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Outlook Uzbekistan



TASHKENT 2021
ANNUAL MEETINGS
ISLAMIC DEVELOPMENT BANK GROUP
مجموعة البنك الإسلامي للتنمية

On the Occasion of the

46th Annual General Meeting
of the IsDB Group

1-4 September 2021, Tashkent, Republic of Uzbekistan



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IsDB Group Chairman's Message

The 2021 Islamic Development Bank (IsDB) Group Annual Meetings in Tashkent, hosted by the Government of the Republic of Uzbekistan on 1-4 September 2021 under the patronage of **Honorable President Shavkat Mirziyoyev**, could not have come at a more opportune time for the country, the Central Asian member countries, and the broader family of the Organization of Islamic Cooperation (OIC).

The ongoing global impact of the coronavirus pandemic, with its motley of mutant variants, especially the Delta, and waves of infections and lockouts, continues to define the global economy and its recovery based on the aspiration of building back better.

This situation is compounded by the reality of vaccine nationalism and the fragility of healthcare systems, especially in some emerging and developing countries. Almost no country, irrespective of wealth and economic status, has been spared.

COVID-19 defined the state of the global society and economy in 2020 and will undoubtedly go beyond that. The capacity of humanity to endure and contain the worst effects of the pandemic in record time through designing vaccines and bringing them to markets is a testament to its resilience.

The IsDB Group was the first multilateral development bank (MDB) amongst its peers to respond to the pandemic with a US\$ 2.3 billion COVID-19 mitigation and rescue package. This response was followed by other initiatives, including a US\$ 2 billion COVID-19 Guarantee Facility by the IsDB and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) to support the private sector, particularly the battered industries in OIC member countries, and attract cross-border investments.

The Republic of Uzbekistan was also affected by the adverse impacts of the pandemic in the first half of 2020. However, according to the latest IMF Article IV Consultation, the recession in Uzbekistan was moderated by timely and robust containment and support through public health, fiscal, monetary, and financial measures. These swift measures resulted in a GDP rebound of 1.7% in the second half of 2020 and a 5% projection for 2021.

The IsDB Group allocated US\$ 143 million to Uzbekistan for its COVID-19 rescue efforts. The country and the other Central Asian republics are essential members of the OIC family. Our current relationship with Uzbekistan is based on the Member Country Partnership Strategy (MCPS) for 2018-2021, signed by the Government of Uzbekistan and IsDB in 2018. The strategy focuses on supporting sustainable, socio-economic development through several bilateral and regional initiatives.

Uzbekistan has a diverse economy that has witnessed wide-ranging market reforms to increase jobs and prosperity in the past four years. As a result, the country benefits from abundant natural resources, low public debt, a growing workforce, and a strategic geographic position between China and Europe.

Uzbekistan joined the IsDB in 2003. It is a landlocked country, rich in mineral resources and young demography of 33.5 million, accounting for 45% of the Central Asian region's total population. To date, the IsDB Group has extended a total of US\$ 2.4 billion to Uzbekistan, including financing 96 projects.

At the recent International Conference on "Central and South Asia Regional Connectivity" in Tashkent, **Honorable President Mirziyoyev of the Republic of Uzbekistan** spearheaded efforts to transform and deepen cooperation in Central and South Asia as a regional trade hub, which the IsDB Group strongly supports.

The IsDB Group is committed to providing sufficient concessional resources for several regional transport corridors that will help accelerate ongoing regional economic integration and broader intra-OIC trade and investment.

The 2021 IsDB Group Annual Meetings in Tashkent provide an ideal platform for our 57 member countries, the various participating agencies, and economic and civil society entities to deliberate over the pressing issues of the day in our collective efforts to bring stability, economic recovery, development, jobs, prosperity, and well-being to our peoples in a spirit of cooperation, innovation, and hope!

Dr. Muhammad Al Jasser

President, Islamic Development Bank (IsDB) & Chairman of ICIEC



Since the Republic of Uzbekistan became the in June 2019, **46th member country of ICIEC**

I am pleased to report that our cooperation and partnership has flourished in the last two years and remains a work in progress.

We are committed to consolidating this relationship in the future, especially in providing lines of financing, export credit and investment insurance solutions, reinsurance, and guarantees for development projects.

This relationship assumes even greater urgency and importance given the challenging global economic and financial circumstances resulting from the ongoing impact of the coronavirus pandemic and efforts by ICIEC member countries, including Uzbekistan, in their economic recovery and reconstruction strategy.

Uzbekistan's membership opened the door for its private and public sectors to benefit from risk mitigation and credit enhancement services offered by ICIEC to expand their exports worldwide and investments in our member countries. It also allows exporters, banks and investors from other member and non-member countries to cover political and commercial risks related to their operations in Uzbekistan.

From the beginning of the pandemic, ICIEC had provided a total of US\$643 million in support to member countries through the three main IsDB Group initiatives.

This response was followed by other initiatives, including the US\$2 billion COVID-19 Guarantee Facility launched by the IsDB and ICIEC. The economic impact of the pandemic caused severe disruption of private sector trade and commercial business, including that of SMEs.

Export credit, commercial credit and investment insurance are the traditional risk mitigation tools, but in many of the IsDB member countries, the culture of trade and investment insurance provided by state or private sector Export Credit Agencies (ECAs) and banks is under-developed and at best a "work in progress". Uzbekistan is no exception.

During the official visit to the country in October 2018 and discussions with top officials, we sensed the massive potential for cooperation between ICIEC and Uzbek agencies and the desire to put export credit and investment insurance and guarantees firmly on the credit enhancement and risk management solutions map.

Tashkent has embarked on an ambitious policy to promote Islamic finance as part of its diversification of funding strategy. It has created a perfect storm for consolidating Shariah-compliant financing solutions as part of the overall financial services mix.

Uzbekistan signed in 2018 the Strategic Partnership program with the IsDB Group focussing on sustainable socio-economic development in the country through several



bilateral and regional initiatives; and the submission by the IsDB Group of a Progress Report on the establishment of an Uzbekistan Country Platform, in line with the G20 Framework of Principles on Effective Platforms.

We recognize that much work is ahead, but our commitment to enhancing our presence and activities in Uzbekistan and Central Asia is vital. The potential for future cooperation, emerging opportunities and ECA, investment insurance and guarantees market education is implicit – all in line with the ambition of the Government's National Development Strategy for 2017-21 and beyond.

That is why the MoU signed by ICIEC and The Uzbekistan National Export-Import Insurance Company (Uzbekinvest) in June 2020 and our increasing engagement with the Uzbekistan Investment Promotion Agency (UZIPA) could not be more timely.

