *GlobalMarkets* he was hopeful that Lagarde, who replaces Mario Draghi as ECB president in November, would launch a full review of the central bank's strategy.

"I would love a real review of policy," he said highlighting the relationship between the level of unemployment and the rate of inflation. "Do they really think the Phillips curve is flat and there is nothing wrong with what they are doing?

"If that is the case, why didn't they push the pedal to the metal earlier? They really need to be asking themselves these types of questions. Today the financial system remains on life support because of low or negative rates. How long can that last?"

"Something has to change at some point," said Elwin de Groot, chief international economist and eurozone strategist at Rabobank. "We are not big fans of [quantitative easing]. It has a lot of side effects and could be negative for growth in the long term."

FISCAL POLICY

The economists said they had sympathy for the position of the ECB, which they argued was not able to influence growth and inflation by itself.

They said that eurozone member states had to play their part by boosting public investment, with countries like Germany standing in the strongest position to loosen their stance on fiscal policy.

"The ECB needs help," said UniCredit's Nielsen. "Monetary policy cannot be the only game in town."

"Governments were the number one economic agents in the economy benefitting directly from quantitative easing, but they ended up using the opportunity to save money instead of investing it," he added. "That cannot be right."

Phillip Lane, chief economist at the ECB, struck a slightly different tone in a talk at The Brookings Institution in Washington yesterday. He said that finance ministers could help spur growth in Europe by loosening their stance on fiscal policy, but he insisted that the ECB stimulus was having a positive impact.

"Inflation remains on an upward path," Lane said. "I don't really see this idea that we are trapped. We have momentum in the economy. The ECB has been quite creative in pushing the boundary of monetary policy and we don't think we are done yet."

Germany puts EIB's climate ambition at risk with push for loopholes

By Jon Hay

McDowell: confident about final approval

Sustainable finance experts calling for strong action on climate change are warning that the European Investment Bank risks being pushed by countries led by Germany into an "incoherent" and "ridiculously risky" policy that would allow it to keep lending to the fossil fuel industry.

This could cast a shadow over the EIB's evolution into Europe's 'climate bank' and its leadership role among multilateral development banks in moving to a cleaner economy.

"People are going to doubt the new narrative about Europe being a leader on climate change," said Sandrine Dixson-Declève, co-president of the Club of Rome thinktank. "What is the point if we are still investing in fossil energy?"

On Tuesday, finance ministry officials of EU member states, which own the EIB, had been expected to adopt its new Energy Lending Policy.

The EIB's first draft of the policy in July was widely hailed as ambitious, as it banned financing fossil fuel projects after the end of 2020.

But the gas industry has lobbied heavily, and countries including Germany demanded that some lending for gas infrastructure be allowed to continue.

The EIB produced a second draft with some loopholes for fossil lending to continue, which was presented to the board on Tuesday. But the board put back a decision until its meeting on November 14.

Andrew McDowell, EIB vice-president, said in a statement that he was "pleased about the important progress made today and am confident of securing a final approval in November."

A source said there had not been "a clear north-south, east-west split". "There was full input and discussions from large, coal-powered countries" and "very strong support for the EIB's ambition, but delegates needed clarification [on many technical points] — it will take a couple of weeks to get that," he said.

However, specialists following the issue are alarmed at the delay, which they believed had been caused by Germany and others pushing for yet more loopholes.

"Two key things were discussed," said Xavier Sol, director of Counter-Balance, an NGO. "First, the date of the fossil fuel ban [being pushed beyond 2020]. Second, increased exceptions Germany is pushing for, when there is a strong energy security concern. This would contradict the policy completely."

Neil Mabey, CEO of the consultancy E3G, said: "Some of the proposals are ridiculously risky." Pointing out that the EIB had pledged to make half its lending for climate projects by 2050, he said: "Why would any bank want to lend to fossil fuel infrastructure when half of its loans are going to be focused on putting that industry out of business?"

China's Ma calls for action from MDBs on green financing

By Rashmi Kumar

Multilateral banks are not doing enough to push green infrastructure development and need to rethink the way they approach financing major projects, Ma Jun, a member of the People's Bank of China's monetary policy committee, told *GlobalMarkets*.

Ma, a green activist and co-chair of the G20 Sustainable Finance Study Group, said multilateral development banks (MDBs) should do more risk mitigation for green projects rather than just straight lending. "Instead of say investing $2bn for one project, they should use the $2bn to create a guarantee fund," he told *GlobalMarkets* in an exclusive interview. "Then, they can guarantee 10 or even 20 projects if they use partial guarantees or first loss guarantees, maximising the impact of their funding."

Ma said MDBs should step in to bring together demonstration projects — self-contained, small-scale capital investments for projects that highlight a specific approach to funding. He said countries' practice of using different technologies, employing different people, and using different local financial markets, created uncertainty for private sector investors worried about projects going bust. Ma said MDBs could step in by putting together these projects, reducing the perceived risk of a default.

Ma said MDBs should also focus on capacity building and changing the way local banks operate in some of these emerging markets. "Multilateral banks have a huge leverage because they lend money and the government listens to them," he said. "They are viewed as models, as heroes, within the local financial sector. So, if they do it, it will be very effective."

BELT AND ROAD

Ma admitted that there were challenges to China's ambitious Belt and Road Initiative, including causing a debt trap for some countries, not being transparent enough and a lack of greenness.

He said the third concern was being tackled, with different bodies making sure that investors from the mainland and elsewhere, who were pumping money into Belt and Road would do green, low carbon and climate resilient projects that would gradually reduce their exposure to brown assets.

Ma: China has acknowledged BRI risks

He added that China has acknowledged the risks of large-scale lending and the need for more disciplined lending. In April, the Ministry of Finance published a debt sustainability framework for countries participating in the Belt and Road.

More impetus for greening infrastructure projects and improving transparency around disclosure is also coming, Ma said, pointing to plans to launch a green investment product database. This would consolidate projects in the Belt and Road from sources such as the Hong Kong Trade Development Council and carve out the green portion of these projects into the GIP database.

African countries brought to their knees as China debt soars

By Rashmi Kumar

African countries heavily indebted to China have started renegotiating terms of some of their loans as they hunt for ways to manage their ballooning liabilities amid intense pressure to refinance debt before seeking support from the IMF.

The average government debt to gross domestic product has risen sharply in sub-Saharan Africa, from around 27% in 2012 to a hefty 56% at the end of last year, according to estimates from ratings agency Fitch. The Democratic Republic of the Congo is a standout example, with its total debt almost tripling from 40% of its GDP in 2011 to about 118% in 2017/18 according to the IMF, driven in part by a big uptick in bilateral debt provided by China to finance its ambitious public investment programme.

But the heavy debt burden is forcing countries to either renegotiate loan terms with China, or ask for debt forgiveness.

China this year extended the repayment period for $3.3bn of railway-linked loans to Ethiopia, while cancelling Cameroon's $78m of debt. In 2018, it wrote off debt owned by Botswana and Lesotho, while cancelling millions owed by Sudan.

That's unlikely to be the end of it, with sources telling *GlobalMarkets* that Djibouti, Angola, Zambia and Mozambique are also seeking similar debt relief programmes with China. Congo was recently pushed to restructure some of its debt with the Asian country, before the IMF approved a three year extended credit facility worth around $449m in July this year.

"The issue that China, in the past, has not given the same attention to debt sustainability as the World Bank or Western governments, is one factor for the sharp rise in debt in sub-Saharan Africa since 2010," Jan Friederich, head of Middle East and Africa sovereign ratings at Fitch, told *GlobalMarkets*.

"That is the consequence of interplay between China not paying that much attention to whether the situation they are lending into is sustainable, the obvious need for infrastructure in Africa, and also the relatively poor public financial management in many African finance ministries, where they don't set themselves appropriate ceilings on how much debt should be accumulated."

Average African government debt has risen from 27% of GDP to 56% since 2012

IMF COMPETITOR

Thomas Hugger, chief executive officer and fund manager at Asia Frontier Capital, said China was increasingly acting like a competitor to the IMF and the Asian Development Bank.

"If the IMF gives a loan, they ask for conditions like tax collection improvements etc," he told *GlobalMarkets*. "But the Chinese don't do that; they give the loan. It's a competition that China is winning, because for them it's a strategy — to strangle those countries and make them more reliant on them."

Libya hails success of bilateral deals as IMF stays out

By Virginia Furness

Libya this week heralded the success of an alternative model for development, turning to bilateral partners such as Italy for assistance to stabilise its economy amid a civil war and in the absence of on-the-ground support from international financial institutions.

Since the International Monetary Fund left Libya in 2014, the Central Bank of Libya (CBL) has relied on a series of strong partnerships with foreign central banks to support its bid to overcome severe operational challenges, its governor Saddek Elkaber told *GlobalMarkets*.

"Our economy was set to strengthen and grow. Without the war we expect we would be in a much better situation."

Despite the civil war, which arose after a disputed general election in 2014 led to the establishment of two governments, the CBL has reduced its foreign currency use from $47bn in 2013 to $12bn in 2016, and brought down inflation from a peak of 28% to minus 7%, while maintaining overall currency stability and access to cash for its citizens.

Libya has worked closely with partners in central banks including the US Treasury, the central banks of Italy, France, Germany and Tunisia, as well as on targeted programmes with the World Bank.

Two weeks ago, the CBL and Bank of Italy agreed on a programme to provide targeted assessments and recommendations to specific departments in the CBL, while Elkaber maintains strong relationships with the central banks of Tunisia, Morocco and Egypt.

The US Treasury "helped greatly" in drafting laws under Libya's anti-money laundering and countering the financing of terrorism efforts, Elkaber said, and the CLB continues to work closely with the Central Bank of Tunisia to upgrade its core banking system.

Libya is also working closely with the World Bank to promote SME development and has recently become the 71st member of the European Bank for Reconstruction and Development (EBRD).

While Elkaber noted the success of these remote programmes, he said the lack of willingness for outside professionals to be on the ground in Libya was also holding back private sector development — a key focus for both the government and CBL.

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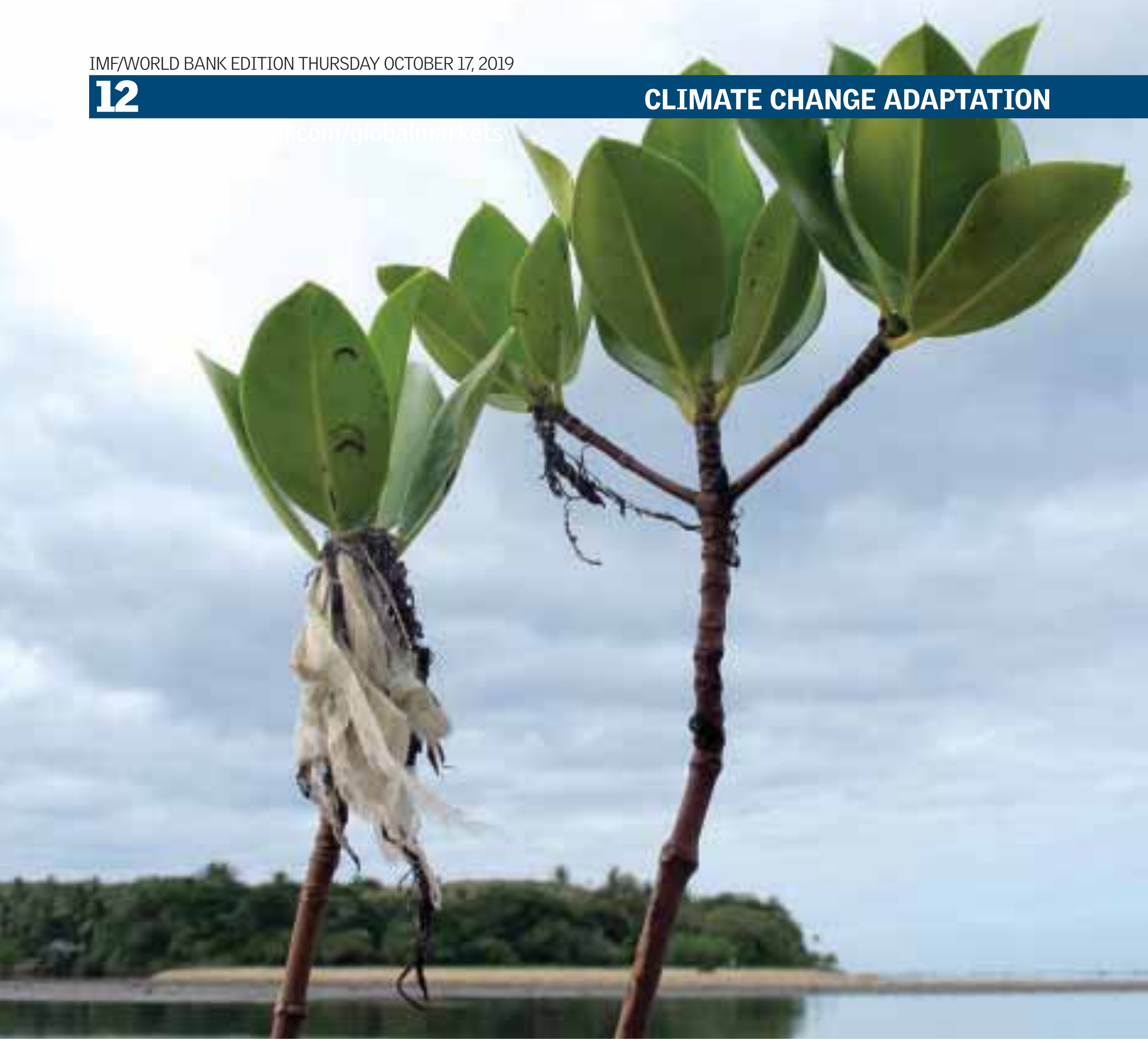


Preventing coastal erosion
Newly planted mangroves in Fiji: afforestation can yield triple benefits

© DPA/PA Images/Christiane Oelrich

The biggest boom will be the unavoidable one

Adapting to climate change is going to cost many trillions. Yet so far, only a trickle of money is being put towards it. What is causing this baffling blockage in financial markets, and how can it be unlocked?

By Jon Hay

The financial markets of the 21st century will be climate change adaptation markets.

So far, investment in technology and services to help humanity live with climate change — as opposed to trying to slow it by cutting greenhouse gas emissions — has been slight. But the scale of the needs, and the gravity of global warming's effects, are awesome.

Consider these predictions from the World Resources Institute for the effects of a 1.5C rise in temperature. Water scarcity will affect 270 million people. Forty-eight percent of people will be exposed to more than 20 days a year of deadly heat by 2100. Flood damage losses from sea level rise will be $10tr a year.

Yet it would take a miracle for the world to escape with only 1.5C of warming. At the moment, 3C or higher looks more likely.

At 3C, permafrost collapses and rainforest dies. Droughts will average 10 months. Three quarters of people will face 20 days of deadly heat a year.

There can be no doubt that finding ways to live in these conditions will be the economic challenge of this century, as well as the dominant political and social issue.

One might think this would mean investment firms and banks were pouring trillions of dollars into funding solutions to these perils. Not so. A report by the Climate Policy Initiative could only find $22bn of global investment in adaptation in 2016.