Our partnership is a crucial building block to support export development and Foreign Direct Investment in Uzbekistan. It advances both parties' respective operational mandates of providing insurance support for trade and investment. It also allows both entities to extend the capacity of their insurance coverage, creating opportunities for more significant trade transactions and development projects.

A good example is ICIEC's recent extension of US\$50 million of insurance facilities for two telecoms contracts involving Uzbekistan's telecom operator.

We look forward to consolidating our portfolio and activities in Uzbekistan and fostering regional economic and development cooperation and integration.

Oussama Abdul Rahman Kaissi
Chief Executive Officer, ICIEC



IsDB Board Chairman Sardor Umurzakov Confirms Dr. Muhammad Sulaiman AlJasser as New IsDB Group President

Mr Sardor Umurzakov, Chairman of the Board of Governors of the Islamic Development Bank (IsDB), and Deputy Prime Minister and Minister of Investment & Foreign Trade of Uzbekistan, confirmed the election of Dr Muhammad Sulaiman AlJasser as the new President of the IsDB President in an announcement on 18 July 2021.

Dr Al Jasser, who was nominated by Saudi Arabia, the largest equity subscriber to the Group, for a five-year term effective 9 August 2021, was confirmed in a virtual meeting of the Board of Governors earlier in July.

The Board thanked and expressed its profound appreciation of “the excellent services” provided by outgoing IsDB Group President Dr Bandar M. H. Hajjar for “the stellar success achieved under his tenure, uplifting its status among peer institutions and in global financial markets.”

Uzbekinvest and ICIEC Pen Partnership MoU to Boost Insurance Provision for Trade and Investment in Uzbekistan

The Uzbekistan National Export-Import Insurance Company (Uzbekinvest) signed an MoU in June 2020 with the Islamic Corporation for the Insurance and Investment of Export Credit (ICIEC), the export credit agency of the IsDB Group,

The partnership, says ICIEC, advances both parties’ respective operational mandates of providing insurance support for trade and investments. Uzbekistan is one of ICIEC’s 48 member countries. Partnering with local ECAs allows both entities to extend the capacity of their insurance coverage, creating opportunities for more significant trade transactions and development projects. “This partnership is a key building block to support export development and Foreign Direct Investment in Uzbekistan,” says ICIEC CEO Oussama Kaissi, “We look forward to a fruitful partnership with Uzbekinvest as we advance sustainable economic development in the country.”

This latest MoU between ICIEC and Uzbekinvest follows the signing of a Partnership Strategy for 2018-2021 between the Government of Uzbekistan and IsDB in 2018, which focuses

on supporting sustainable socio-economic development in Uzbekistan through several bilateral and regional initiatives. The new MoU will create opportunities for joint strategic projects between the two insurance entities and other forms of cooperation such as technical assistance, training, and capacity building.

With young demography of over 30 million people, Uzbekistan has a diverse economy with wide-ranging market reforms to increase jobs and prosperity in the last four years. The country benefits from abundant natural resources, low public debt, a growing labour force, and a strategic geographic position between China and Europe

 This partnership is a key building block to support export development and Foreign Direct Investment in Uzbekistan

Oussama Kaissi, ICIEC CEO



ICIEC Extends US\$50m Insurance Cover for Two Telcom Projects in Uzbekistan involving Two of China's Largest Telco Equipment Manufacturers



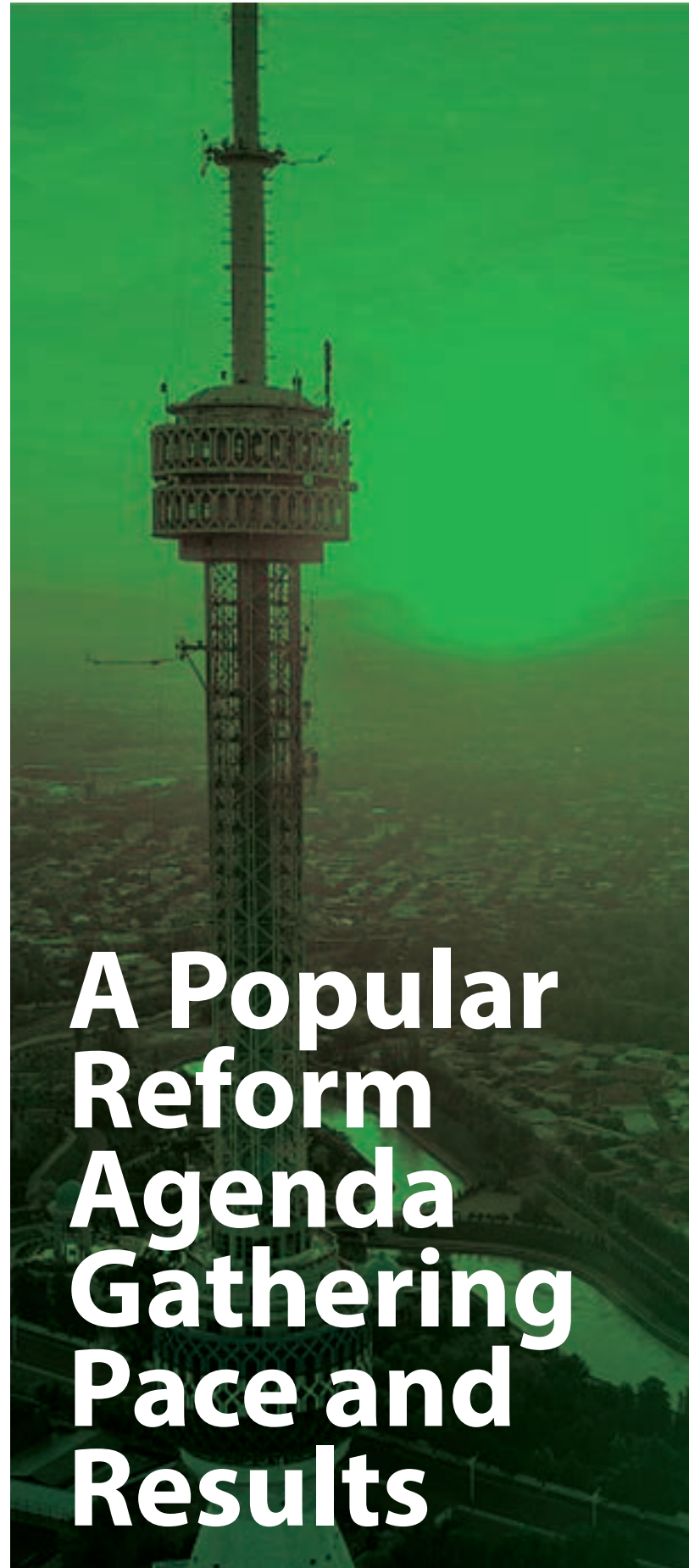
ICIEC has recently extended insurance facilities totalling US\$50 million through its Specific Transaction Policies for two contracts between two of China's largest telecommunications equipment manufacturers and Uzbekistan's state-owned telecommunication operator, Uzbelecom.