"There is a market failure," says Lorenzo Bernasconi, who runs the innovative finance and impact investing portfolio of the Rockefeller Foundation in New York. "If you look across all global commitments — the Sustainable Development Goals or the Paris Agreement or business needs — we are facing unprecedented challenges, whether from climate change, degradation of resources, income inequality, mass migration. There is a need for a step change in the quantum and direction of investment, but money is not flowing at anywhere near the level necessary."

MARKETS PARALYSED

There are several causes for this immobility. Known since the 1970s, the risks of climate change have been largely ignored by most of society until recently. A deep-seated human bias towards optimism makes it very difficult to accept that the planet we rely on for life may be threatened.

In supposedly rational financial markets, this translates as the horizon problem. "If you think there is a likelihood of impact even 10 years out, but your investment horizon or policy horizon is two years, you may defer today things you should be doing," says Stacy Swann, CEO of Climate Finance Advisors, a consultancy in Washington.

"And that assessment of 10 years is probably not true. Warming is not only accelerating, but the climatic change and feedback loops are happening in ways that had not been fully predicted."

Belatedly, efforts have begun to "mitigate" climate change, as the jargon has it, by reducing emissions. This has spurred rapid growth in new industries such as solar and wind power, electric vehicles and LED lighting. But the need for adaptation remains neglected.

Although sea levels are rising and hurricanes, floods and drought are becoming common, there are no stock market darlings making investors rich with solutions to these problems.

"Adaptation is a very poor cousin at the moment," says Xianfu Lu, a climate scientist who is head of analytics at Acclimatise, a UK-based consultancy.

Some of the reasons are structural. Adaptation is harder to finance than mitigation. It is much more difficult to know now what infrastructure will be needed, and where.

Because the climate is global, any investment anywhere in reducing carbon emissions benefits the whole planet. With adaptation, it is the other way round. Climate change will have very specific effects in different places, which can only be addressed with the right investments on the spot.

That influences motivation, too. With mitigation, there is a global incentive to invest everywhere. With adaptation, selfishness presents a higher barrier. Citizens of large countries may not care much if distant islands become submerged.

Just as difficult is the problem of cashflow. Renewable energy plants and energy efficiency measures produce an immediate financial return — either a saleable product or a saving.

With adaptation infrastructure, there can be a large upfront cost and no obvious revenue. The benefit is that businesses and citizens can carry on as normal, or closer to normal, and this may be appreciable only in future.

BOTH SIDES RELUCTANT

Besides these fundamental difficulties, there are many more specific ones. Lu highlights three. “If you talk to the big investors they ask you: ‘Where are the investments?’” she says.

“The projects are not there. If you ask public sector people ‘If money was no object, if I had a billion to invest, what would you do with it?’ people have a hard time to come up with a ready answer.”

If demand to make investments is lacking, so is the material to invest in. “The supply of resilience solutions, products and services is still not there, partly because of the capacity of the providers,” she argues. Most are not big enough to “get up to scale, replicate, offer services to different geographies, particularly in developing countries”.

Lu’s third complaint is that “the attractiveness of investments in adaptation is not well established. There is a lot of work to be done to demonstrate the business case.”

The result is that, very often, the default option prevails: do nothing.

Meanwhile, the cost of climatic damage is rising. 2018 was not a record year for damage from catastrophes. Nevertheless, Munich Re counted $80bn of insured losses, a third higher than the average of the previous 10 years. Uninsured losses add another $80bn.

“The one figure we find staggering,” says Swenja Surminski, head of adaptation research at the Grantham Research Institute on Climate Change and the Environment at the London School of Economics, “is that, of all the money spent on extreme events and disasters, 88% goes on repairs and reconstruction, and only 12% into making things more resilient.”

There are powerful reasons why people tend to stay idle till calamity strikes. When a community is wrecked, the needs for spending, public and private, are precise and compelling.

Trying to ward off risk in advance, when you don’t know where, when or how it will hit, is much harder. “You can’t touch resilience, that’s the crux of the matter,” says Surminski. “When you try to make it an investable proposition, you are facing this issue: ‘how can I quantify the resilience benefit?’”

BEGINNING TO STIR

Despite its dismal record so far, the financial system has at last woken up to adaptation and resilience.

“Two major things have happened in the past 12 months,” says Jay Koh, co-founder of the Lightsmith Group, a private equity firm in New York. “There’s been a growing recognition that climate change is a reality here and now. We’ve had hurricanes impact on Houston, the Bahamas get hit, Pacific Gas & Electric go bankrupt because of wildfires. Investors are coming to grips with the fact that it’s a humanitarian problem and a financial risk that impacts on the performance of different assets.”

The second “dawning recognition”, Koh says, is “that there is an opportunity to invest in products, services and solutions that can deal with that impact”.

A milestone was the publication in September of the first report of the Global Commission on Adaptation (GCA). It gives the issue A-list cred — its co-chairs are former UN Secretary-General Ban Ki-moon, Kristalina Georgieva, who has just moved from president of the World Bank to managing director of the IMF, and Microsoft entrepreneur Bill Gates.

But more than that, it bumps adaptation from being a worthy but difficult item on the list in every climate change discussion to a new status — a headline issue of compelling urgency.

The GCA is calling on all sectors of society to join a Year of Action to jumpstart change on eight tracks, including food, natural environment, water and finance.

EYES ON RISK

An essential thrust is to “make climate risks visible in private financial markets”. This is a central piece of the puzzle. For many actors, identifying and managing risk will be a precursor to financing adaptation.

“A lot of people in financial businesses are thinking more about the opportunities,” says Swann. “But if you haven’t fully understood the risk, you are not going to be able to understand the opportunities, either. Even if you are a consumer buying a house, you should understand the risks.”

While the insurance industry houses and uses deep knowledge of physical climate risks, banks and investors are at square one.

Through initiatives such as the Task Force on Climate-related Financial Disclosures, they are feeling their way to building a discipline of climate risk management. But there is a severe lack of knowledge, and minimal guidance from the authorities on what to do.

A research paper written for the GCA by Climate Finance Advisors covers financing adaptation. It lays bare the barriers at every step in the financial system, from insufficient public financial support to scanty incentives for the private sector, to weak regulatory frameworks.

Financial regulators, the report charges, “have focused heavily on capital reserve and leverage ratios, derivatives trading… but not climate risks as yet”.

“It’s not just a question of financial and non-financial firms saying ‘we’ll do this’,” says Craig Davies, head of climate resilience investments at the European Bank for Reconstruction and Development in London. “There’s also a need for regulators to start requiring it. They are starting to set supervisory expectations, saying to banks and asset managers: we expect you to show that you can stop concentrations of these risks.”

GETTING GOING

Financiers need not wait for regulators to push them. They can get started on adaptation investing and climb over many of the barriers.

The EBRD has been concertedly financing adaptability since 2012, signing 250 climate-resilient investments totalling over €7bn. Of that, about €1.8bn of the money is specifically for adaptation needs.

About 80% goes to infrastructure — energy, water, transport and urban. “Infrastructure tends to involve long term, fixed assets which are very expensive to change, once in place,” says Davies. “They will have to operate over many decades and shifting climate conditions, so it makes a lot of sense to think about whether they will be climate-resilient.”

In a dry region of central Asia, the EBRD

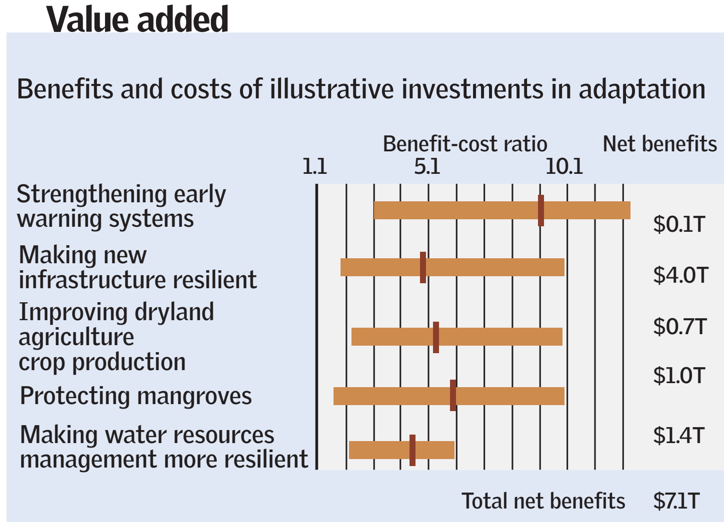
“There is a need for a step change in the quantum and direction of investment, but money is not flowing at anywhere near the level necessary”

—Lorenzo Bernasconi, Rockefeller Foundation

“Adaptation is a very poor cousin at the moment”

—Xianfu Lu, head of analytics at Acclimatise

Value added



Source: Global Comission on Adaptation/World Resources Institute

Burnt out
Northern New South Wales after fires caused by drought on October 10

> "The question is: will we have invested in solutions or not? Investors that choose to do so have potential for growth"
> —Jay Koh, co-founder of private equity firm Lightsmith Group

has financed the conversion of a thermal power station, which was piping water 40km to cool itself, to an air-cooled system. In Bosnia, hit by devastating floods five years ago, it has invested in roads built to withstand extreme weather.

Another 15% of the EBRD's financing is for the corporate sector, and this is likely to grow. "It could be manufacturing, agricultural processing, extractive, IT, a whole range of services — there is a growing awareness in the corporate sector of physical climate risks," Davies says.

"Climate-related shocks in extreme cases can knock out businesses. But it can be secondary impacts on value chains. Some commodities could become much less available and more expensive."

In 2011, severe floods in Thailand forced a Honda car factory to close for six months. Toyota and Nissan's factories were not inundated but they had to close for a few weeks because parts suppliers had been knocked out. They lost 400,000 cars between them.

"Nissan recovered more quickly than other auto companies because it had dissolved the *keiretsu* [cross-shareholding] system, diversified sources of supply, and globalised the procurement system," wrote M Haraguchi and U Lall in a study in the *International Journal of Disaster Risk Reduction*.

This is exactly the kind of planning that will have to become second nature to companies as the weather gets rougher. Linear supply chains will be replaced by more flexible networks.

BACKING THE WINNERS

Deliberately seeking to buy into companies that stand to profit from climate change might seem at first a shocking idea. On close examination, it is not only wise but beneficial.

"The need for technologies and solutions to assess and address the impact of climate change will drive demand for increased investment, and that investment opportunity is both attractive and very important," says Koh.

"There are companies that already have technology that can scale up to meet the size of the impact. We want to scale solutions as fast as we can, to address the problem, which is growing very fast."

Lightsmith Group has researched 800 growth companies around the world, with \$5m to \$100m of revenue, whose products or services relate to climate resilience. They span 20 mini-sectors, which in total have \$130bn of current spending — supply chain analytics, business continuity, water analytics, water efficiency, drip irrigation, drought-resistant seeds, remote imaging…

RELEASING THE HANG-UPS

Little by little, advanced investors are wearing away some of the obstacles: dearth of projects to invest in, lack of solutions to implement, perception that the risk is unattractive.

Davies says that, contrary to the cliché, there are often strong commercial reasons for private players to invest in resilience. "There are streams of revenue that can be derived, often against a counterfactual," he says. "For example, if you can have a reasonable degree of certainty that your port is not going to be closed due to unfavourable weather 10 days a year, but only one, that is valuable."

And resilience investments do not just achieve direct effects. "When you talk to finance ministers, or in the private sector, people are always focused on trying to provide protection for something, or on their return on investment," says Surminski. "You shouldn't look at it only through that lens, but see it as investing in economic development and growth."

This triple dividend includes avoiding losses when disasters strike; stimulating economic activity thanks to lower risk of damage; and extra development gains on the side.

Planting mangrove forests in Indonesia, for example, reduces flood damage — but also improves farmers' incomes and locks in nutrients and carbon. The total benefit of one project in Indonesia was estimated at three to 18 times the money invested. High returns like these are common for resilience investments.

Nevertheless, many problems remain. One is that, for all the good work being done, hundreds of infrastructure investments are still being embarked on without any thought of making them climate-resilient. They are, in fact, making the problem worse.

A worrying possibility is that the more investors think about climate risk, the more they may tend to shun the regions, industries and communities in the front line.

"The most vulnerable are going to get hit first," says Swann. "People say it's already happening from the physical side — I mean the financial side. Countries could have less access to capital than they did 10 years ago. This is going to put greater pressure on public balance sheets, whether governments or development banks, just at the time when the actual investment need far surpasses their capacity."

NEW PROBLEMS, NEW SOLUTIONS

Many believe the only way to bridge this gap is with financial invention, combining capital sources with different missions and risk/return expectations.

The Rockefeller Foundation is deep into this work. Bernasconi at the Foundation likens it to the emergence of venture capital and private equity funds in the 1950s and 1960s.

At Cancun on the Mexican coast, Rockefeller partnered with the Nature Conservancy and Swiss Re. Over two years they persuaded a group of beachfront hoteliers to take out what Bernasconi calls "the first insurance mechanism for nature".

"Because of the increased frequency and intensity of Atlantic hurricanes, the reef is being destroyed," says Bernasconi. "But in the 24 hours after a storm you can repair it. Nature is much more effective than man-made structures — 97% of a storm surge is absorbed by a healthy reef."

Without the reef the hotels are at risk of losing all their beach equipment, and the beach itself — they are already paying millions of dollars a year to pump sand that has been washed away. A 40 mile stretch of the beach now has insurance for this hurricane season.

Adaptation investment is starting in many places. It takes in highly bespoke structures like Rockefeller's; loans to build new ports with higher docks; banks deciding whether Volkswagen or Renault is better fitted for electric mobility; pension funds wondering which global banks are least exposed to fossil fuels. Very soon, every investment will be an adaptation investment.

"There is an absolute need for this to be a priority," says Koh. "In 10 years it will be obvious that the scale of the climate change problem is much bigger. We will have seen multiple cities with water crises, impacts on agricultural productivity. The question is: will we have invested in solutions or not? Investors that choose to do so have potential for growth. If society does, it will have a much better chance of managing the problem." GM

New architechture
EIB headquarters in Luxembourg

© FALKENSTEINFOTO / Alamy Stock Photo

The EIB should be Europe's development hub — for now

European politicians may be tempted to make a show by founding a new development bank. That would be a mistake. Results are what matter, not branding. To supercharge development and climate finance, the EU should choose the simplest and fastest option

By Jon Hay

It is easy to mock the European Union, and names like 'High Level Group of Wise Persons on the European Financial Architecture for Development' are a gift to satirists.

But anyone who read the report of the nine experts when it came out last week is likely to have been impressed. The report exhibits all the virtues the EU so often practises, yet receives so little credit for: it is pragmatic, technically masterful, and balances policy ambition with careful analysis. And it manages to be quite brief: the main text is only 34 pages.

The problem the Wise Persons — and now EU finance ministers, who discussed its report on October 10 — are gnawing on is how to optimise the aid and development finance Europe provides to poorer countries outside the Union.

It would be far easier for the EU to do nothing. It is not doing too badly at the moment.

Europe, including the EU organs and member states, provides about 57% of all the world's official development aid, well over twice as much as the US. This was €74bn of disbursements in 2017.

SPURS TO IMPROVE

But the EU wants to do better, for at least four reasons. First, the urgency of climate change is now widely acknowledged. It will require huge investment, both to reduce greenhouse gas emissions and to fit society for the inevitable severe effects on the weather, which will alter every area of life, above all food supplies.

Second, the EU has agreed to the UN Sustainable Development Goals, which are meant to produce a rapid improvement in global living standards by 2030. The reality on the ground in poorer countries is of course far from rosy.

Third, poverty and instability in Africa — which the EU is particularly conscious of — as well as the Middle East have directly weakened Europe's own stability through migration across and around the Mediterranean. It is not an exaggeration to say the Syrian civil war and state failure in Libya contributed to causing Brexit. In the UK's 2016 referendum campaign, Brexit supporters whipped up fear of immigration by harping on the EU's apparent failure to stem migrant influxes.

Fourth, the EU is aware of the growing overseas influence of China, which has massively expanded its development financing, especially in Africa, and has a unifying narrative, the Belt and Road Initiative. The US is also ramping up its efforts by creating the International Development Finance Corp, to some extent to counter China's move.

The EU wants to earn more credit internationally for its outsized role in development aid, and to brand its activities more obviously.

This may be a mistake. China has won little love by its Belt and Road largesse; nor did the EU's heavy financing of projects in poorer parts of the UK such as Wales gain it the loyalty of people there.

Those who receive money from a much richer donor are as likely to be resentful, critical or suspicious as they are to be grateful. The EU might do better to keep a low profile and concentrate on results.

OLD ARCHITECTURE

Apart from that, however, the EU policymakers are asking the right questions.

The 'architecture' with which the EU is trying to address these priorities was, as the report says, built for 20th century needs.

The EU's two main outlets for development finance are the 60 year old European Investment Bank and the European Bank for Reconstruction and Development, founded to finance the transition of post-Communist countries to market economies.

But this is less than half the picture. In 2018, new commitments outside the EU totalled €41.7bn. Two thirds of that came from national development finance institutions such as KfW and FMO; 18% was from the EIB and 16% from the EBRD.

The European Commission is a big supporter of development, through a variety of loans, grants and guarantees, usually acting through or in partnership with other organisations.

This architecture has of course matured and been regularly updated and improved. There are mechanisms to ensure the different organs co-operate.

The Commission is about to improve this co-ordination through something

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The EU wantes to do better

called the Neighbourhood, Development and International Cooperation Instrument (NDICI) — an effort to ensure proper political control of development work and a more streamlined structure.

But the whole architecture still looks more like a village of houses in different styles rather than a single, gleaming new edifice.

> *What matters now is not branding or power politics, but getting money moving.*

ONE EU VOICE

Forces inside the EU are therefore thinking of more radical moves to bulk up the EU's development brawn — above all, by forming a new, bulky, visible organisation that would act as a central voice and bank of expertise for development in the EU.

Providing a more distinct mandate for operations outside the EU could prove helpful when dealing with critical stakeholders, especially those of a more nationalist bent.

This would almost certainly involve an attempt to sort out the differing and overlapping activities of the EIB and EBRD.

Africa is a priority for the EU, and both development banks are moving progressively into lending in sub-Saharan Africa. This overlap could prove wasteful or even lead to contradictions. Neither organisation is necessarily ideally suited to the job, although the EIB has been involved there for much longer.

So the idea has arisen — first reported by *GlobalMarkets* in the spring — of forming a new European Climate and Sustainable Development Bank.

But how should this be done, when both the EIB and EBRD are already involved in this field?

TALE OF THE TAPE

Each of the two has strengths and weaknesses, which the Wise Persons' report dispassionately sets out.

The EIB has strong, unified governance; a big balance sheet; technical expertise in areas such as climate finance; and can make very cheap loans. But operations outside the EU are not its primary focus, accounting for only 10% of its activity; its cheap loans can risk undercutting private sector investment; it does not engage in helping recipient countries formulate policy; and although it lends in 118 countries, it has fairly few staff outside the EU.

The EBRD is a proper development bank, modelled on the World Bank and others. It has the full panoply of development finance expertise, including a strong emphasis on lending to the private sector, as well as providing equity finance; it has green finance expertise; and it has a strong base of overseas offices, which enable it to make smaller loans.

But the EBRD is smaller; it has limited experience of working in the much more fragile kinds of economies to be found in Africa; it is weaker in social sectors such as health care and education; and crucially, it is not an EU institution.

The EU controls 63% of votes — though this will fall to 54.5% after Brexit. But to make strategic decisions, a 66% supermajority is required.

The EBRD's role is already contested. The central and east European countries it was set up to help have developed a long way — in cases such as Slovenia, overtaking in wealth some older members of the EU. Their needs are now more similar to those of west European countries.

Meanwhile, the US and Russia — both EBRD shareholders — have both diverged politically from EU priorities, making governance more difficult.

It is far from clear that the EBRD can or should depart far from its original mission of financing post-Communist countries, especially if this is to serve priorities of the European Union.

THREE OPTIONS

The Wise Persons therefore considered three options. The first is to turn the EBRD into the European Climate and Sustainable Development Bank. The EIB would cede its ex-EU activities to it.

Its mandate would become global, with an immediate focus on sub-Saharan Africa, and it would need to broaden its business model to do more lending to governments.

The second is to create a new ECSDB, with mixed ownership. Its shareholders could be EU nations, the EU itself, the EIB, the EBRD and possibly beneficiary countries.

This has the advantage that the project would start with a clean slate, and could be optimally designed without legacy issues. It would have its own capital and do its own borrowing in the bond markets.

The third option is to create the ECSDB as an offshoot of the EIB. The EIB would be a minority shareholder, with the Commission, member states and national development banks also having shares.

This is the least glamorous and eye-catching option — but this, or a simplified version of it, is the one the EU should choose.

KEEP IT SIMPLE

Reforming the EBRD is tempting, but the political struggles required to do that are prohibitive. Under President Putin, who shows no sign of fading away, Russia is not inclined to play along with the wishes of the EU, an organisation he keenly dislikes.

Donald Trump will not govern the US forever, but he could be there for five more years. His attitude to development aid and finance is strictly that it should serve US interests, defined very narrowly. He is also inimical to action on the climate.

The countries of central and eastern Europe would also be within their rights to object to "their" development bank being turned into something else.

The greenfield option is also superficially appealing, and in fact is probably the most likely outcome, because it could play well politically.

But the EU should resist the temptation. Setting up an international development bank is a long, slow business. All kinds of policies need to be drafted and approved by the many shareholders typically found in these institutions. The risk of political disagreements delaying things is high.

The needs, especially of climate change investment, are too urgent to wait for that.

READY-MADE DAUGHTER

The EU should move fast to constitute the ECSDB as an outgrowth of the EIB.

Preferably, it could still use the EIB's central administrative functions such as human resources and IT, treasury and funding.

But it should have its own financing policies, governance and risk management — enabling it, above all, to depart from the EIB's exceptionally risk-averse habits. The ECSDB should be used as a nucleus for development expertise across Europe.

As the EIB's president Werner Hoyer argued to the Council of finance ministers, it could be set up with capital from existing EIB resources, plus other money already coming down the pipe from the EU.

In time, it could prove useful to go to full implementation of the Wise Persons' option three — giving it additional shareholders, alongside the EIB, such as member states and other development banks.

That in turn could lead to calving the ECSDB off as a completely separate organisation, with the EIB reduced to being just a minority shareholder (Wise Persons' option two).

But that decision should be taken at leisure, without hurry, and for pragmatic reasons, not for show.

What matters now is not branding or power politics, but getting money moving. GM


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UZBEKISTAN: ON THE RIGHT PATH WITH THE RIGHT PARTNERS

Deputy Prime Minister — Finance Minister Jamshid Kuchkarov

New Uzbekistan under the leadership of His Excellency President Shavkat Mirziyoyev is transforming in many ways. Economic reforms, including state-owned enterprise reforms and liberalisation, are among the key pillars of current structural transformations in Uzbekistan.

To ensure our economic reforms benefit from the best international practice, the President created the Economic Council this January. It comprises senior Uzbek government officials as well as international scholars and practitioners, including those at Growth Dialogue, a think-tank under George Washington University, chaired by Michael Spence and Danny Leipziger.

In its inaugural meeting on July 18 2019, the Economic Council agreed to implement reforms in nine priority areas, of which the energy sector stands out. With expected GDP growth of over 5% per annum in the medium term, the country simply needs much more energy to fuel its growth. With the current mismatch of energy supply vis-à-vis growing demand, reforms in the energy sector are viewed as a real driver both in terms of energy-growth nexus and exports, especially to Uzbekistan's southern neighbours.

Therefore, the government has embarked on a wide-ranging reform agenda in the energy sector. Unbundling state monopolies — Uzbekenergo into generation, transmission and distribution and Uzbekneftegaz into exploration, transportation and distribution companies — has created opportunities for the private sector, including foreign investors. While Uzbekistan is a late reformer as unbundling took place long ago in other developing countries, we can learn from these earlier reforms to make the right decisions.

At the same time, we have to work on administered tariffs to make this sector more attractive. Working together with our trusted advisors at the World Bank, ADB and EBRD, the government is decisively pursuing gradual liberalisation of energy prices in the country.

Last August we raised electricity prices by 18% (retail) and 36% (corporate). Natural gas prices rose by 19% (retail) and 25% (corporate) while gasoline and diesel went up by 13%. This followed a circa 10% increase in energy tariffs in November 2018.

With expected tariff increases in the future (eventually leading to free market prices in the medium term), we believe the power sector should be even more attractive to investors. This is very important as we want to nearly triple Uzbekistan's power generation capacity to over 30,000MW by 2030.

Substantial investments in the power sector are expected through the Public Private Partnership (PPP) mechanism. For example, with the advisory support of the International Finance Corporation (IFC), a pilot project (as part of scaling solar programme) is being implemented to build a 100MW solar photovoltaic (PV) station in the Navoiy region. The international competitive tender recently ended with five bidders, namely Total Eren (France), TBEA Solar (China), Masdar (UAE), Acwa Power (Saudi Arabia) and Jinko Solar (China), reaching the final stage. Masdar won the tender with the offer of 2.679 US cents per kWh. Given the success of this tender, we are soon to launch two more tenders for 900MW solar PV stations.

Moreover, transaction advisory mandates have been signed for a further 1,300MW CCGT greenfield project in the Sirdarya region with the IFC and for a 1,000 MW solar PV project in the Surkhandarya region with the ADB. These projects will pave the way for more PPP-based conventional and renewable energy projects. By 2030, we plan to increase the installed capacity of solar power plants to 5,000MW. Furthermore, through the PPP mechanism, wind (2,000MW) and gas-fired CCGT (3,400MW) power stations are also planned by 2030.

In the oil and gas sector, the investment programme for the next decade is estimated at $34bn, consisting of 40 projects including exploration, development, transportation and storage of natural gas and petrochemical processing.

A substantial proportion of these investments will be covered through FDI. Therefore, the government is keen to open up further new investment blocks for foreign investors. This, together with investments in Uzbekneftegaz, would increase the domestic production of natural gas to 74.8bn cubic metres (+23% vs 2018) and liquid hydrocarbons to 7.1m tonnes (+130% vs 2018) by 2025.

In chemicals, together with Boston Consulting Group, we have developed our Strategy 2030 based on three priority areas: fertilisers, gasochemical and other chemical products. This strategy mostly relies on FDI (through privatisation and greenfield investments) which has already started working with Indorama Corporation firmly on the ground. At the moment, several SOEs producing fertilisers are up for sale.

CORPORATE GOVERNANCE AND INSTITUTIONAL DEVELOPMENT

The government is keen to improve corporate governance in SOEs. Together with international organisations such as the World Bank, ADB, EBRD as well as local and international consulting firms, we have identified key areas of concern. Based on that, there is a firm commitment and political will to address these concerns.

As a result, more transparency, independent directors, IFRS implementation, credit ratings and access to capital markets (including IPOs) are reflected in all the roadmaps to reform the SOEs. To illustrate, Uzbekneftegaz and Uztransgaz will have IFRS reporting in 2020 while Thermal Power Plants, UzHydro and National Electric Systems will move to IFRS by 2021. The World Bank, ADB and EBRD have confirmed their commitment to assist newly formed power companies in corporate governance implementation, including selection of independent directors with international experience.

It is important to mention that a focus on corporate governance is happening within the framework of a broader strategy to strengthen institutions in Uzbekistan. Development Strategy 2017-2021 is based on five pillars, including development of the institutional framework of the state administration and rule of law and legal reforms.

To measure our progress in structural reforms, the government is following 24 global ratings and indices, including Worldwide Governance Indicators (World Bank) and the Corruption Perception Index (Transparency International). Line ministries and agencies have developed roadmaps with clear milestones to improve each indicator. While the progress may take time, we believe we are on the right path with the right partners.

> "President Shavkat Mirziyoyev, has set ambitious objectives for the government. When we succeed, Uzbekistan will be a different country with a modern economy and well-functioning energy market benefitting from strong private sector participation"

VISION

Our leader, His Excellency President Shavkat Mirziyoyev, has set ambitious objectives for the government. When we succeed, Uzbekistan will be a different country with a modern economy and well-functioning energy market benefitting from strong private sector participation.

This vision requires well-sequenced and irreversible reforms to attract substantial investments. Therefore, under the President's leadership, the government of Uzbekistan is strongly determined to continue with the reforms, embrace new challenges ahead and build trusted relationships with investors.

Uzbekistan is open for business! ●

UZBEKISTAN'S ENERGY SECTOR AT THE THRESHOLD OF MAJOR REFORMS

Jurabek Mirzamahmudov, first deputy minister of energy

Uzbekistan's turbulent past has left its mark on every aspect of the country's economic and social life, but we are now looking to the future. The new government, headed by President Shavkat Mirziyoyev, is searching for ways to reform outdated managerial and technological practices and bring the country into the 21st century.

Several government decrees have been adopted recently aimed at radically increasing the efficiency of fuel and energy complex management as well as switching to modern methods of organising the production, transportation, distribution and marketing of electricity both within Uzbekistan and beyond its borders.

The energy sector rightly deserves special consideration. Uzbekistan is one of the most energy-intensive economies in the world and its industrial sector, which utilises inefficient and obsolete technology in its production processes, accounts for around 40% of total energy consumption. For years this sector was run using non-economic methods, a practice which is no longer sustainable.

In the power generation industry, the most critical problems are the growing shortfall of electricity supply and significant wear and tear on equipment, including the distribution networks. According to analysts, one of the main causes is the insufficiently effective management of the electricity industry and historical underinvestment into new technologies throughout the sector.

> "By 2025, the share of electricity production using renewable and alternative energy sources is planned to increase to at least 20% of total generation"

To help find solutions to the growing problems within the sector, a new Ministry of Energy was established, tasked by the state to deal with all issues related to the fuel and energy sector of the country.

The Ministry of Energy now directly includes the Uzatom Agency, Uzneftegazinspection, Uzenergoinspection, and the Implementation Group, which co-ordinates projects under production sharing agreements.