The first project involves the US\$70 million modernization of the mobile broadband access network in the Greater Tashkent Region. The project includes expanding the data storage and processing centre and developing new technology to increase bandwidth over existing fibre networks. ICIEC insured US\$40 million out of the total contract value.

The second project enables telecommunication equipment to expand the broadband network in Uzbekistan's Western region. The state telco operator, Uzbelecom, is expanding its current networks and building new networks simultaneously. The project totals US\$85 million, divided into three parts. ICIEC is covering USD10 million out of a US\$13 million project value for the initial project stage.

ICIEC's involvement marks one of the Corporation's most significant transactions in Uzbekistan, enabling the member state to facilitate growth in its telecom sector and aligning with the Government's National Development Strategy for 2017-21.

"By stimulating investment in the telecommunication sector," explained ICIEC, "the Corporation contributes to foreign direct investment and improves Uzbekistan's telecommunications infrastructure. ICIEC support of the Uzbekistan government, which has formulated a telecom sector policy through to 2030, will be critical in developing the country's needed infrastructure."



A Popular Reform Agenda Gathering Pace and Results

Whether it is the IMF or the Islamic Development Bank (IsDB) Group, the development community signed up to supporting Uzbekistan Leadership in the ongoing reforms to transition toward a more inclusive and market-driven economy. The Government's National Development Strategy can be achieved by developing a robust private sector and reducing the state's pervasive footprint.

Uzbekistan's international partners have a vested interest because the success of the Government's economic reform plan introduced in 2017, says the IMF in its 2021 Article IV Consultation, "will require both the steadfast determination of the authorities and the continued support of the international community. The IMF stands ready to continue to support Uzbekistan in these efforts with policy advice, technical assistance, and financial assistance if needed."

Three Things Going for Uzbekistan

Uzbekistan has three things going for itself – a young demography (a current population of 33.5 million), a robust growth trajectory and liquidity thanks to its gold and copper industries, construction activity and agriculture. Uzbekistan's young population, high investment rate, and reforms to remove controls and distortions support a favourable growth outlook post-crisis expected to pick up in 2021. With the rollout of vaccines globally, a recovery of trading partner growth, and building on the domestic recovery, the economy is projected to grow by about 5% in 2021. Fitch Ratings projects Real GDP growth to continue its upward trend to 5.5% per year till 2025 as the fiscal policy will continue to support investment and consumption, and key trading partners recover.

"Uzbekistan," noted Fitch, "has maintained a record of resilient and high growth compared with 'BB' rated peers. Growth prospects are strong, supported by favourable demographics and productivity gains resulting from the removal of macroeconomic and price distortions/controls."

The current account deficit is projected to widen slightly, to about 6.5% of GDP, as imports are expected to recover faster than exports.

Due to food price pressures and government wage increases, inflation is projected to decline marginally, to just below 10%, by the end of 2021.

The importance of Uzbekistan's gold mining and copper industry to economic resilience cannot be overstated. It has one of the largest copper reserves globally and is the eighth



largest producer of gold in the world at 101.6 tonnes in 2020. In Q1 2021, according to the World Gold Council, Uzbekistan's gold reserves totalled 355.82 tonnes with a monetary value of US\$19,345.61 million – some 59.09% of its total foreign currency reserves of US\$32,738.35 million. Its FX Reserves in hard currency amounted to US\$13,392.74 million.

International reserves rose to US\$34.9 billion (16.8 months of current external payments) in 2020 and will remain high in 2021-2022. The gross international reserves, says Fitch, are enough to cover most of its external debt, which is relatively modest but still at an all-time high, 57.8% of the country's nominal GDP in 2020 (the last data available) US\$36.2 billion.

Government debt at 38% of GDP (including 10.9%-of-GDP in external guarantees) in 2020 remains low compared with peers but has increased rapidly. The debt burden is also exposed to exchange-rate depreciation. Some mitigating factors include the structure of government debt in terms of maturity and costs, with official debt accounting for 92% of the stock.

Domestic consumption and investment recovery will push up imports, leading to a current account deficit of 6.3% of GDP in 2021 and 5.7% in 2022, significantly above the projected 'BB' median. But, according to Fitch's Erich Arispe Morales, "if gold prices remain stable, we do not anticipate significant downward pressure on international reserves, as the wider current account deficits in 2021-2022 will be financed by FDI and public external borrowing. Net FDI will recover, averaging 3.1% of GDP in 2021-2022, directed to energy sectors, such as hydrocarbons and renewables."

However, external debt will continue to increase as state-owned banks, and enterprises access external market financing as part of the reform process. Uzbek



banks issued US\$605 million in debt instruments in external markets in 2020, and other banks, as well as large SOEs in the commodities sector, are expected to access external financing.

Grand Challenge

Here lies perhaps the grand challenge for the country's reform agenda, especially of state-owned enterprises (SOEs) through the sale of government assets, the transformation of large SOEs, and the privatization of at least one large Bank in 2021, despite the challenging economic environment due to the pandemic. The Government is preparing six banks for privatization in line with its banking sector-reform strategy. Tashkent intends to reduce state-owned banks' share of system assets to 40% by 2025, from 85% at the end-2020. The challenge remains that the main SOEs need to be restructured to optimum efficiency to obtain better prices for the assets.

In Fitch's view, the country's improved resilience to shocks "demonstrates progress in the reforms initiated in 2017 related to increasing the flexibility of the policy framework, improvements in the business environment and banking sector, liberalization in key sectors of the economy and strong technical and financial support from international financial institutions."

The Government's ambitious targets to reduce the share of the state in the economy, both through privatization and revamping key strategic companies, opens up more significant private-sector development and FDI opportunities for the IsDB Group

Indeed, Tashkent sees the path to achieving its growth and reform agenda, at least in its latest phases, by attracting more private funding to the economy.

Strong Pandemic Policy Response Results in Positive Economic Rebound in 2020/21

Like most other countries, Uzbekistan was hit hard by the COVID-19 pandemic in the first part of 2020. Unemployment rose sharply through mid-2020, and seasonal migration, mainly to Russia, was largely halted as borders were closed. Subsequently, remittances fell.

At the height of the pandemic, 60% of households reported no one working. Unemployment started to fall in 2H 2020 but remained above pre-crisis levels in Q1 2021.

The timely and robust policy response to COVID-19 from the Government, including extensive restrictions on mobility and social distancing requirements to contain the spread of the virus, meaning that the pandemic thus far has had a relatively short-lived adverse impact on Uzbekistan's population and economy.