The Ministry also co-ordinates the activities of the Uzbekneftegaz, Uztransgaz and Regionalgaz joint stock companies, as well as the entities created from Uzbekenergo JSC: Thermal Power Stations, National Electric Grids of Uzbekistan and Regional Electric Grids.

It is also important to address the expected shortage of natural gas, which is today the main raw material for electricity generation, along with the inadequate energy-saving measures by modern standards and the significant untapped potential for the use of renewable energy sources.

A significant role in ensuring the country's energy efficiency is given to diversification of energy sources. To this end Uzbekistan has made a historic decision to begin the development of nuclear energy generation.

The Agency for the Development of Atomic Energy of Uzbekistan was founded in July 2018, and in October last year, a project was launched to build the country's first nuclear power plant using Russian technology.

In May 2019, two new laws were adopted in Uzbekistan: "On the use of renewable energy sources" and "On public-private partnership". This created a legislative basis for attracting investment in the energy industry, as well as a system of incentives for users and manufacturers of renewable energy equipment.

By 2025, the share of electricity production using renewable and alternative energy sources is planned to increase to at least 20% of total generation.

The fundamental reform of the fuel and energy complex also applies to the oil and gas industry. For decades, the industry has been driven by non-economic methods, which led to lags in the growth of hydrocarbon reserves and an increasing deficit in natural gas, especially in the private enterprise sector.

In July 2019, a resolution of the President was adopted, aimed at large-scale reform of the industry. During the restructuring, excessive intermediate management links have been reduced through the merger of subholding companies of Uzbekneftegaz and the withdrawal of Uztransgaz from this system.

Uzbekneftegaz's stake in the authorised capital of Uztransgaz has been transferred to the state through the State Assets Management Agency.

EFFICIENCY DRIVE

Measures to improve the efficiency of processing, transportation and sale of natural gas, and analysis and optimisation of investment projects were identified. Uzbekneftegaz has begun the process of improving mechanisms for the sale of finished products, strengthening financial discipline and optimising pricing at enterprises in the oil and gas industry.

The process of reforming the fuel and energy sector is based on accumulated experience, analysis and support of the best international models. World experts in this area have been engaged and substantial assistance is being provided by international financial institutions (IFIs).

For example, the World Bank is supporting projects to increase the energy efficiency of district heating, develop the energy market, and modernise the mechanism of electric power transmission. Energy efficiency will help minimise operating and maintenance costs, improve productivity and generate real cashflows. It will also contribute to mitigation of the effects of climate change.

The Asian Development Bank is promoting regional co-operation projects to expand cross-border energy trade and integrate renewable energy sources into the grid, develop sustainable hydropower projects and increase the efficiency of electricity production.

The European Bank for Reconstruction and Development is participating in the implementation of the Talimarzhan energy project and modernisation of the Tashteplotsentral and Muruntau transmitting stations.

Uzbekistan's economy has been developing rapidly in recent years, leading to a significant increase in energy consumption. Over the next 10 years we expect consumption to more than double. It is therefore crucial to ensure the country's energy security, taking into account the constant growth of needs, reforming of managerial styles, attracting foreign investment and creating new jobs.

This complex and demanding work is being done today with the assistance of IFIs and consultants as well as dedicated efforts by the Uzbekistan government, its new Ministry of Energy and thousands of people in the sector who are building for future generations. ●

Reforms set to revitalise Uzbekistan's energy industry

Unveiled in July, a new roadmap for Uzbekistan's energy sector lays out plans for the restructuring and modernisation of state-owned firms and a major expansion of the industry with foreign investment

By Lucy Fitzgeorge-Parker

Even by the standards of Central Asia, Uzbekistan is rich in natural resources. The country boasts more than 270 hydrocarbon deposits and is second in the region for natural gas production, and in the top 20 globally.

A recent independent audit put Uzbekistan's reserves of natural gas at more than one trillion cubic metres, while liquid hydrocarbon reserves are estimated at around 150 million tonnes. Income from the oil and gas sector accounts for 10% of GDP and 15% of budgetary revenues.

Unfortunately, the potential of the industry has not previously been fully realised due to inefficient management and lack of investment in exploration, infrastructure and technology.

As a result, despite an 8% increase in natural gas production in Uzbekistan over the past 20 years, the proportion produced by Uzbek firms has fallen to 29%. Moreover, for the past five years, the rate of natural gas reserves replacement has averaged barely 70%.

The sector is clearly ripe for reform — and, under new president Shavkat Mirziyoyev, policymakers have taken up the challenge. In 2018, a comprehensive study of the oil and gas industry was commissioned by the government, with the backing of the Asian Development Bank.

"We were given the goal of working out how to bring the sector up to international standards," says Ulugbek Ashurov, deputy chairman of Uzbekneftegaz. "We spent a year studying the practices of international oil companies, as well as taking an inventory of the situation in Uzbekistan."

The results of this investigation were revealed in July, when President Mirziyoyev laid out plans for a radical overhaul of Uzbekistan's energy industry.

At the heart of the government's programme is a major restructuring of state-owned oil and gas giant Uzbekneftegaz (UNG).

This included the merger of four subsidiaries of UNG — drilling company Uzburneftgaz, oil and gas producer Uzneftegazdobycha, petroleum refining firm Uznefteprodukt, and machinery and equipment manufacturer Uzneftegazmash — with the parent company.

Six oil and gas producing and gas processing entities were also brought under the direct management of UNG, while all the company's service companies and nearly 300 non-core assets were marked for disposal.

UNG is now responsible for upstream and downstream operations in the state sector, comprising exploration, production, recycling and reproduction.

Midstream operations have been handed to Uztransgaz, which has been unbundled from UNG and transferred to the ownership of the Agency for Management of State Assets.

As well as sole responsibility for Uzbekistan's high-pressure pipelines, Uztransgaz's remit includes purchasing natural gas from extraction and processing organisations, and selling it to end users and new regional gas distribution entity Hududgaztaminot.

The latter was established to manage the local distribution of gas to consumers within Uzbekistan, with responsibilities including the operation and maintenance of distribution networks, and the purchase, storage and sale of liquified gas to consumers.

Hududgaztaminot's corporate structure includes 14 local distributors, which have been earmarked as potential candidates for foreign investment through public private partnerships.

REFORM IMPLEMENTATION

A working committee, chaired by prime minister Abdulla Aripov has been established to oversee the implementation of the government's programme for the energy industry.

The committee has been tasked with monitoring the progress of reforms, ensuring continued technical and financial support from international development institutions, government bodies and consultants, and approving roadmaps for the achievement of the key goals of the project.

These include modernising Uzbekistan's gas transmission system — more than half of the country's 13,000km of main gas pipelines are more than 30 years old and 58% of its gas compressor units need replacing — and, above all, increasing hydrocarbon production volumes.

This will be achieved both through exploration and the enhanced exploitation of existing fields in conjunction with leading international oil and gas companies.

On the exploration side, UNG is already working with long-standing global partners including Russia's Lukoil and Gazprom, China National Petroleum Corporation and Korea National Oil Corporation, as well as new market entrants from countries including the UK, France, India and Azerbaijan.

The Uzbek government has announced plans to offer more than 50 investment blocks to foreign investors, with a focus on hard-to-recover hydrocarbon fields. Indeed, the decree mandates the transfer of the latter to companies with relevant experience.

The expansion of geological exploration of poorly studied areas and blocks with complex geological structure is already under way with the help of foreign firms including Total, BP, Mubadala Petroleum, SOCAR, Thyssen Krupp, Tatneft, ONGC Videsh and Epsilon Development.

Tatneft and Mubadala Petroleum, along with other companies from Russia and the United Arab Emirates, are also working with UNG on increasing hydrocarbon production in depleted, stripped and suspended oil and gas fields, as well as those with hard-to-recover reserves.

Ashurov notes that the increase in production will help to meet a rise in demand for hydrocarbons driven by the rapid growth of the Uzbek economy. GDP is expected to expand by at least 5% over the coming years as the government's reform agenda bears fruit.

The increase in domestic demand may be muted, however, by a parallel programme to improve energy efficiency in Uzbekistan, both in industry and in the household sector.

That will increase the potential for a substantial rise in natural gas exports. Already more than 15% of Uzbekistan's natural gas production is sold outside the country. Some goes to Russia but most goes east, to Tajikistan, Kyrgyzstan, the south of Kazakhstan and China.

Ashurov sees great opportunities for UNG to serve rising demand from China for natural gas. "China is a huge market and we can see that they are now implementing a policy of moving away from coal towards cleaner energy sources," he says. "Natural gas is a much safer and more ecological product."

UNG is also looking to develop new export markets for both natural gas and other hydrocarbon products. "We know there is huge demand for natural gas in India and Pakistan, and we are ready to enter discussions with those countries," says Ashurov.

"We also see opportunities for exporting products such as LPG gasoline to Tajikistan and we are exploring the options for working in Afghanistan, which could be a major export market for us."

Construction of the Oltin Yo'l GTL plant near the Shurtan Gas Chemical Complex

PETRO INDUSTRY DEVELOPMENT

Another key objective of the government's reforms is the development of Uzbekistan's petrochemical industry, particularly in the sphere of high value-added products. Responsibility for this part of the programme has been assigned to UNG, along with state-owned chemicals producer Uzkimyosanoat.

"We are currently solving a large-scale task of extracting valuable components from available raw material resources by means of their deep processing," says Ashurov.

Progress is already being made in this area. Over the past two years, a number of key projects have been implemented, including the development of a complex of fields at Kandym.

In April 2018, a new gas processing facility with an annual production capacity of 8.1 billion cubic metres of hydrogen sulphide-containing gas was commissioned at the site. The complex is jointly owned by Lukoil and UNG, and was funded by international banks including ING, UniCredit and Deutsche Bank.

Kandym is located in the Bukhara region, which is also home to one of Uzbekistan's largest refineries. A second major refinery, in the Fergana region, is one of the facilities where policymakers are hoping to bring in foreign investment.

"We are already in negotiations on this project and expect to have reached agreement by the end of the year," says Ashurov.

A year earlier, the government of Uzbekistan signed a production-sharing agreement with Swiss and Cypriot investors and Uzneftegazdobycha for the Uzbekistan Independence gas field in the southern Surkhandarya region, the value of which is estimated at more than $5bn.

The first phase of the project, due to be completed by 2023, will see the construction of a gas processing plant with a capacity of 5 billion cubic meters of natural gas per year. That will be followed within three years by the construction of a gas chemical complex with a production capacity of 500,000 tonnes of polymer products.

Uzbekistan's other major hydrocarbon production facilities include the Mubarek gas processing complex and gas chemical complexes at Shurtan and Ustyurt.

As part of the government's programme, the Shurtan gas chemical complex — which was completed in 2000 — is being expanded with the construction of a plant for the production of synthetic liquid fuel (GTL) based on purified methane.

Work is also underway at the Bukhara refinery, where the modernisation and reconstruction of existing facilities is proceeding in parallel with the construction of a new gas chemical complex based on methanol-to-olefins (MTO) technology.

UNG has partnered with American chemicals giant Air Products, Mubadala and firms from South Korea and Singapore on the Bukhara projects.

FUNDING TARGETS

Along with substantial increases in production and the introduction of new products, the July decree also calls for dramatic improvements in corporate governance and management across the Uzbek oil and gas industry.

"Our president has set us the goal of making all operations in the sector transparent and efficient," says Ashurov.

UNG and Uztransgaz have introduced supervisory boards and are in the process of recruiting independent directors. Both companies have also been mandated to appoint external auditors and move to IFRS accounting standards in 2020, as well as to obtain an international credit rating.

That in turn will pave the way for the issuance of debut Eurobonds next year and initial public offerings (IPOs) over the following three years. The companies will remain under state control, however, with the government retaining a 51% stake in each.

Key to attracting investment in both companies, as well as the sector as a whole, will be the liberalisation of tariffs. Prices of natural gas and gasoline in Uzbekistan have traditionally been well below those in other Central Asian states due to generous government subsidies.

These are now being phased out. An increase in tariffs was implemented on August 15 and further rises to bring the price of gasoline in line with market rates are promised next year.

For natural gas, policymakers have moved from a single fixed price to a variable tariff range. Under the new regime, tariffs are higher for large consumers and non-energy efficient companies.

"Our goal is to implement step-by-step increases across the board to bring internal prices up to international levels," says Ashurov. "It is important to note, however, that at the current level UNG is already profitable."

The final key plank of the government's energy strategy calls for the introduction of modern information and communication technologies in all operations of UNG and Uztransgaz, including automated systems for controlling and recording the production, transportation and sale of oil and gas products.

"It is safe to say that the Uzbek oil and gas industry is rapidly gaining momentum," says Ashurov. "The industry is currently implementing both large-scale investment projects and structural transformations.

"This will enable UNG to significantly increase the production of highly liquid products necessary to meet the needs of the population, industry, transport and agriculture, and remain a crucial contributor to the economy going forward." GM

Investment highlights: oil and gas

OIL

The construction of a plant for the production of synthetic liquid fuel (GTL) based on purified methane from the Shurtan Gas Chemical Complex

The plant will produce high-quality diesel and aviation fuels that meet stringent environmental standards, unparalleled in quality and the absence of harmful impurities. The total cost of the project: $2bn, financed by Korea Exim Bank, along with 15 commercial banks.

Creation of a gas-chemical cluster based on methanol-to-olefins (MTO) technology.

This will enable the manufacture of new types of products, such as polyethylene terephthalate, polystyrene, polyvinyl chloride, propylene oxide polyol, gasoline and diesel fuel, in accordance with the requirements of Euro-5.

This project is in collaboration with Air Products and Mubadala, as well as engineering and construction companies from South Korea and Singapore.

GAS

A joint venture with Forus JSC, a Russian company, to reconstruct the storage facility at Gazli.

This will more than triple the gas storage capacity to 10 billion cubic metres. Work is already underway on the first phase of the project, which will double the storage capacity to six billion cubic metres by the end of 2021. The second phase is due to be completed in 2024.

Infrastructure at the facility will be modernised in parallel with the reconstruction work.

The total cost of the project: $850m

A new gas processing facility with intended annual production capacity: 8.1 billion cubic metres of hydrogen sulphide-containing gas

The complex is jointly owned by Lukoil and UNG, and is funded by international banks including ING, UniCredit and Deutsche Bank.

'Uzbekistan Independence' gas field in the southern Surkhandarya region

In 2017 the Government of Uzbekistan signed a production-sharing agreement with Swiss and Cypriot investors and Uzneftegazdobycha.

The total cost of the project: $5bn.

The first phase of the project, due to be completed by 2023, will see the construction of a gas processing plant with a capacity of five billion cubic meters of natural gas per year. That will be followed within three years by the construction of a gas chemical complex with a production capacity of 500,000 tonnes of polymer products.

ENERGY COMPANY UNG LOOKS TO GIVE WARM WELCOME TO FOREIGN INVESTORS

GlobalMarkets: How has the government's strategy for the energy sector affected Uzbekneftegaz (UNG)?

Ulugbek Ashurov: Our primary task is to create a new vertically integrated company that corresponds to international standards of efficiency, transparency and corporate governance.

We have already started our work on the transformation of the company. We began by realising nearly 300 non-core assets, a process which is due to finish by the end of this year.