The IMF, in its Article IV Consultation with Uzbekistan in April this year, commended Tashkent for its "forceful

The timely and robust policy response to COVID-19 from the Government, including extensive restrictions on mobility and social distancing requirements to contain the spread of the virus, meaning that the pandemic thus far has had a relatively short-lived adverse impact on Uzbekistan's population and economy

public health response and the deployment of a comprehensive set of fiscal, monetary, and financial measures, made possible by substantial buffers owing to prudent macro-economic policies in preceding years and sizeable international support."

The 2020 budget was amended to provide significant additional spending, totalling almost 4% of GDP, on healthcare, social assistance, investment, and support for businesses, including through tax relief and financial support. The number of households receiving social assistance under the main

support program, the Anti-Crisis Fund, was nearly doubled, reaching 1.1 million households by year-end 2020.

The impact of higher gold prices on revenues and delays in investment spending meant that the overall fiscal deficit was contained at 4.5% of GDP in 2020. Multilateral and bilateral creditors also provided about US\$1.7 billion in budget support, including US\$375 million in emergency financing from the IMF.



IsDB COVID-19 Relief Facility



The Islamic Development Bank provided an initial amount of US\$143 million in April 2020 under its US\$2.3 billion Strategic Preparedness and Response Programme to help member countries mitigate the impact of the pandemic. This response is complemented by standalone facilities from its sister entities ICIEC, ICD and ITFC.

The Uzbek economy rebounded in 2H 2020, with Uzbekistan among the few countries posting positive GDP growth of 1.7% in 2020, supported by resilient manufacturing due to the gold mining industry, construction partly funded by public investment, and agriculture due to progress in market-based reforms. Resilient remittances inflows also partially cushioned private consumption. GDP growth projected Fitch Ratings in the latest report of Fitch Ratings on Uzbekistan, “will rebound to 5% in 2021 and 5.5% in 2022 due to the

will rebound to 5% in 2021 and 5.5% in 2022 due to the continued growth of the COVID-resilient sectors, supportive fiscal policy, gradual normalization of economic activity-supporting services and improving external demand.

Fitch Ratings

continued growth of the COVID-resilient sectors, supportive fiscal policy, gradual normalization of economic activity-supporting services and improving external demand.”

However, there is a consensus that growth prospects remain dependent on the evolution of the pandemic and progress in vaccination efforts. Like elsewhere in the world, uncertainty remains high, and continued near-term support will continue to be needed.

“The recovery,” added the IMF, “will depend on the vaccine rollout, while new variants of

the virus and surges in infections are key risks. Much will also depend on developments in Uzbekistan’s main trading partners. The authorities rightly continue to focus on protecting lives and livelihoods and securing enough vaccines for the population. The 2021 budget maintains an appropriate accommodative stance and ensures that the healthcare system and vaccine rollout are sufficiently resourced. If downside risks materialize, the authorities could use fiscal buffers to provide additional, targeted support to households and businesses.”

Republic of Uzbekistan – Key Financial and Geopolitical Data

Capital	Tashkent
Geographic Area	448.9 thousand km ²
Currency	Soum (UZS)
Official Language	Uzbek
Population	33.5m, of which 50% under 30 years old
Real GDP Growth 2020	1.7%
Real GDP Growth Forecast for 2021	5.00%
Real GDP Growth Forecast 2022-2025	5.50%
Real GDP 2020	US\$57.7bn
Real GDP per capita 2020	US\$1,723
Gold Production 2020	101.6 tonnes
Gold Reserves at Q1 2021	355.82 tonnes
Gold Reserves Monetary Value at Q1 2021	US\$19,345.61m, 59.09% of total FX reserves
Total foreign currency reserves at Q1 2021	US\$32.74bn
Total international reserves 2020	US\$34.9bn (16.8 months of current external payments)
Government Debt 2020	38% of GDP
Unemployment rate 2020	5.8%
UN SDG global ranking	77 out of 165
SDG Progress Index Score	69.8 – regional score 71.4

Source: Compiled by Mushtak Parker from data from Uzbek Ministry of Finance, IMF, World Gold Council, Fitch Ratings August 2021

IsDB Group Are Very Important for Uzbekistan and the Region

Interview with

HE Odilbek Isakov,

Deputy Minister of Finance, Republic of Uzbekistan

Forty-year-old **Odilbek Isakov** was appointed Deputy Finance Minister of Uzbekistan in 2019 with the vital task of ensuring optimum coordination between government ministries and departments and working to improve the country's socio-economic metrics in ratings and global league tables. British-educated Isakov is that younger generation of technocrats who is well-positioned to play a crucial role in the Central Asian nation's future capital market and economic development, leveraging his more than twelve years of experience as a former senior investment banker with HSBC where his brief was raising funds via the securities markets globally and in developing countries. Here **Odilbek Isakov** discusses the current economic fundamentals of Uzbekistan in the wake of the ongoing COVID-19 pandemic and the Government's policy towards Islamic finance, and its relationship with the IsDB Group.



What are your expectations from the 46th IsDB Annual Meetings, and how would you classify your relationship with the IsDB Group?

The IsDB Group is very important for our region. The IsDB is the third largest IFI (international financial institution) lender to Uzbekistan. Currently, we are implementing 26 projects worth US\$2 billion. In addition, ICD has allocated US\$637 million to Uzbekistan already, of which US\$310 are targeted towards financing SMEs through lines of financing to local commercial banks and US\$77 million directly to projects.

Our six main banks in Uzbekistan with the technical help from ICD have also established Islamic Banking Windows (IBWs). They are now offering Shariah-compliant deposits and financing products to individuals and corporates.

We are also working with ITFC and have accessed since 2019 several trade finance facilities - one for US\$100 million for the agricultural sector, mainly to finance inputs for cotton production. We are also working with other IsDB entities including ICIEC in the credit and investment insurance and guarantees sector. ICIEC has recently provided insurance cover for telecoms, metals and SME financing projects totalling about US\$140 million in recent months.

We have also signed a technical assistance agreement with IsDB and UNDP to help develop the Islamic finance architecture in Uzbekistan and a Green Sukuk Framework under which we plan to issue such instruments.

I want to reiterate that the IsDB is very important to us. We want to focus on more projects and hoping to get more support from the IsDB and its sister entities.

Does the Government have a policy framework for Islamic banking and finance and when do you expect the first Shariah-compliant Bank to be authorized by the Central Bank in Uzbekistan?

I can't answer the second part because that depends on the Central Bank and the new Law on Non-Bank Financial Institutions (NBFIs) currently developed by the Central Bank. We will have to wait and see how the framework can authorize a universal or commercial Islamic bank in Uzbekistan.