We have also started work on the sale of our service companies, which will take place next year, in order to increase competition in the market and lower the price. This will be done under open tender and we expect the majority of buyers to come from the private sector.

The next step is to make the company more attractive for public market investors. Our financial statements have been audited by EY for the past three years and we are currently preparing to move to IFRS standards at the start of next year.

We are also working on improving our corporate governance. We have created a supervisory board and are planning to appoint independent directors with good experience of the international oil and gas industry. The process is already underway and we expect it to be completed by the end of the year.

In addition, we are looking to appoint executives from outside Uzbekistan to our management board. We are currently recruiting internationally for a first deputy chairman, who will be responsible for the implementation of our investment programme, and for our deep processing and downstream projects.

Once we have completed our organisational restructuring, we want to achieve an international credit rating and then issue a Eurobond.

GM: Why is capital markets access important for UNG?

UA: We want to change the way we fund ourselves. Until now, all our financing has come directly from the state or with a sovereign guarantee. We want to issue a Eurobond in order to diversify our funding sources and reduce our reliance on government support.

We have had discussions with large investment banks and financial institutions, and the feedback we have received is that there is strong appetite for our bonds among global investors.

Some banks have encouraged us to come to market this year, but we believe it is important to finish our corporate transformation first. What we are hearing from investors is that their top priority is having access to high-quality and transparent financial statements.

Once we are confident that we are up to international standards, and have seen an increase in our production levels, then we will be ready to issue a Eurobond.

After that, the government's strategy calls for the privatisation of UNG via an IPO before the end of 2024. We will remain state-controlled but investors will have an opportunity to buy up to 49% of the company.

Before that, however, we will need to make substantial improvements to our profitability and our production capacity.

GM: What level of investment does UNG require?

UA: We have around 40 projects lined up for the next 10 years with a total cost of around $34bn. We expect half of this to come from foreign direct investment and loans.

GM: Where do you see the greatest opportunities for development?

UA: The investment policy of UNG is aimed firstly at replenishing reserves and increasing hydrocarbon production with the use of advanced technologies, carrying out geological exploration on poorly explored and complex subsoil areas, and intensifying production at fields with hard-to-recover reserves.

We want to modernise and improve the efficiency of our existing oil refineries, as well as introducing advanced information and communication technologies across the industry. We want to digitalise all our processes, starting with our wells and finishing with the distribution of our final products.

It is also important to remember that the energy sector in Uzbekistan not only covers the extraction of resources from the earth but also the system of complexes for processing raw materials and manufacturing products.

We want to deepen the processing of hydrocarbons and introduce new high added-value petrochemical products to serve the domestic market and for export.

Ulugbek Ashurov, deputy chairman, Uzbekneftegaz

GM: What are the key development projects in this area?

UA: One of our biggest projects is the construction of a plant for the production of synthetic liquid fuel (GTL) based on purified methane from the Shurtan Gas Chemical Complex, which is one of the world's largest gas processing and polymer production plants.

> **"We want to deepen the processing of hydrocarbons and introduce new high added-value petrochemical products to serve the domestic market and for export"**

The plant will produce high-quality diesel and aviation fuels that meet stringent environmental standards, unparalleled in quality and the absence of harmful impurities. The project will cost $3.7bn and is being financed by our own resources at UNG and international loans.

We are also implementing a series of large projects , one of which is moderinising of the Bukhara refinery, that allows the release of high-quality fuel — gasoline and diesel fuel — in accordance with the requirements of the Euro-5 Directive.

Furthermore, work is underway to establish a gas chemical cluster based on methanol-to-olefins (MTO) technology. We are collaborating on this project with Air Products, as well as with the engineering and construction companies from South Korea and Singapore.

The implementation of the gas chemical cluster project will allow the production of new types of products, such as polyethylene terephthalate, polystyrene, polyvinyl chloride, propylene oxide polyol. ●

UZTRANSGAZ TRANSFORMATION AIMS TO FUEL UZBEKISTAN'S ECONOMIC GROWTH

"Our key focus areas are the modernisation of our gas transportation system, and the expansion of export and transit opportunities"

GlobalMarkets: What is your goal for the next five years?

Sayidov Ulugbek: Our mission is to transform Uztransgaz into a world-class company in collaboration with international experts.

The first tasks are to make the company profitable and self-sustaining, and to achieve the highest standards of corporate governance. We want to make sure every aspect of our operations is fully transparent, from human resources and procurement to the realisation of investment projects.

To achieve this, we are bringing in external consultants in all areas with the support of a grant from the Asian Development Bank (ADB).

We are currently working to move to IFRS reporting standards from the start of next year and to obtain an international credit rating. We will then raise funding through the Eurobond market. We will also continue to attract long-term financing from international financial institutions.

After that, we will start to prepare to undertake an IPO before the end of 2024, as mandated by the president's decree of July 9.

The size of the initial stake to be sold has yet to be determined. However, the state will retain at least 51% of the company. This is because we have a natural monopoly and it is important for the government to be able to guarantee all production companies access to the gas transportation system.

There is a lot of work to be done but we understand the challenges. I am confident that in three years Uztransgaz will be a very different company, based on the direction of travel set by our president.

GM: When do you expect Uztransgaz to be profitable?

SU: If prices were based solely on market mechanisms we would be profitable. However, at the moment, some sectors are still receiving gas at below-market prices.

The government is working hard to close this gap. Tariffs were increased on August 15 and, as a result, we expect to show a full-year profit in 2020.

The purpose of unbundling Uztransgaz from Uzbeneftegaz was to make the company profitable and reduce its dependence on government support.

GM: How much investment does Uztransgaz need?

SU: Our key focus areas at present are the modernisation of our gas transportation system, and the expansion of export and transit opportunities.

More than half of our main gas pipelines are more than 30 years old. We also urgently need to upgrade our network of gas compressor units. We have 250 units in total, of which 145 are outdated and need renovating or replacing.

We want to work with a single international partner on the gas compressor network project and will put it out to public tender.

We estimate the total cost of modernising our gas transport system at around $1.5bn. We have secured funding from the ADB for part of the project, and we also plan to work with the European Bank for Reconstruction and Development, World Bank and Japanese public sector funds.

GM: What are the biggest challenges you face?

SU: One of the hardest tasks is to change our corporate culture and mindset of our employees. We have brought in external consultants to help with this and they are currently conducting training to bring our staff up to international standards.

Another major project is the digitalisation of our operations. We need to integrate all our processes, from pipelines to compressor stations, in one platform. This will hugely improve the efficiency of our operations. We are working closely with our strategic partner, Gazprom, in this area.

Our other main challenge is to improve our gas storage facilities. In our region, levels of gas consumption are very different in winter and summer. We need to be able to store gas produced during the summer period so that we can meet customers' requirements and increase exports in winter.

We have a large underground gas storage facility at Gazli, one of Uzbekistan's largest gas fields. We have set up a joint venture with Forus JSC, a Russian company, to reconstruct the storage facility. This will more than triple the gas storage capacity to 10 billion cubic metres.

Work is already underway on the first phase of the project, which will double the storage capacity to six billion cubic metres by the end of 2021. The second phase is due to be completed in 2024. Infrastructure at the facility will be modernised in parallel with the reconstruction work.

The total cost of the project, which also includes additional exploration and development of the gas and oil fields at Gazli, is $850m.

GM: Is Uztransgaz ready for projected increases in gas production?

SU: We are working closely with Uzneftegaz and are confident that we will be able to cope with the expected increase in production. Part of this will obviously be supplied to the internal market, where we are expecting a steady rise in demand in line with the growth of the Uzbek economy.

We are also ready to support the planned increase in exports. Uzbekistan is located on two main gas transit corridors. One runs from Turkmenistan via Kazakhstan to Russia, while the other connects Turkmenistan to China.

We currently supply around eight billion cubic metres of gas to China but have the capacity to increase that by a further 25%. In future, we want to utilise to the maximum all our export capacity. ●

Powering up Uzbekistan's electricity supply

A radical restructuring and upgrading of Uzbekistan's power sector is creating opportunities for foreign investors and adding new generation sources, from renewables to nuclear

By Lucy Fitzgeorge-Parker

The restructuring of Uzbekistan's energy industry has been mirrored in its power sector, where policymakers have embarked on a radical programme of reforms to increase capacity and attract foreign investment.

The country's power complex has traditionally struggled to meet the demands of a rapidly growing population and developing economy due to outdated infrastructure and inefficient management.

With consumption forecast to surge over the coming years, as economic reforms spur a jump in industrial production, the need for change has become urgent.

"We are seeing new industries coming on line in processing, textiles, agriculture, manufacturing and metallurgy, as well as a huge expansion in tourism and other services," says Jurabek Mirzamahmudov, first deputy minister of energy. "All of these will need access to a stable and reliable electricity supply."

Meeting this demand will not come cheap. Over the next five years, officials estimate that more than $2.8bn will be required to upgrade existing infrastructure, while adding new power generation could cost as much as $14.4bn.

"The aim is to create a modern, highly efficient electric power complex based on the use of advanced world experience to create an optimal, economically sound structure of generating capacities and electric grid facilities," says Fayzulla Shaismatov, deputy chairman of Thermal Power Plants.

To reduce the drain on the state budget, as well as enhance the flow of technology and know-how into the country, the government is looking to attract foreign investors to a sector that until recently was largely off-limits to outsiders.

"We have never had private sector investment in our power generation or distribution network, so this is a huge opportunity," says Mirzamahmudov. "And on the first come, first served principle, those who get in earliest will benefit the most."

The key step in the opening up of the sector was taken in March, when a decree by President Shavkat Mirziyoyev ordered the break-up of Uzbekenergo, Uzbekistan's notoriously inefficient state-owned electricity giant.

Previously, the firm was responsible for the production, transmission, trade and distribution of nearly all Uzbekistan's electricity.

The new structure, devised in collaboration with international financial institutions (IFIs) including the World Bank and Asian Development Bank (ADB), splits these roles between three new joint stock companies.

Responsibility for electricity generation has been assigned to Thermal Power Plants. National Electric Networks of Uzbekistan now oversees transmission and trade, including imports and exports, while Regional Electric Networks distributes and markets electricity to end users.

"We want to introduce modern corporate governance into all three companies," says Mirzamahmudov. "We are in discussions with IFIs to bring in foreign experts, not only as consultants but also potentially as senior managers.

"We also plan to move all the companies to IFRS reporting standards to improve transparency."

At Thermal Power Plants (TPP), these changes will apply not only to the company itself but also to its subsidiaries. The firm, which last year generated 90% of Uzbekistan's electricity, controls 10 power plants across the country. Most are gas-powered, although two in the Tashkent region use coal.

Under the new system, these plants have also been restructured as joint stock companies with their own supervisory boards and independent directors, with TPP effectively acting as a holding company, as part of the preparation for a planned programme of privatisations.

A pilot deal is already in the works. In March, during a visit by President Mirziyoyev to the United Arab Emirates, Abu Dhabi-based investment company Mubadala agreed to start negotiations to take a stake of at least 50% in the Talimarjan thermal power plant in Kashkadarya province.

The plant has already been expanded in recent years with the addition of two combined-cycle plants with a total capacity of 900MW constructed by Daewoo and Hyundai.

A second project is underway to build another two combined cycle gas turbines (CCGTs) with a capacity of at least 900MW, with $790m of financing backing from the ADB and European Bank for Reconstruction and Development.

Further privatisations of existing power plants are scheduled to follow. In the meantime, investors keen to gain access to the sector also have the option of getting involved in greenfield projects.

Work is already underway on the construction of two combined cycle gas turbine plants by Turkish companies in the Sirdaryo and Tashkent regions, and in September Saudi Arabia's ACWA Power signed an agreement with the Ministry of Energy to build two power plants with a total capacity of 2,250MW.

RENEWABLE ENERGY TO THE FORE

One of the plants will be gas-fired but the other will utilise wind power, as part of an ambitious plan by the Uzbek government to build renewable energy capacity.

"We have large reserves of natural gas but like any resource that will deplete over time," says Mirzamahmudov. "That's why we are actively working to introduce new power generation sources, as well as increasing the efficiency of existing plants, in order to reduce gas consumption."

At present, Uzbekistan has a total installed capacity of 11.2GW. Policymakers are aiming to triple that by 2030, with nearly half of new capacity coming from renewable sources.

Part of this increase will come from hydroelectric power. Currently Uzbekistan's only renewable energy source, the government is aiming to double its share in the country's energy mix over the next 10 years to around 13%.

The remainder of the renewable energy quota — and a fifth of total electricity generated in Uzbekistan — will be provided by new solar and wind power installations.

A survey by the Uzbek government, in conjunction with the ADB, shows high potential for solar power

in the south of the country, especially in the Surxondaryo region, as well as in the Fergana Valley. For wind power, the most promising regions are Navoiy, Bukhara and Karalkalpakstan.

The majority of new capacity will come from solar power, which is expected to provide 5GW of installed capacity by 2030. Wind power will account for a further 3GW. All of these new facilities are scheduled to be built by foreign investors through public-private partnerships.

Initial indications suggest that interest in the sector will be intense. A pilot 100MW solar power plant project in the Navoiy region, developed with the support of the International Finance Corporation, attracted expressions of interest from 24 firms, of which 11 qualified for the second phase of the tender.

IFIs have also backed wind power initiatives, including a 0.75MW pilot project near Lake Charvak in the Tashkent region and feasibility studies for new installations in the Karakalpakstan region.

Mirzamahmudov notes that adding renewable energy capacity will also require the expansion of Uzbekistan's gas-fired power network. "We will need additional capacity to regulate supply and ensure sufficient reserves," he says.

New gas-fired power plants will be overseen by a new department of the Ministry of Energy, created in August by presidential decree, which has been tasked with co-ordinating and overseeing the development of energy-efficient technologies.

"This unit has the responsibility of ensuring that new CCGTs are built to maximise efficiency and reduce the consumption of gas," says Mirzamahmudov.

For nuclear power, meanwhile, policymakers looked closer to home for help. Uzbekistan signed an intergovernmental agreement with Russia in September 2018 for the development of the country's first nuclear power plant.

The facility, which will be constructed by Russian state-owned giant Rosatom, will have two blocks with a combined capacity of 2.4GW. The first is due to come on line in 2028 and the second in 2030.

"We want to add nuclear power as well as renewables to ensure the sustainability of our energy mix," says Mirzamahmudov. "With nuclear, you can plan your energy strategy for the next 60 years — and we are one of the top countries in the world for uranium production, so we have the raw material."

TARIFF REDUCTIONS

For all current and potential investors in Uzbekistan's electricity generation sector, one of the key issues will clearly be the future direction of tariffs.

Traditionally, electricity prices have been heavily subsidised by the state but President Mirziyoyev's government has undertaken to introduce market mechanisms. A rise in tariffs was implemented in August and further increases are promised.

"This will be a sensitive issue, because tariffs are not only a mechanism to attract investors but also have a high social impact," says Ergashevich. "To protect the population, the government has therefore decided to implement gradual increases in tariffs.

"Nevertheless, we have a strong understanding that tariffs should be cost-covering."

Following the unbundling of Uzbekenergo, each power plant in Uzbekistan will now negotiate tariffs separately with the monopoly purchaser, National Electric Networks.

The company, which is scheduled to remain in state ownership, is also responsible for co-ordinating cross-border electricity trade and transmission.

At present, Uzbekistan imports electricity from neighbouring countries including Kyrgyzstan, Tajikistan, Kazakhstan and — since last year — Turkmenistan.

"We are trying not to utilise older generation units that are not energy efficient so we are not running at 100% of our installed capacity," says Mirzamahmudov. "We have therefore enhanced regional co-operation in this area in order to meet increasing demand."

At the same time, Uzbekistan is also looking to step up exports of electricity to Afghanistan. The country has been selling electricity to its southern neighbour since 2002 and last year delivered 2.6bn kWh.

National Electric Networks is now working on a new 154km transmission line to Afghanistan. The Uzbek government has agreed to provide a discount for the construction of the line in return for a 10-year contract from the Afghan purchaser, a condition set by the ADB for the provision of project finance.

REGIONAL DISTRIBUTION

The final pillar of Uzbekistan's new power complex is Regional Electric Networks, which is responsible for delivering electricity to end users.

The company comprises 14 regional electric power networks, which supply around 300,000 Uzbek businesses and seven million households. Individual and communal domestic consumption accounts for 35% of the total, with industry and agriculture taking a further 41% and 20% respectively.

As with the other parts of Uzbekistan's power network, the lines and facilities operated by Regional Electric Networks are severely outdated. The company estimates that around 58% of all types of overhead power transmission lines require modernisation and one-third of all substations.

"More than 55% of the elements of distribution power networks are operated with a period of more than 30 years and have practically exhausted their resources," says a company spokesperson.

"The deterioration of power lines and transformer units means there will be a problem with the supply of electricity in the near future. As well as modernising existing infrastructure, we urgently need to commission new facilities."

Under the new power sector strategy, Regional Electric Networks has been tasked with constructing and reconstructing at least 15,000km-17,000km of transmission lines and 450 transformer substations annually for the next 10 years.

The company is also implementing a new automatic system for the commercial accounting of power consumption to reduce loss and theft of electricity, improve collection of revenues, and allow remote power connection and disconnection.

"After the implementation of the project, the share of average commercial losses from the total forecast losses will decrease from 12.5% to 5.0%," says a company spokesperson.

The total cost of Regional Electric Networks' expansion and modernisation programme is estimated at $1.7bn over the next 10 years.

Again, the government is looking to source some of this from foreign investors. "We want to bring in private sector investment, including from outside Uzbekistan," says Mirzamahmudov. "We are also considering privatisation as an option. GM

Investment highlights: electricity

The modernisation and upgrade of 22 main power substations in Uzbekistan
« Starting date: 2017
« Finish date: 2022
« Finances: World Bank's loan: $150m
« The total cost of the project: $292m

The construction of the Takhiatash-Sarimoy transmission line in the Khorezm region
« A 340 km stretch of line
« The total cost of the project: $258mn
« $150m by the Asian Development Bank (ADB)
« Finishing date: 2019

An overhead transmission line from Navoiy TPP to Besopan
« The total cost of the project: $80m, partly funded by the European Bank for Reconstruction and Development (EBRD)
« Electricity for the newly established mining and metallurgical production facilities in the Navoiy region and to develop the power grid in the northwest

A high-quality power supply to the Tashkent Metallurgical Plant
Construction of Puli Khumri (Hoja-Alvon) power line
« The total length of the line is 245.6km, of which 45km runs through the Surkhandarya region and 200.6km through Afghanistan

POWERING UZBEKISTAN'S NEW ENERGY STRATEGY

Fayzulla Shaismatov, deputy chairman, Thermal Power Plants

GlobalMarkets: What has the government's new energy strategy meant for Thermal Power Plants?

Fayzulla Shaismatov: The biggest change in our company has been the attitude to efficiency. Uzbekenergo was a large and cumbersome vertically integrated company.

It was very difficult to identify bottlenecks because financing was centralised. The inefficient parts of the business were covered by the more efficient, mainly through income generated from the sale and export of electricity.

After unbundling, we know what our weak spots are and where we need to focus our efforts to minimise the costs of production and to improve the management efficiency of our power plants.

We are working to implement modern management principles in all our entities, and we are very focused on corporate governance and transparency. We are introducing supervisory boards with independent members in our power plants.

We want to do this and we have to do it, because we currently rely heavily on international financial institutions (IFIs) for financing, and their requirements on transparency and efficiency are very stringent. They also set high standards for us in terms of environmental impact.

GM: What has changed for the power plants?

FS: Every plant now has a power purchase agreement with National Electric Grid. The cashflow goes directly to the plant and the management can decide how to use the money.

This was done to create a sense of asset ownership and economic incentives. Previously nobody cared about efficiency because they received funding from the parent company on demand.

Now each power plant has started to make a more accurate assessment of their costs, look for bottlenecks and weak spots, and work on improving them.

There is still long way to go but we have already achieved a shift in attitudes. The managers of the power plants now know their income is dependent on how efficiently they work. They are the masters of their own businesses.

GM: How much investment do you need over the next 10 years?

FS: According to forecasts for demand growth, we need to at least double our existing capacity, which will require a considerable amount of investment.

Unfortunately around 80% our generating units are outdated and obsolete, with an average age of more than 30 years, so we also have to decommission most of the existing units.

This means the pace of renovation has to be very rapid, which is why the government wants to open the door to private investment. Attraction of private investment is set to be the primary goal because the government has realised that it is too heavy a burden for them to bear alone.

GM: What are the main challenges you face today?

FS: Our biggest challenge is to increase efficiency. Once private investors start building independent power producers (IPPs) it will become an existential matter for us, because we will have to compete in the open market against firms with the most advanced technology and management systems.

It will take two to three years for new investors to construct and commission their power plants, so that's how long we have to structure our operation to become competitive enough to survive.

Another major challenge is changing the attitude of our staff. After many years working under the old management system it's difficult to break the inertia in their minds and switch them to a "business oriented" mode.

Fortunately, we have very strong support from IFIs including the World Bank, European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB). They are helping a lot by running seminars and providing access to consultants in this sector.

We are trying to ensure that we meet the highest standards in corporate governance, and in parallel to educate our employees. We are running courses on topics including corporate governance and project finance in order to build capacity in our workforce.

We also want to bring more international managers into the company. With the help of the IFIs, we are currently looking outside Uzbekistan for a new deputy chairman, who will be responsible for adopting international standards of expertise, governance and management.

GM: How important is knowledge transfer?

FS: It is the number one priority for us at the moment. Most of our fleet of generation units are obsolete, and new units need experienced people who are educated to work on these units efficiently. It's not enough to buy new equipment — you need people who can operate it.

We are also aware that green technologies are very much in focus at the moment and that we need to keep up with this trend. We are paying a lot of attention to energy-saving technologies.

GM: Would you consider raising funds through the capital markets?

FS: To develop further and expand our company we will need access to capital markets, but first we need to complete the process of becoming self-sustainable.

Cost-covering tariffs were only introduced in August. It will take a couple of years at least to get on a solid footing after that, because to access the capital markets you have to be strong enough to persuade your counterparts to lend you money.

At the moment we rely heavily on state support, but the government has made it clear that in future this will be reduced and we will have to take care of ourselves.

So first we need to achieve self-sufficiency, then in two or three years we will be ready to get an international credit rating and enter the capital markets. ●

> **"First we need to achieve self-sufficiency, then in two or three years we will be ready to get an international credit rating and enter the capital markets"**

Talimarjan power plant

NATIONAL POWER NETWORKS: MANAGING THE TRANSMISSION TRANSITION

Elmurodov Kholik, First Deputy Chairman of the Board, JSC "Uzbekistan National Power Networks"

GlobalMarkets: What is the remit of Uzbekistan National Power Networks?

Elmurodov Kholik: The main activities of the company are the operation and development of the main electric networks of Uzbekistan, the supply of electricity through the main power grid of the country, and the implementation of interstate transit in co-operation with the power systems of neighbouring states.

Currently, our organisation consists of 14 regional power transmission lines and 77 substations. Overall, 4,713 specialists work in the company.

GM: What are the main challenges you face?

EK: The total length of Uzbekistan's power grid is around 255,000km, more than six times the length of the Equator. Among them 9,700km is 220-500 kV main overhead power transmission lines which are serviced by our organisation. It is clear that such a long network needs constant construction and repair, modernisation and innovative technologies.

Unfortunately, nearly 62% of our electric network is more than 30-35 years old. The distribution networks are extremely worn out, which leads to a large loss of electricity, now accounting for more than 2.8% of the total energy supplied by thermal power plants to the grid.

> **"It is very important for us to be prepared for the transmission of generated electricity by renewable energy sources"**

GM: What are your main investment projects?

EK: The largest project we are working on at the moment is the modernisation and upgrade of our 22 main power substations in order to increase the reliability of electricity supply. This involves the renewal of old machinery and power lines with modern equipment corresponding to international standards.

The renovation project was started in 2017 and will finish in 2022. It is being partly financed by the World Bank, which has provided a loan of $150m. The total cost of the project is $292m.

Also ongoing is the construction of the Takhiatash-Sarimoy transmission line in the Khorezm region. A 340km stretch of line is being built at a cost of $258m, of which $150m has been provided by the Asian Development Bank (ADB). The project is due to be completed this year.

Work also began this year on the construction of an overhead transmission line from Navoiy TPP to Besopan. The new line, which will cost $80m and is partly funded by the European Bank for Reconstruction and Development, will provide electricity for the newly established mining and metallurgical production facilities in the Navoiy region and to develop the power grid in the northwest.

Our next major project, which will start this year, will be in the Tashkent region. We have undertaken to provide a high-quality power supply to the Tashkent Metallurgical Plant, as well as to meet the needs of the population and industrial facilities in Tashkent and the border areas of Tashkent region.

GM: Do you have any projects outside the country?

EK: Yes, we are currently working on the construction of the 500kV Surkhon-Puli-Khumri power transmission line to Afghanistan.

This will improve our relations with Afghanistan and enhance our ability to export electricity to neighbouring regions, thereby increasing the inflow of foreign currency into Uzbekistan and our standing in the international arena.

The total length of the line is 246km, of which 45km pass through the Surkhandarya region of Uzbekistan and 200km through Afghanistan.

GM: What effect have improvements in regional co-operation had on your work?

EK: In the last three years, we have seen dramatic change. Previously, working on our transmission lines outside Uzbekistan was very challenging due to the difficulty of moving equipment and personnel across borders.

Today, thanks to the efforts of our president, this has become much easier. We have been able to monitor and make repairs to our lines in Tajikistan, Kazakhstan and Turkmenistan, and our regional partners have been able to come and work in Uzbekistan. This has been mutually beneficial.

GM: Are you ready to support the expansion of renewable energy in Uzbekistan?

EK: It is very important for us to be prepared for the transmission of generated electricity by renewable energy sources.

As a company, we are very supportive of initiatives to produce cleaner energy and improve efficiency. We are working on bringing the issues of energy efficiency and energy conservation to the general public and introducing proposals to start education on the topic at pre-school age.

We also closely work with citizens, raising awareness about what steps must be gone through to produce electricity, how it can be delivered, and the continuous and quality distribution of energy to consumers. Energy efficiency and efficient use of natural resources are inseparably linked with the development of society. I think this is our duty to the future generation and our debt to nature.

GM: What other changes are you making at National Power Networks?

EK: We are making gradual changes to our company management, partly as a result of the projects we are working on. New technologies require a different approach to planning and forecasting, so this is helping us to change our management patterns.

We are also working with IFIs to improve our internal standards. We recently undertook a project with the ADB on upgrading our information communication technologies.

We also understand that we need to bring in expertise and technology from outside Uzbekistan in order to build a modern transmission network.

We are open to innovation and keen to work with foreign partners with experience in the energy sector, and hope we can provide a platform for mutually beneficial co-operation. ●

Uzbek chemicals sector unveils formula for growth

Policymakers have unveiled an ambitious plan to revitalize and expand Uzbekistan's chemicals industry with the help of foreign investors to serve booming domestic demand and boost exports

By Lucy Fitzgeorge-Parker

For a country rich in hydrocarbons and boasting a large domestic market, Uzbekistan has traditionally underperformed when it comes to the production of chemicals.

The industry currently accounts for just 2% of the country's total production volume and 1% of GDP. "These are very small numbers," says Temirov Odil, chairman of local chemicals company Uzkimyosanoat. "For developed countries the figure is more than 10%."

Uzbekistan's reformers are aiming to close that gap. The process began two years ago when President Shavkat Mirziyoyev ended the practice of price-setting by the government for chemical products, allowing the sector to move to market principles.

The next step was a year-long analysis of the Uzbek chemical industry, undertaken in conjunction with Boston Consulting Group, to assess market demand and identify key areas for investment.

The results of this study were released in April, when the government unveiled an ambitious $12bn strategy to modernise and restructure the sector with the help of foreign investors.

The primary objective of the programme, which comprises more than 30 projects to be completed by 2030, is to reduce Uzbekistan's dependence on imported chemicals and service rapidly growing domestic demand.

"We are a developing country with a population of 33 million and economic growth of around 5% per annum," says Odil. "We can expect a big increase in demand for all basic chemical products."

A core plank of the strategy — which aims to increase chemicals production to 5% of GDP — is the expansion of Uzbekistan's organic chemicals industry.

Despite its ample reserves of natural gas, the organic chemicals segment currently accounts for just 11% of the country's chemical output. By 2030, this is scheduled to increase to at least 50%.

Much of this growth is due to come from the manufacture of new value-added polymer products including polyethylene terephthalate (PET), polyvinyl chloride (PVC), synthetic rubber, polystyrene, butyl acrylate and others.

This in turn will support some of Uzbekistan's largest and fastest-growing industries. The country's textile sector last year imported around 70,000 tonnes of PET fibre, while more than 85,000 tonnes of PVC was purchased from foreign suppliers by Uzbek textile and processing companies.

Household chemicals are also largely sourced from outside the country. Around 30,000 tonnes of linear alkylbenzene (LAB) and linear alkylbenzene sulfonic acid (LABSA) are imported annually for detergents and other household products.

Part of this domestic demand will in future be met directly by Uzkimyosanoat, Uzbekistan's largest state-owned chemical producer. The firm has announced plans to start production of PVC at its flagship Navoiyazot complex. Initially, a new facility will produce 100,000 tonnes a year of the PVC polymer.

"According to our forecasts that will not be enough to keep up with increasing in-country demand, so we will subsequently add a second complex with a capacity of 130,000 tonnes," says Odil.

Uzkimyosanoat also plans to begin production of LAB and LABSA using feedstock from the Shurtan gas chemical complex and a new gas-to-liquid (GTL) complex due to be created by state oil and gas giant Uzbekneftegaz.

"We will produce enough LAB and LABSA to cover full in-country consumption," says Odil. "We also expect to be able to export around 20,000 tonnes a year of household chemicals to nearby countries."

Overall, policymakers expect domestic demand to account for around two-thirds of Uzbekistan's output of organic chemicals by 2030, with the rest being sold outside the country.

The sector development programme also calls for a step-up in output of other chemicals currently produced by Uzkimyosanoat.