In terms of embedding an Islamic finance infrastructure, we are currently working on a Presidential Decree. I am hoping that it will be approved in the next few weeks. The new Decree will introduce a number of important legislative norms to facilitate the introduction of Islamic finance and products much easier in the Uzbek market. I cannot go into detail, but it

will effectively set an Islamic Finance Roadmap for the next two years, highlighting what needs to be done in terms of the regulatory, legal and other frameworks.

The IsDB Group and other international Islamic finance industry bodies are keen to increase their engagement and business with Uzbekistan. They need the certainty and comfort from a risk management point of view that the basic legal and regulatory frameworks are in place.

You are right; there is still a lot to be done. It is not just about Islamic banking, but also Islamic insurance (takaful) and developing an Islamic capital market (ICM), Islamic advisory and so on. Our IBWs are in a nascent stage. We became a member of ICIEC in 2019. Risk mitigation tools for projects and trade are important. I am sure we will increase our cooperation with ICIEC. For us to leverage this, we need to ensure that the equipment and other inputs from ICIEC member countries are competitive compared to the existing ones we are utilizing.

The COVID-19 pandemic hit Uzbekistan, like most countries, very hard initially, but due to the strong government response, the economy rebounded in 2H 2020, recording a 1.7% GDP growth – one of the few positive rates in the world for 2020.

We have had a V-shaped recovery. Our first half 2021 growth was 6.2% against a projected 5%. This is because COVID-19 infections dropped. We had some necessary restrictions but no lockdowns. All our key sectors of the economy recovered. The Government has committed US\$3 trillion (about US\$300 million) to fast track the vaccination rollout.

The delta variant, unfortunately, has also arrived in Uzbekistan in Q2 2021, so our healthcare spending has increased in our effort to contain the spike in infections. However, the Government is not rushing into a new lockdown. Essentially, lockdowns do not help, vaccination does! The political will is there to speed up vaccination and societal education. We have procured vaccines from China, Russia and the US and started producing our own with the help from China and Russia.

The latest data I have is that we have 1.3 million people fully vaccinated. First, we started with the elderly (over 65s) and those in most risk, ie doctors, nurses, teachers, in April. At the moment, proportion who got fully vaccinated



we have 1.3 million people fully vaccinated. First, we started with the elderly (over 65s) and those in most risk, ie doctors, nurses, teachers, in April. At the moment, proportion who got fully vaccinated seems low at 4%, however, considering we are a very young nation and we just allowed over 18s to get the vaccine from 1 July, this is not a bad result.

seems low at 4%, however, considering we are a very young nation and we just allowed over 18s to get the vaccine from 1 July, this is not a bad result. Moreover, considering 8.3 million doses we administered to date, we expect this number to rise to over 6 million people within the next few weeks.

Our plan is to get at least enough people vaccinated to achieve some herd immunity. But like elsewhere, some people are resisting and it will take some time.

What are your projections for key economic fundamentals going forward in 2021?

Our original estimate was 5.1% GDP growth for 2021 which has changed to 5.5-6.5% on the back of stronger than expected economic recovery. We think this is still achievable, albeit the IMF, JP Morgan and Moody's have projected high growth ranging from 6% to 8%.

Interview



I want to reiterate that the IsDB is very important to us. We want to focus on more projects and hoping to get more support from the IsDB and its sister entities

Government debt to GDP in Q1 21 stands at 39%. By the end of this year, we expect it to rise to over 40%. Most of our debt is concessional with a long tenor and a very low interest rate (around Libor plus 50 basis points) – bilateral and those from IFIs totalling US\$19.3 billion. Our debt repayment is quite comfortable. We have capped external debt at US\$5 billion and domestic debt at US\$500 million in 2021. We are currently working on fiscal rules which tie in our debt raising with our GDP capacity.

Your domestic debt at 9.4% of your total debt mix is very low. Why?

We only started in 2018 to borrow again domestically. We had even stopped issuing domestic bonds before 2018. The only borrowing raised were from IFIs and bilateral lenders (mostly foreign government eximbanks or development banks) for infrastructure, industry and modernization projects and not to cover budget deficits. The IsDB is the third largest IFI lender to us – some 9% of our external borrowing.

We have restarted borrowing in the domestic market partly because we are keen to develop the bond market. We want to raise about UZ\$5

trillion in the local markets in 2021. Even this is difficult because the only investors who can buy our bonds are banks. We don't have the depth of pension funds, insurance firms, retail investors and institutional money. Our GDP per capita was low at US\$1,750 in 2020, therefore the share of disposable income is also low. The only way we can increase the domestic market is getting foreign investors buying our sovereign domestic bonds and other securities in the domestic market.

I notice that Uzbekistan has yet to issue a debut Sukuk. Is that on your radar?

Yes. We are working with the IsDB and UNDP to develop the legal infrastructure for Green Sukuk. The legal changes needed to facilitate sovereign and corporate Sukuk issuance may take some time. Once that is established, I am sure we will raise funds from the market through Sukuk. It is important for us to diversify our investor and source of funding base. I really want to diversify away from our current US and UK investor base and get more Islamic institutions to buy our papers. Sukuk is one way of doing that. It will also open the door for

Uzbekistan to attract more Shariah-compliant funds and FDI flows from the Middle East.

What is your roadmap for privatization and restructuring the state-owned enterprises (SoEs) going forward?

In 2020, the President signed two important decrees relating to transformation and privatization.

First was in May to approve the banking sector reform strategy according to which we will privatize most of the state owned banks except three – NBU, Agrobank and Mikrokreditbank.

The other one was in October on the transformation and privatization of the state owned companies. The shares of the 32 blue chips – the backbone of the Uzbek economy – were transferred to the Ministry of Finance. We have several structural reforms going – corporate governance reforms; role of independent directors (IDs); accounting standards up to IFRS ones; environmental standards in the mining industry; etc.

Given that the banking sector reforms had started earlier (even before the strategy was approved) means we now have some 30 Independent Directors on the boards of the state-owned banks. One Bank will be sold off soon and the IFC and EBRD are helping us in our transformation and privatization efforts for some of the other banks. They will essentially take minority stakes in them to make them more marketable to sell.

The President has signed another decree in April 2021 on the development of capital markets. According to this Decree, 15 banks and corporates have been selected for IPOs within the next three years. All these will help in the reform process. It is a market-oriented approach, but of course it there are any strategic investors who want to buy a stake greater than 5% in banks, they will have to get approval from the Central Bank first subject to the usual AML due diligence and strategic & national interest consideration. While the companies producing gold and copper are Uzbekistan's crown jewels, even these sectors are in the partial privatization mix as we want to adopt the best practices in industrial modernization and corporate governance.