These include drilling and water system chemicals for the Uzbek oil and gas and petrochemicals industry, as well as adhesives and melamine for the wood processing and furniture sectors.

FERTILISING GROWTH

Uzkimyosanoat also manufactures a range of chemicals including cyanic salts and urea for major mining and

metallurgical combines based in Almalyk and Navoiy, respectively Uzbekistan's leading producers of non-ferrous metals — copper and gold — and uranium.

Production of mineral fertilisers, which currently account for around 75% of Uzkimyosanoat's total chemical output, will also remain a key component of the government's strategy for the sector.

Indeed, policymakers see the segment as offering excellent opportunities for export growth. "There is strong demand for mineral fertilisers in other central Asian countries, Turkey and Ukraine, as well as China, India and southeast Asia," says Odil.

Despite being a landlocked country, Uzbekistan has good road and rail links to Afghanistan, Tajikistan, southern Kazakhstan and Russia. The government is also backing the development of a rail link to China.

Along with the large and growing domestic market, this export potential is expected to be one of the main attractions of the Uzbek chemical industry for foreign investors, who will have the chance to gain exposure to some of the country's key assets over the next four to five years.

April's presidential decree mandated the privatisation of a clutch of production facilities and non-core assets under the control of Uzkimyosanoat. The company, which employs 33,000 staff, currently comprises 14 industrial enterprises and six service organisations.

Topping the list of assets for sale are three fertilisers and chemical plants: the Dekhkonobod potassium plant; Ferganaazot, which produces nitrogen fertiliser; and the Kungrad soda plant.

The Uzbek government is offering to sell a 51% share in each of the three, in return for investor commitments to modernise facilities, increase capacity — by more than 100%, in the case of the Kungrad soda plant — and establish new production lines.

All three are profitable, although a fall in global potassium prices has recently affected revenues at Dekhkonobod. The most profitable of the three is Ferganaazot, which boasts an Ebitda margin of around 40%.

The privatisation process is already underway, with EY acting as investment consultant to Uzkimyosanoat. More than 150 investors have been invited to view the privatisation process and more than 20 have expressed an interest in Dekhkonobod, while the other facilities have each attracted half a dozen potential buyers.

"We expect to receive binding offers for the Kungrad soda plant and Ferganaazot by the end of this year, and sign the share and purchase agreement in the first quarter of 2020," says Odil.

For foreign firms, however, the most attractive deals may be those that involve greenfield projects. In May, US chemicals firm Air Products signed a joint agreement with Uzkimyosanoat and Uzbekneftegaz for the construction of the planned gas-chemical complex using methanol-to-olefins (MTO) technology.

Odil says the involvement of the Uzbek government and state-owned enterprises in both individual projects and the wider sector development programme helps to inspire confidence in potential investors.

"With big projects, naturally the risks are also big," he says. "Investors are therefore keen to partner with local entities that own the mineral resources, feedstock and infrastructure."

Odilbek Temirov, Chairman, JSC O'zkimyosanoat

ECONOMIC ZONES

Policymakers have also provided assurances to foreign direct investors regarding the provision of utilities, while further benefits will come from a new drive by the Ministry of Economy and Production to promote co-operation between sectors within Uzbekistan.

To encourage the creation of industry clusters, the government has created a series of economic zones across the country, including one comprising the whole of the Navoiy region.

Other greenfield opportunities up for grabs include Samarkandkimyo, where the government is offering to sell 100% of the company in return for a commitment by the buyer to build a new production facility for phosphoric and NPK fertilisers.

The proceeds from these privatisations will be put into an investment fund, which will be used to finance Uzkimyosanoat's part of the development programme.

Part of this funding will be spent on knowledge transfer. "For each new project, we will sign licensing agreements to bring in technology and know-how," says Odil. "We are also planning to send our specialists abroad for training, as well as bringing experts here to provide in-country training."

This will be backed by a drive to improve technical education in Uzbekistan's universities. This year will see the opening in Tashkent of a branch of Russia's Mendeleev University of Chemical Technology, the result of a collaboration between Uzkimyosanoat and the Ministry of Higher and Secondary Education.

The company is also working on a project to create a research and development centre in Uzbekistan for the chemicals industry. A feasibility study funded by Korea Eximbank is already underway and officials say the centre could open as early as 2023.

"This will be an invaluable resource to ensure we have the expertise in Uzbekistan to drive our industry forward," says Odil.

Meanwhile, Uzkimyosanoat is also undergoing a major internal restructuring to improve corporate governance and transparency.

The resolution passed in April mandated the appointment of independent directors to the firm's supervisory board and the establishment of an audit committee, as well as the preparation of financial statements according to IFRS accounting standards.

Significant progress has already been made. IFRS standards have been introduced at the entities earmarked for privatisation, while the parent company is due to follow suit shortly.

This in turn will pave the way for Uzkimyosanoat to obtain an international credit rating and, in the near future, access the Eurobond market.

Odil notes, however, that bond buyers will have to wait to gain exposure to the company. "First we have to sell our shares in the main entities listed for privatisation, which will increase our attractiveness for foreign investment," he says.

In the meantime, the firm is looking to attract finance from international public and private sector banks for individual projects.

"One of the reasons for creating joint ventures with the direct involvement of foreign investors is to bring in project financing from the likes of Export-Import Bank of China and Japan Bank for International Cooperation, and from others ECAs," says Odil.

There are no plans at present to sell equity stakes in Uzkimyosanoat, although Odil says that will come further down the line. "Naturally in future the government will look to reduce its participation in the company," he says. GM

Investment highlights: chemicals

Uzkimyosanoat investment projects total more than 30 and the total investment is more than $12bn.

Production of paints and varnishes for a growing domestic market
- Domestic market size: 80 KTA ($120m)
- Market expected to double by 2030
- Currently, the production of paints and varnishes is based on imported acrylic resins

Production of household chemicals
- Laundry detergents current market size: 40 KTA
- Expected market size: up to 200 KTA by 2030
- Growing household disposable incomes
- The share of local detergents: 59%
- Raw materials: soda ash, baking soda, sodium sulfate: produced in UZ

Production of cosmetics
- Indicative Capex: $15m
- Construction area: 12,000 m2
- Production of polyester fibres
- Domestic market size: $45m with expectations to grow up to $450m by 2030
- Polyester fibres are most relevant PET segment for Uzbekistan
- Used for fabrics production, which are further used for the production of apparel, home furnishings, and other finished textile goods

Production of pesticides
- Indicative Capex: $30m-$40m
- Market attractiveness:
- Domestic market size: $30m
- Market expected to grow up to $60m-$80m by 2030
- Carbon black production
- Capex: $100m
- Implementation period: 2020-2023
- Project's main consumer: 'BRZ' tyre producer
- EVA film production
- Capex: $2.5m
- Implementation period: 2020-2021

Production of LAB and LABSA
- Using feedstock from the Shurtan Gas Chemical Complex and a new GTL complex due to be created by state oil and gas giant Uzbekneftegaz that will use gas-to-liquid (GTL) technology

PPP BRINGS KNOW-HOW AND EXPERTISE INTO THE COUNTRY

In an interview with *GlobalMarkets*, Golib Kholjigitov, head of Uzbekistan's PPP Development Agency, lays out the advantages that working with the private sector can bring in terms of lower costs and more efficient delivery of much-needed infrastructure projects

Golib Kholjigitov, head of PPP Development Agency

GlobalMarkets: How has Uzbekistan's PPP framework developed?

Golib Kholjigitov: The PPP Development Agency was established in October 2018 and the law on public-private partnerships (PPP) was adopted in May this year.

We have co-operated very closely with international financial institutions (IFIs) throughout the process. The first draft of the PPP legislation was prepared by the European Bank for Reconstruction and Development (EBRD).

We subsequently customised it to local requirements with parliament and the relevant ministries, and then confirmed again with IFIs including the World Bank and Asian Development Bank that it meets international standards.

We are currently working actively with IFIs, along with our government ministries, to develop a strong, diversified pipeline of projects.

For us, the involvement of the IFIs in the initial stages of our PPP development is key. As a country that is just opening up, and where the institutions are new and haven't been tested over time, having the support of institutions such as the World Bank, IFC and EBRD is vital in giving confidence to investors.

For the first few years, we will use IFI support actively. After that, once we have the expertise, the documentations and the relationships with investors, we will start preparing transactions on our own.

GM: Which sectors are you focusing on?

GK: We have several priority areas, including energy, transportation, water, healthcare, agriculture and education.

The energy sector is particularly important for us. It provides the foundation for any economic growth and the current technology is quite outdated, with low efficiency and instability in some areas. We are therefore very focused on encouraging investment in electricity generation and distribution.

We want to support the government's strategic plan for the development of the energy sector. This includes the diversification our generation capacity with a focus on renewables and the modernisation of outdated infrastructure.

The government also wants to improve the financial sustainability of the sector. Over the past decade, high levels of energy subsidies meant that our energy companies were loss-making and incurred debts.

Demand for electricity in Uzbekistan is forecast to grow by 40%-70% over the next 10 years, so it is clear that considerable investment is needed in the power sector. We estimate the figure at around $15bn.

GM: What are the advantages of the PPP format?

GK: Given the level of investment required, the government is keen to leverage private sector funding to solve public sector issues such as the contingent-liability structure. With PPP, most of the risks are taken by the private sector, from market risk to operational risk.

We also know from experience in other jurisdictions that the cost overrun on PPPs is nearly three times lower than on projects using traditional procurement.

Similarly, PPP projects tend to be delivered in a more timely manner and to a higher standard, because deadlines and key performance indicators are built into the contracts and power purchasing agreements. These are powerful motivating factors for private companies.

The other big advantage of PPP is that it brings know-how and expertise into the country. Foreign companies will not just be responsible for building assets but also for operating them, maintaining them and managing them to international standards — which is exactly what our country needs.

GM: How many projects are you currently working on?

GK: We have close to 30 projects in the pipeline, of which 17 are at an advanced stage and two are in the final bidding round. For others we are about to sign transaction advisory consultancy agreements with IFIs and for some pre-feasibility studies are already underway.

Most of these projects are in the energy, power, transportation and healthcare sectors. Those in the final bidding stage are a 100MW solar plant in the Navoiy region and the creation of dialysis centres in three regions. Both of these are pilot projects. We want to start small in order to gain expertise and build capacity.

We are not just working on projects on an individual basis. In power generation, our approach is programmatic. We want to build new solar plants with total capacity of 5GW over the next 10 years.

We have seen strong interest from investors. For the Navoiy solar project, we had initial expressions of interest from 42 companies from countries including France, Saudi Arabia, UAE and China. That was a good signal for us that we are on the right track.

> **"If anything, at the moment we have too much interest from investors!**
>
> **PPP projects tend to be delivered in a more timely manner and to a higher standard, because deadlines and key performance indicator are built into the contracts"**

GM: What concerns are investors raising?

GK: The level of engagement of investors at present depends on their risk appetite. Some are actively involved and some are waiting to see how the first pilot projects turn out.

From investors who come to the agency, the reaction has been positive. They can see that we have a strong pipeline and that we are committed, and they appreciate our professionalism. They can see that our staff have a high level of international experience and expertise.

It is one thing to make policy. You also have to implement it, which is much more difficult. When investors see that we speak their language and understand their concerns, they are very keen to get involved.

If anything, at the moment we have too much interest from investors! PPP is a complex structure, so we have to be careful about taking on too many projects at once.

The IFIs are being very helpful in the project preparation process. They are doing market-sounding activities to gauge the level of interest for projects and signing consulting agreements.

One of the key concerns is our tariff policy. Foreign investors obviously want to be sure that they will be able to recover their costs and make a profit. This is a sensitive issue from the social perspective, but one we are working on. We are committed to ensuring that tariffs are reasonable and sustainable for both population and investors. ●

18th OCTOBER,
FRIDAY
2019

From 6:30pm to 9:30pm

ON THE OCCASION OF THE IMF AND WORLD BANK MEETINGS 2019

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What's happening Thursday, October 17

9.45am – 10.15am
Seminar: **Capacity development: promoting women's financial inclusion: the role of the IMF's Financial Access Survey**
Speakers: **Esha Chhabra**, Statistics Dept, IMF; **Eric Duflos**, UNSGSA
Location: IMF HQ1 Gallery

10.30am – 11.30am
Seminar: **Decoding debt: getting transparency right**
David Malpass, President, the World Bank Group (also moderator); **Antoinette Sayeh**, Distinguished Visiting Fellow, Center for Global Development; **Kenneth Rogoff**, Professor, Harvard University; **Zainab Ahmed**, Minister of Finance, Nigeria; **Julie Monaco**, Managing Director, Global Head Public Sector, Banking, Capital Markets and Advisory Division, Citi
Location: World Bank Group MC Building, Preston Auditorium

10.30am – 11.30am
Seminar: Pivotal moments: effective engagement in fragile states
Opening remarks: **Mitsuhiro Furusawa**, Deputy MD, IMF
Moderator: **Rachelle Akuffo**, CGTN
Speakers: **Amatalalim Ali Al-Soswa**, Former Minister of Human Rights, Yemen; **Nazanin Ash**, VP, Global Policy and Advocacy, International Rescue Committee; **Abdirahman Duale Beileh**, Minister of Finance, Somalia and former Director, AfDB; **Timothy Besley**, School Professor of Economics and Political Science, LSE; **Mthuli Ncube**, Minister of Finance, Zimbabwe
Location: IMF HQ1, Meetings Halls A&B

10.45am – 11.15am
Capacity development: cybersecurity exercises: experience from Sub-Saharan Africa
Speaker: **Christopher Wilson**, Monetary and Capital Markets Dept, IMF
Location: IMF HQ1 Gallery

11.00am – 3.00pm
Big data for surveillance challenge
11:00 am – 12:30 pm Big Data for Surveillance Challenge Finalist Pitches
Location: Conf. Hall 2, HQ2-01A-830
12:30pm – 1:30pm Big Data Networking
Location: Conf. Hall 2, HQ2-01A-830
2:00pm – 3:00pm Big Data for Surveillance — iLab Session
Location: HQ1 iLab, HQ1-2-701

11.30am – 1.00pm
Seminar: **Connecting Africa through broadband: a roadmap for inclusive growth**
Speakers: **Amani Abou-Zeid**, Commissioner for Infrastructure and Energy, African Union Commission; **Aurelie Adam Soule**, Minister of Digital Economy and Communications, Benin; **Makhtar Diop,** Vice President of Infrastructure, World Bank; **Doreen Bodgan-Martin**, Director of Telecommunication Development Bureau, International Telecommunication Union; **Achim Steiner**, Administrator, UNDP; **Peter Ib**, CEO, Bluetown
Moderator: **Lerato Mbele**, BBC Africa
Location: WBG MC Building, Jim Wolfensohn Atrium

12.00pm – 1.00pm
Seminar: **CNBC debate on the global economy**
Speakers: **Kristalina Georgieva**, MD, IMF; **Nadia Calvino**, Minister of Economy and Business, Spain; **Agustin Carstens**, General Manager, Bank of International Settlements; **Ray Dalio**, Founder, Co-Chair and Co-CIO, Bridgewater Associates; **Min Zhu**, Chair, National Institute of Financial Research, Tsinghua University
Location: IMF HQ1 Atrium (HQ1-1-700)
Moderator: **Geoff Cutmore**, Anchor, CNBC