The only way we can increase the domestic market is getting foreign investors buying our sovereign domestic bonds and other securities in the domestic market.

Accountability towards international investors will help in this constant journey.

The pandemic also raised the issue of food security and supply chain disruptions in the agri-sector. Cotton production and exports have plummeted. What are the developments in this sector going forward?

Agriculture is a key sector for us and has contributed strongly to growth and employment. Some 50% of the population live in the rural areas. It is also important from a food security point of view and the sector too is part of the reform process.

In the past we used to export raw cotton. We are no longer doing this. We have moved up the curve and are now producing yarns and textiles for export. We now have a cluster system, whereby agriculture and industry work together through vertical integration. Thanks to a US\$500 million facility from the World Bank and facilities from other IFIs we are in the midst of modernizing the agricultural sector, especially in water efficiency, methods of irrigation, horticulture, livestock and animal husbandry.

What are strengths of Uzbekistan as an inward FDI destination, and what are the main structural and governance challenges ahead?

We have a sizeable population at 34.6 million (01/01/2021 estimate) and it is growing. We will be 40 million strong by 2030 becoming the third largest country by population in Central Eastern Europe and the Commonwealth of Independent States overtaking the Ukraine and Poland. The size of our economy currently is worth US\$60 billion and if the existing high growth rates do sustain, it will almost triple by 2030. Those who invest in our country now will reap the benefits of an early mover advantage in this flourishing and growing market within a decade.

We have a young demography – over 50% of the population is younger than 30 years old. This means there is a lot of growth potential in terms of consumption, earnings and disposable income. We are a dynamic nation – hardworking and forward looking. We have a quite decent basic and social infrastructure with close to a hundred per cent literacy rate – one of the highest in the world.

That is why any investor – whether in manufacturing, mining, services - coming to this market will find an eager, hardworking and educated workforce. We have been investing heavily in human capital development over the last five years. English is widely spoken among the progressive youth in the major metropolitan cities of the country.

We are a resource rich country – gold, copper and natural gas. While gold is an important reserve asset for us, large copper reserves is a ticket to become an important player of global supply chain in automotive industry as the electric vehicles taking over the globe within the next decade.

We are a resource rich country – gold, copper and natural gas. While gold is an important reserve asset for us, large copper reserves is a ticket to become an important player of global supply chain in automotive industry as the electric vehicles taking over the globe within the next decade or so.

Agriculture industry including downstream textile production is already welcoming investors, such as the US-firm Silverleaf International or Singaporean Indorama implementing advanced farming practices in Uzbekistan.

With wide-scale privatization is just about to start (we have just sold the Government's share in Coca Cola bottlers in Uzbekistan to a regional player Coca Cola Icecek), there is no better time for investors to come in now.



In terms of the challenges, the rule of law, independent judiciary, institutional governance and property rights, we do have issues, and our rankings in the international governance tables are fairly low. This is more to do with the perceptions relating to the previous regime and does not reflect the major progress we have made in the last five years. It takes time to change these perceptions especially in global institutions.

Today there is much more openness than five years ago. Uzbekistan today is a completely different country to what it was five years ago. President Mirziyoyev has stressed many times that there is no way that the country can revert to the previous dispensation. The reform agenda in fact has raised expectations of ordinary Uzbeks for even more reforms, openness and positive change. There is still catching up to be done.

Republic of Uzbekistan – Key Trade & Banking Data

Total exports fob Q1 2021	US\$2.4bn
Main exports Q1 2021	Services (19.5%), Non-ferrous metals (12%), food products (10.6%), chemical products (10.3%)
Total exports fob 2020	US\$14.4bn
Total imports fob Q1 2021	US\$4.7bn
Main imports Q1 2021	Machinery & equipment (34.5%), chemical products (16.7%), food products (12.7%)
Total imports fob 2020	US\$19.0bn
Total Trade as % of GDP Q1 2021	18%
Trade Balance	-6.2% 2020 (E); -7.5% 2021 (F); -8.2% 2021 (F)
Current Account balance (% of GDP)	-2.5% 2021 (E); -3.2% 2021 (F); -2.6% 2022 (F)
Total banking sector loans 2020	UZS138.9 trillion in local currency; UZS 138.1 trillion in foreign currency
NPLs in Banking sector Q1 2021	UZS283.5 trillion – 3.6%
Consumer Price Inflation	11.1% - 2020; 10.9% - Q1 2021
VAT (standard rate) 2020	15%

Source: Compiled by Mushtak Parker from data from Uzbek Ministry of Finance, IMF, World Gold Council, Fitch Ratings August 2021

Fast-Evolving Islamic Finance Policy to Accommodate Growing Ties

The IsDB Group's commitment to providing sufficient concessional resources for several regional transport corridors will help accelerate ongoing regional economic integration.

That commitment is set for consolidation at the IsDB Group's Annual Meetings on 1-4 September 2021 in Tashkent.

Uzbekistan joined the IsDB in 2003. It is also a member of ICIEC, ICD, and ITFC. Uzbekistan is a landlocked country, but it is strategically located in the heart of Central Asia, bordering Kazakhstan, Tajikistan, Kyrgyz Republic, Turkmenistan and Afghanistan.

It is a lower-middle-income country and rich in mineral resources. With a 33.5 million population, some 50% is under the age of 30 years, Uzbekistan accounts for 45% of the Central Asian region's total population. It has a territory of 448.9 thousand km².

Fast-Evolving Policy

The GoU's policy on Islamic finance is fast evolving. According to the Ministry of Finance, the Government has formed a Working Group comprising representatives from various ministries and state agencies to explore opportunities for Islamic finance implementation in Uzbekistan.

The Capital Market Development Program includes developing an Islamic Capital market to facilitate securities, Sukuk, and other capital market products, including equity and additional investment funds, REITs, ETFs, etc.

Presidential Decree 6207 highlights the roadmap for Islamic finance.

Key components are:

1. Establishing a legal and regulatory framework for Green Sukuk, with IsDB and UNDP providing technical support.
2. A pre-feasibility study by the two recommended the introduction and use of Green Sukuk in Uzbekistan.
3. Building a pipeline of bankable PPP green energy projects.
4. Attract technical assistance from the IsDB to facilitate Sukuk issuance in the country.
5. Adopt amendments to existing legislation to facilitate the issuance of Sukuk, ICM and other Islamic financial products.
6. Providing incentives to promote Islamic Green finance
7. Market education and raising awareness about Islamic finance.

According to the Ministry of Finance, 13 Uzbek banks already have IBW. With the advisory support from ICD, several Uzbek commercial banks, including Asia Alliance Bank, Kapital Bank, Turon Bank and Ipak Yuli Bank, have developed plans to launch IBWs. ICD is also in negotiations to acquire one of the state-owned banks and convert it into an Islamic bank, subject to adopting a new Islamic banking law and authorization from the Central Bank.

“Interest in Islamic finance in Uzbekistan has been increasing gradually ever since the country’s independence. The first important steps towards making Islamic finance an equal contender in the capital markets were taken when Uzbekistan joined the IsDB in 2003, making Islamic finance more accessible for financing public and private development initiatives,” says the Ministry.

Since then, the IsDB has implemented several projects in Uzbekistan, including funding the

acquisition of aircraft for the Uzbek national airline in 2013 (annual capacity at airports increased by almost 200 000 passengers); financing the construction of 7,800 rural housing units; and the construction of a 200 km drinking water supply network and transport infrastructure in 2017.

ICD has supported the integration of the private sector into Islamic finance and banking by explicitly focusing on providing lines of financing to SMEs via private banks. Similarly, ITFC, since 2019, has allocated around US\$ 96 million of trade finance to Uzbekistan. ICIEC has recently provided insurance cover for telecoms, metals and SME financing projects totalling more than US\$140 million in recent months.

Despite these successful cases of collaboration with international Islamic finance organizations, a more general expansion of Islamic finance and banking in

Uzbekistan requires changes in the legal and regulatory environment, including:

- Robust legal, regulatory and supervisory frameworks.
- Amendments needed to the Tax Code, the Civil Code and major banking and investment laws to create a level playing field for Islamic finance.
- Market education and awareness of Islamic finance
- Developing world-class Human Capital.
- Developing world-class research and statistics on Islamic finance in Uzbekistan, and
- There is a need to standardize and harmonize Shariah rulings and contracts by developing and adopting international standards on a global level.

The current portfolio of IsDB Group in Uzbekistan

The IsDB Group’s portfolio in Uzbekistan is well diversified and across sectors. The IsDB Group has an overall net portfolio of US\$2,390.3 million in Uzbekistan comprising US\$1,826.8 million of IsDB financing, US\$374.7 million of ICD financing, US\$176.0 million of ITFC financing, US\$12.9 million of financing from other funds, and ICIEC insurance cover totalling more than US\$140 million.

For the IsDB Group, cumulatively, the largest share of operations is in agriculture (29.4%), followed by finance (18.5%), health (17.3%), transportation (14.6%) and energy (8.5%).

Currently, the IsDB has 13 active projects (including three technical assistance initiatives) in Uzbekistan with total financing of US\$746 million, bringing the overall net portfolio to U.S.\$ 2.1 billion. The portfolio is well balanced across the main sectors of the IsDB operations.

The level of overall disbursements stands at US\$522.3 million (70.3%) of the active portfolio. The Bank’s support has contributed to eight sustainable development goals (SDGs): SDG 1- No Poverty, SDG 2- Zero Hunger, SDG 3-Good Health, SDG 4-Quality Education, SDG 6-Clean Water, SDG 7-Clean Energy, SDG 8-Decent Work and SDG 9-Infrastructure.

Ministry of Finance of Uzbekistan.

Uzbekistan and the IsDB Group Data at a Glance

Date of Accession to IsDB Membership	2003
Date of Accession to ICD Membership	2004
Date of Accession to ICIEC Membership	2019
Other IsDB Group Memberships	IRTI, ISFD
Subscribed Equity Capital to IsDB	ID13.4 million
Percentage of Total IsDB Subscribed Capital	0.03%
Uzbekistan Governor to IsDB	H.E Sardor Umurzakov, Deputy Prime Minister for Investments and Foreign Economic Affairs
Uzbekistan Alternate Governor to IsDB	H.E. Shukhrat Vafaev, Deputy Minister of Investment and Foreign Trade
Number of IsDB Equity Shares	1,758
Percentage of IsDB Voting Rights	0.04%
Total IsDB Funding Accessed to Date	US\$2.4 billion
Total Number of Projects Funded by IsDB	96, of which
Total Number of Projects Completed with IsDB Funding	49
Total Number of Projects Active with IsDB Funding	47
Total Contribution of ICD Funding to Uzbekistan	US\$140.6 million
Total Number of Projects with ICD Involvement in Uzbekistan	16
Percentage of Total Subscribed Capital in ICIEC	0.08%

Source: IsDB Group August 2021 Compiled by Mushtak Parker

A Partnership Poised to Flourish

The partnership between ICIEC and Uzbekinvest follows the signing in 2018 of a Partnership Strategy for 2018-2021 between the Government of Uzbekistan and IsDB Group— this strategy focuses on **supporting sustainable socio-economic development in Uzbekistan** through several bilateral and regional initiatives

Uzbekistan is a relative newcomer to the Shariah-compliant export credit and investment insurance fraternity. It became a member of ICIEC only in 2019, some 16 years after it joined the Islamic Development Bank (IsDB) in 2003. It has a 0.08% stake in ICIEC's subscribed capital compared with Kazakhstan's 2.2% in the Central Asian context.

But, over the last year, relations between Uzbekistan and ICIEC have progressed, led by the Memorandum of Understanding (MoU) signed by the Corporation and the Export-Import Insurance Company Uzbekistan (Uzbekinvest) in June 2020.

The partnership advances both parties' respective operational mandates of providing insurance support for trade and investments. Uzbekistan is one of ICIEC's 48 member countries. Partnering with local ECAs allows both entities to extend the capacity of their insurance coverage, creating opportunities for more significant trade transactions and development projects.

"Uzbekistan," maintains Oussama Kaissi, CEO of ICIEC, "is Central Asia's geographic and population centre. The country has a diverse economy and a young population, which totals over 33.5 million. In recent years Uzbekistan has undertaken wide-ranging market reforms

aimed at increasing jobs and prosperity. The country benefits from abundant natural resources, low public debt, a growing labour force, and a strategic geographic position between China and Europe. This partnership is a key building block to support export development and Foreign Direct Investment (FDI) in Uzbekistan."

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The new MoU will create opportunities for joint strategic projects between the two credit and investment insurance entities and other forms of cooperation such as technical assistance, training, and capacity building. ICIEC will support Uzbekistan on infrastructure-related PPP projects and help in resource mobilization. ICIEC is collaborating with the PPP Development Agency on energy and hospital projects. ICIEC is also cooperating with international banks to extend lines of financing to Uzbek banks and entities.



ICIEC has facilitated three projects in Uzbekistan amounting to US\$126 million. The Corporation's commitment to its mandate in serving its member countries' trade and development agenda is steadfast and second to none. After all, its stated mission is to facilitate trade and investment between Member Countries and the world through Shariah-compliant risk mitigation tools.