12.30pm – 2.00pm
Seminar: **Learning poverty: building the foundation of human capital**
Speakers: **David Malpass**, President, the World Bank Group; **Kevin Watkins**, Save the Children UK; **Annette Dixon**, Vice President Human Development, World Bank; **Ivo Ferreira Gomes**, Mayor of Sobral, Brazil; **Henrietta Fore**, Executive Director, UNICEF; **Aichatou Boulama Kane,** Minister of Planning, Niger; **Amina Mohammed**, Deputy Secretary General, United Nations
Female youth activists: **Anxhela from Albania; Cecilia**, Girl Champion from Malawi
Moderator: **Kaya Henderson,** Teach for All and former Chancellor of DC Schools
Location: WBG MC Building, Preston Auditorium

1.00pm – 2.00pm
Seminar: **Sustainable development goals: making it happen**
Speakers: **David Lipton**, First Deputy MD, IMF; **Jason Channell**, MD Head of Sustainable Finance, Citi Global Insights; **Elliott Harris**, Assistant Secretary-General for Economic Development/Chief Economist, UN; **Marjeta Jager**, Deputy Director General, Directorate-General for International Cooperation and Development, European Commission; **Amanda Khozi Mukwashi**, CEO, Christian Aid; **Romuald Wadagni**, Minister of Economy and Finance, Benin
Moderator: **Eleni Glokos**, CNN Business Africa Correspondent
Location: IMF HQ1 Meetings Halls A&B

2.00pm – 3.00pm
Seminar: End of an era? Global value chains, trade and development
Speakers: **Penny Goldberg**, Chief Economist, World Bank Group; **Ville Skinnar**, Minister for Development Cooperation and Foreign Trade, Finland
Moderator: **Brendan Greeley**, US Economics Editor for the *Financial Times*
Location: BG MC Building, Jim Wolfensohn Atrium

2.00pm – 3.00pm
Seminar: Invest in nature: uncovering the hidden value of biodiversity
Speakers: **Laura Tuck,** Vice President Sustainable Development, World Bank
Presentation: **Bob Watson** former chair of Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)
TED/Lightning Talks from Innovators: **Emiliano Ezcurra**, Vice President, Argentina's National Park Authority; **Helen Crowley**, head of Sustainable Sourcing Innovation, Kering
High-Level Panel Discussion: **Cristiana Pasca-Palmer**, Executive Secretary of UN Convention on Biological Diversity; **Matthew Rycroft**, Permanent Secretary, DfID; **Luis Alberto Rodriquez Ospino**, Director, National Planning Department, Colombia; **Alexander Chiteme**, Minister of National Development and Planning, Zambia; **Souvanpheng Boupphanouvong**, Minister to the Prime Minister's Office, Lao PDR; Closing Remarks: **Inger Andersen**, Executive Director of the United Nations Environment Programme
Moderator: **Nicole Gaouette**, CNN Reporter and Urban Beekeeper
Location: WBG J Building, J B1-080

2.00pm – 4.30pm
Focus on low income countries: IMF lending to low income countries: lessons for the future
Location: IMF HQ2, Conference Hall 2 (Press Briefing Room)

2.30pm – 3.00pm
Capacity development: using digital innovations to improve public finance outcomes
Speakers: **Katherine Baer**, Fiscal Affairs Dept, IMF; **Kerto Wanne**, Chilean Internal Revenue Service; **Leandro Camacho**, Costa Rica Hackathon Participant
Location: IMF HQ1 Gallery

3.00pm – 4.30pm
Seminar: The infrastructure revolution: integration, investment and innovation
Opening Remarks: **Makhtar Diop**, Vice President, Infrastructure, World Bank
TED-style Talks: **Lucy Heintz**, Partner: Energy, Actis , UK; **Odunayo Eweniyi**, Piggybank NG
Panel: **Alain Ebobisse**, CEO, Africa50
Tewolde GebreMariam, Group CEO, Ethiopian Airlines; **Pravir Pandey**, Vice Chairman, Inland Waterways Authority of India; **Aurelie Adam Soule**, Minister of Digital Economy and Communications, Benin; **Benigno Lopez**, Minister of Finance, Paraguay
Moderator: **Julie Gichuru**, Kenyan Entrepreneur
Location: WBG MC Building, Preston Auditorium

3.15pm – 4.45pm
Capacity development: a peek into IMF training on public financial management
Speaker: **Fabien Gonguet**, Fiscal Affairs Dept, IMF
Location: IMF HQ1 Gallery

4.00pm – 5.00pm
Seminar: **Catalyzing environmental, social and governance investment**
Speakers: **Keiko Honda**, Executive Vice President and Chief Executive Officer, Multilateral Investment Guarantee Agency**; S. Vijay Iyer,** Vice President and Chief Operating Officer, Multilateral Investment Guarantee Agency
Rakhi Kumar, Senior Managing Director and Head of ESG Investments and Asset Stewardship, State Street Global Advisors
Sujoy Bose, Chief Executive Officer, National Investment and Infrastructure Fund of India
Moderator: Joe Weber, Editor, Bloomberg Businessweek
Location: WBG MC Building, Jim Wolfensohn Atrium

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ExtraCurricular

Institute of International Finance (IIF) 2019 Annual Membership Meeting Debt, Data, Defence of Markets and the Rise of the Intangible Economy

Location: Ronald Reagan Building and International Trade Center, Washington, DC

Atrium Ballroom A (Morning)

Host: Dylan Riddle

7.00am – 8.25am
Registration and Refreshments

8.25am – 8.30am
Welcome Remarks: Dylan Riddle

8.30am – 9.00am
Finding the right policy framework for sustainable finance: views from the US and EU

9.00am – 10.00am
Impact investing: not just for millennials
Mark Haefele, Marjo Koivisto, Rakhi Kumar, Kyung-Ah Park, Gillian Tett (moderator), Glen Yelton

10.00am – 11.00am
Strengthening cyber resilience
Lori Bailey, Martin Boer (moderator), Donald Freese, Ann Lavis, Arthur Lindo, Merlina Manocaran

11.00am – 11.30am
Keynote/In Conversation: Arturo Herrera

11.30am – 12.15pm
AI and society: Ilana Golbin, Swapna Maleka, Greer Meisels (moderator), Catherine (Kitty) Parry, Lindsey Sheppard

Atrium Ballroom B (Morning)

The Global Economy and EM
Host: Elina Ribakova

7.00am – 8.00am
Registration and Refreshments

8.00am – 8.05am
Welcome Remarks: Elina Ribakova

8.05am – 8.30am
Keynote Speech: Turki Almutairi

8.30am – 9.15am **Global outlook and monetary policy**
Robin Brooks (moderator), Paul Gruenwald, Heather Hagerty, Catherine Mann, Brian Sack

9.15am – 10.00am **Emerging markets in focus**
Arif Amiri, Ugur Kucuk, Chris Loewald, Elina Ribakova (moderator), Dody Budi Waluyo

10.00am – 10.45am **Can China grow?**
Donald Hanna, Kenneth Kang, Gene Ma (moderator), Jurgen Michels, Wei Yao, Sally Yim

10.45am – 11.30am **EM vulnerability**
Sergi Lanau (moderator), Esther Law, Jens Nystedt, Lupin Rahman, Mila Skulkina, Marcus Svedberg

11.30am – 12.15pm **The Europe challenge**
Ryan Heath (moderator), Beata Javorcik, Marcela Meirelles, Debora Revoltella, Adam Tooze, Angel Ubide

Atrium Hall

Host: Michael McKee

12.15 – 1.30pm **In Conversation Lunch:** Tim Adams, Tharman Shanmugaratnam

Atrium Ballroom A (Afternoon)

Data Town Hall Host: Brad Carr

1.30pm – 1.50pm **In conversation: Bank of England Future of Finance Report**
Brad Carr, Huw van Steenis

1.40pm – 2.35pm **Personal data rights**
Vivienne Artz, Douglas Elliott (moderator), Laura Lazarczyk, Noah Phillips, JoAnn Stonier

2.35pm – 3.30pm **Ethical use of data**
Glenda Crisp, Jaco Grobler, So Lan Ip, Melissa McSherry, Michael Tang (moderator), Paul Watkins

3.30pm – 4.30pm **Economic value and monetisation**
Conan French (moderator), Alvaro Martin, John Stecher, Dimpsy Teckchandani, Jeni Tennison

4.30pm – 5.30pm **Data localisation: data flows across border:**
Daniel Bahar, Himamauli Das (moderator), David Hardoon, Rakshit Kapoor, Richard Nash, Barbara Weisel

Atrium Ballroom B (Afternoon)

The Global Economy and EM
Host: Michael McKee

1.30pm – 2.00pm **In Conversation** Tim Adams, Francois Villeroy de Galhau

2.00pm – 2.30pm **In Conversation** Clay Lowery (moderator), Ignazio Visco

2.30pm – 3.15pm
Tymofiy Mylovanov, Elina Ribakova (moderator)

3.15pm – 4.00pm **Views from the C-Suite: global outlook**
Tim Adams (moderator), Joseph Amato, Jordi Gual, Jean-Pierre Mustier, Keiko Tashiro

4.00pm – 4.30pm **In Conversation**
Paulo Guedes, Clay Lowery (moderator)

4.30pm – 5.00pm **In Conversation** Klaas Knot, Clay Lowery (moderator)

5.00pm – 5.30pm **Keynote Speech**
Pablo Hernandez De Cos

5.30pm – 6.00pm **In Conversation**
Valdis Dombrovskis, Andres Portilla (moderator)

Argentina

Continued from page 1

allow Argentina to move from a stand-by agreement to an extended fund facility."

If Argentina's new government cannot come to an agreement on an economic programme, the government would find itself with no access to external financing and would thus be forced into the kind of fiscal adjustment that it has been resisting.

Therefore, whether the new government collaborates with the IMF and agrees to reforms, or takes a hardline stance with the fund, an adjustment is imminent.

"It would make sense to do it alongside the IMF because they unlock the door to external financing," says Stock. "The IMF can afford to be patient because the alternative [of not agreeing on a new programme] is worse for the government than it is for the IMF."

Monica de Bolle, a senior fellow at the Peterson Institute for International Economics and a former IMF staffer, said that "without the Fund, Argentina faces default very early in [Fernández's] presidency".

'QUICK' PROCESS — NO HAIRCUTS

As bondholders prepare for a restructuring, Fernández has proposed a "quick" process, without principal haircuts, similar to how Uruguay carried out a debt restructuring in 2003. But investors warn that this will not be an easy process.

"There is a lot of short-term debt to be addressed, so really it is a matter of what will be the nature of the restructuring," says Ray Zucaro, chief investment officer at RVX Asset Management in Miami. "The idea of a Uruguay-style re-profiling of the debt is nice but the economy, debt stock and creditor base is far larger and more complicated than Uruguay was, and implementation will be complicated."

Stock at BlueBay said a re-profiling would be possible but warned that the market needed to be "very careful when talking about a Uruguay-style restructuring". "Fernández's camp is using this term but is only referring to one side of the equation: the re-profiling of maturities," he said.

Uruguay's restructuring was paired with a "very important fiscal adjustment" that Fernández does not appear willing to discuss ahead of elections, he said. "Post-programme, the discussion will absolutely have to move to structural reforms."

But the mess has left some market participants seriously questioning the IMF programme, which was first put in place in June 2018 to counter a run on the peso, lack of access to foreign capital and a surge in inflation. "From the Fund's perspective, it is a complete failure of the intended policy and reform effort," said de Bolle. "It was always going to be a really risky programme, with a very, very high chance of failure."

THE final word

Sustainable finance is not just about green

By Henrik Normann

The basic narrative of our times is that our current path is not sustainable. The world's answer has been the Paris Agreement and the UN Sustainable Development Goals, signed in 2015. After these, a huge number of initiatives have been set in motion to make the world a more sustainable place.

Ten years ago, the financial sector was in the middle of a full-blown crisis, widely seen as the result of too much innovation, greed and speculative risk-taking in the sector itself. Since then, the financial sector has been de-risking, and is now seen as a part of the solution to environmental challenges. In this context, there is a huge effort going on in the industry to define what is in fact sustainable.

Sustainable finance has a long tradition in the Nordic region. My own institution, the Nordic Investment Bank, integrated sustainability considerations into its loan processes at a very early stage. Whereas the prosperity of the region has been a major driver for the Bank since its establishment, environmental aspects became an integral part of our financing decisions at the beginning of the 1990s.

One key learning from the Nordics is that sustainability is not only about green. The balanced development in the Nordics can be explained by an approach in which economic, social and environmental aspects go hand in hand. When society is stable and the citizens have trust in their institutions, it is easier to take a long-term view on developing the economy and protecting the environment. This traditional, holistic view resonates well with the UN Sustainable Development Goals.

We should also not be blind to the fact that there could be victims from the green transition. When industries are challenged by green change, we must not forget those who may lose their jobs. Even though economists might see this just as a "short term adjustment", for those who are affected it may be devastating.

GREEN TRANSITION

In this respect, there are parallels between the green transition and globalisation. The world's economies have become globally interconnected, lifting hundreds of millions of people out of poverty.

But globalisation has become unpopular in some parts of society in the developed world. Many industrial workers feel they have lost their jobs to cheap labour in developing countries. They may see themselves as victims of a policy that did not consider the consequences for them. That has paved the way for populist politicians who now lead resistance against globalisation, climate action, claiming workers will once again pay the price.

When we now see sustainable finance growing, it is important that we look to see if there are victims in this process of green transition.

Therefore, the focus should not only be on the environment, but also on the economic and social elements of sustainability. Increasing productivity is the main factor driving growth and income levels, leading to welfare and prosperity. We are living longer and healthier lives, which means a shrinking working-age population will have to provide for a larger proportion of dependents. As a result, our production will have to be ever more efficient in order to uphold sustainable growth.

We believe that equal economic opportunities are an important driver for productivity and long term sustainable growth. To support that goal, we finance projects which improve access to education and healthcare, be it schools, libraries or hospitals. That way, we create long-term conditions for our contemporaries and our children to live in a sustainable way. To leave people behind would jeopardise the change we need.

SOCIAL INCLUSION

So there is much which is pointing to the need for social inclusion. And as we speak, there are also many actors in the financial markets who are increasingly taking into account social indicators when they make investment decisions.

But is it enough for bankers to produce Excel sheets with social indicators in them? It should be more than an exercise in ticking boxes, as it will move money to the assets which have a sustainable social impact. For that to happen there should be a change in attitude.

The report Nordic Economic Policy Review 2019 argues that the most effective way to reduce global greenhouse gas emissions would be to promote the development of clean technologies. The idea would be to develop sustainable solutions that could be replicated and scaled in other parts of the world.

As there may be things that can be learned from us, we should also learn from others. It does not matter from where the sustainable solutions come. The important thing is that they are being developed.

In addition, for this exchange of experience and best practice we need to co-operate, not isolate ourselves. The green transition is a global challenge. It is twice as hard to solve it in a fractured world.

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