ICIEC Support Throughout Recovery

"While the uncertain environment we face poses trials for us all," declares Mr Kaissi, "ICIEC will continue to find ways to support our Member Countries, clients, and partners throughout recovery. ICIEC is an active partner in finding risk mitigation solutions and providing resources to help rebuild the

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Oussama Kaissi-ICIEC CEO

economies of our Member Countries while delivering sustainable development impact. As we forge relationships, support clients, and foster trade and investment around the globe, we commit our efforts to deliver positive development impacts for the people who need it the most."

ICIEC involvement in Uzbekistan, boosting its ongoing economic reform agenda and seeking to attract increased FDI and private sector investments, is set to increase even further following the agreement to sign in June 2021 an MoU with the Uzbekistan Investment Promotion Agency (UzIPA). The MOU will be formalized by an official signing ceremony during the 46th IsDB Group Annual Meetings in Tashkent on 1-4 September 2021.

The MoU provides a general framework to facilitate cooperation between ICIEC and UzIPA to promote foreign investments that contribute to economic and social development in Uzbekistan. Under the MoU, the two parties will promote their services to foreign investors, highlight ICIEC's risk mitigation and credit enhancement capacity, and UzIPA's added value to encourage an increased flow of investments into the country.

The two partners also agreed to enhance information exchange, especially regarding any investment promotion reforms and foreign investment plans in the country, through joint visits, workshops on relevant areas of cooperation, technical assistance, training, capacity building, and knowledge resources.

ICIEC is seeking to enhance its presence in Central Asia. As one of ICIEC's 48 Member Countries, Uzbekistan is relatively a country with great potential for trade and investment, sitting in a strategic position between China and Europe and containing abundant natural resources. ICIEC CEO Kaissi strongly believes that the two MoUs signed with Uzbekinvest and now with UzIPA "will extend their mutual insurance and investment coverage capacity, creating opportunities for more significant

This agreement seeks to deepen further the vibrant and growing relationship between ICIEC and Uzbekistan. FDI is an essential part of economic growth and catalyzes sustainable development in our Member Countries. We're very excited to work with UzIPA and promote Uzbekistan as a premier destination for foreign investors

trade transactions and development projects in Uzbekistan.

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For its part, the Uzbekistan government has expressed its appreciation of the support of the IsDB Group, including ICIEC, in their efforts "to achieve sustainable economic development in Uzbekistan by financing the most important socially significant programs and priority investment projects."The future in Uzbek-ICIEC relations is indeed bright.

The challenge is seeking out win-win opportunities and transforming them into quality bankable social and development impact realities!

ICIEC NHSFO Cover to ICBC Standard Bank UK's Line of Financing to UICB



ICIEC recently provided Non-Honoring of Sovereign Financial Obligation (NHSFO) insurance cover to ICBC Standard Bank Plc UK against their US\$50 million financing facility to Uzbek Industrial and Construction Bank (UICB), for on-lending to SMEs in the export sector in Uzbekistan for a tenor of 2 years.

The Borrower shall apply all amounts borrowed under the facility towards financing various SMEs in Uzbekistan for trade finance and purchase or import plant and equipment.

The role of SMEs in Uzbekistan's economy has significantly increased since 2000 in terms of employment, contribution to GDP and exports. The development of SMEs and entrepreneurship is a priority by the Uzbekistan government. SMEs are the most significant source of job creation, as they now provide

about 78% of jobs, compared to 74.3% in 2010 and below 50% in 2000. They represent more than 45% of industrial production, 61.4% of services, and 98.2% of the agricultural output.

Some 50-100 SMEs are expected to benefit from the US\$50 million facilities. These facilities will support government policies aimed at reducing Uzbekistan's exposure to volatile commodity prices and diversify the range of export markets by strengthening the export potential of the private sector, particularly SMEs.

The facility will also help SMEs overcome specific barriers, including lack of access to financing and improving their export potential.

The key benefits of this facility include job creation, economic growth and empowerment, poverty and inequality reduction and increased business opportunities.

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ICIEC Cover Support for Uzbek Telecom Sector Expansion



ICIEC provided comprehensive non-payment insurance to two Chinese telecommunication suppliers for contracts aimed at expanding two telecom networks and upgrading equipment and networks of the Uzbekistan state telecom operator.

The insurance covers both political and commercial risks for a 3.5 years tenor. The total ICIEC contribution is US\$54 million in business insured out of the entire overall project value of US\$142 million.

One project involved the US\$57 million modernization of the mobile broadband access network of the national mobile operation in the Eastern Region of Uzbekistan, specifically in Tashkent. The project also includes expanding the data storage and processing centre and developing Dense Wavelength Division Multiplexing (DWDM) technology. DWDM is an optical multiplexing technology used to increase bandwidth over existing fibre networks.

ICIEC support of the second project enables the state telco operator to expand its current

GPON and IPTV networks and build the LTE networks simultaneously. The contract involved the supply of telecom equipment to expand the telco operator's broadband network in the Western region of Uzbekistan. This project's total amount is about US\$5 million, divided into three parts.

ICIEC's participation in one of the most significant transactions in Uzbekistan enables the member country to facilitate the mobile sector's growth aligned with the Government's broader economic and social objectives for the Uzbek economy, as set out in National Development Strategy for 2017-21.

The goals also include increasing the level of 4G penetration and smartphone usage and contributing to the Uzbek Government's medium-term economic and social reforms. ICIEC contributes to foreign direct investment and improves Uzbekistan's telecom infrastructure by facilitating investment in the telecom sector.

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ICIEC Supports Local Steel Industry in Uzbekistan with Reinsurance Cover

ICIEC provided reinsurance cover to EXIAR (the National ECA of Russia) to support a loan facility extended by Russia Exim Bank (Rosximbank) to the Joint Stock commercial bank, Sanoat Qurilish Bank (SQB), a state-owned bank in Uzbekistan.

The loan facility is to finance the construction of a metallurgical plant in Tashkent to produce cold-rolled metal, mainly in the automobile industry, with an annual production capacity of 500,000 tons.

The total cost of the project is €233 million raised through syndication. The facility will help the project to meet the most modern requirements and international quality standards of the cold metal rod industry. The project will help create 672 new jobs.

The size of the Rosximbank loan to SQB is €68.18mn (principal amount only) - and its tenor is eight years and one month. ICIEC's reinsurance coverage for this project amounts to €30 million, 44% of the principal, extended to EXIAR. The contract to construct the turnkey metallurgical plant was awarded to MetProm, one of the largest engineering companies in the Russian metallurgical sector. Foreign Enterprise SFI Management Group will manage the project.

Given the current construction boom in the country, the end products will substitute the currently imported flat steel and, therefore, will help improve Uzbekistan's balance of payments position by reducing imports.

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