UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

1999 20 YEARS ANNIVERSARY 2019

IPR

INVESTMENT POLICY REVIEW

REPORT ON THE **IMPLEMENTATION** OF THE INVESTMENT **POLICY** REVIEW

UZBEKISTAN

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

1999 20 YEARS ANNIVERSARY 2019

IPR

INVESTMENT POLICY REVIEW

REPORT ON THE IMPLEMENTATION OF THE INVESTMENT POLICY REVIEW

UZBEKISTAN

UNITED NATIONS
Geneva, 2021

This publication has not been formally edited.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/DIAE/PCB/2021/3

eISBN 978-92-1-001187-7

NOTES

Under its overall mandate on trade and development, United Nations Conference on Trade and Development (UNCTAD) serves as the focal point within the United Nations Secretariat for all matters related to foreign direct investment. Its work is carried out through intergovernmental deliberations, research and analysis, technical assistance activities, seminars, workshops and conferences.

The following symbols have been used in the tables:

- **Use of an en dash (–) between dates** representing years, for example, 2018–2019 signifies the full period involved, including the beginning and end years.
- **Reference to dollars ($)** are to United States of America dollars, unless otherwise indicated.
- **Annual rates of growth or change**, unless otherwise stated, refer to annual compound rates.
- **Details and percentages** in tables do not necessarily add to totals because of rounding.

CONTENTS

ABBREVIATIONS

BIT	bilateral investment treaty
CCI	Chamber of Commerce and Industry
CIS	Commonwealth of Independent States
CIT	corporate income tax
DIAE	Division on Investment and Enterprise
EFC	enterprise with foreign capital
EFI	enterprise with foreign investment
FDI	foreign direct investment
FIA	Foreign Investment Agency
GDP	gross domestic product
GFCF	gross fixed capital formation
GSP	Generalized Scheme of Preferences
IBFD	International Bureau of Fiscal Documentation
ICT	information and communication technology
IIA	international investment agreement
ICSID	International Centre for Settlement of Investment Disputes
IMF	International Monetary Fund
IPFSD	investment policy framework for sustainable development
IPA	investment promotion agency
IPR	investment policy review
JICA	Japan International Cooperation Agency

JSC	joint stock company
JV	joint-venture
LLC	limited liability company
M&A	merger and acquisition
MIFT	Ministry of Investment and Foreign Trade
MTS	Mobile Telephone Systems
SDG	Sustainable Development Goal
SEZ	special economic zone
SME	small and medium-sized enterprise
SOE	State-owned enterprise
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
USDOS	United States Department of States
UzIPA	Uzbekistan Investment Promotion Agency
UZS	Uzbekistani so'm
VAT	value-added tax

INVESTMENT POLICY REVIEW SERIES

1. Egypt (1999)
2. Uzbekistan (1999)
3. Uganda (2000)
4. Peru (2000)
5. Mauritius (2001)
6. Ecuador (2001)
7. Ethiopia (2002)
8. United Republic of Tanzania (2002)
9. Botswana (2003)
10. Ghana (2003)
11. Lesotho (2003)
12. Nepal (2003)
13. Sri Lanka (2004)
14. Algeria (2004)
15. Benin (2005)
16. Kenya (2005)
17. Colombia (2006)
18. Rwanda (2006)
19. Zambia (2007)
20. Morocco (2008)
21. Viet Nam (2008)
22. Dominican Republic (2009)
23. Nigeria (2009)
24. Mauritania (2009)
25. Burkina Faso (2009)
26. Belarus (2009)
27. Burundi (2010)
28. Sierra Leone (2010)
29. El Salvador (2010)
30. Guatemala (2011)
31. The former Yugoslav Republic of Macedonia (2011)
32. Mozambique (2012)
33. Djibouti (2013)
34. Mongolia (2013)
35. Bangladesh (2013)
36. Republic of Moldova (2013)
37. Republic of the Congo (2015)
38. Sudan (2015)
39. Bosnia and Herzegovina (2015)
40. Kyrgyzstan (2015)
41. Madagascar (2015)
42. Tajikistan (2016)
43. The Gambia (2017)
44. South-East Europe (2017)
45. Lebanon (2018)
46. Cabo Verde (2018)
47. Chad (2019)
48. Angola (2019)
49. Armenia (2019)
50. Côte d’Ivoire (2019)
51. Seychelles (2020)

INTRODUCTION

The Government of Uzbekistan has adopted many policy initiatives to improve the business environment. A range of measures were taken to improve the policy, legal and institutional framework affecting the attraction of investment and the development of entrepreneurship. Aimed at supporting the achievements of the country's development objectives, these measures were geared at increasing the value added of production, including through high-technology activities.

In 2020, the Government requested UNCTAD for technical assistance on investment policies. Based on the Investment Policy Framework for Sustainable Development (IPFSD; UNCTAD, 2015) and the recommendations made in the Investment Policy Review (IPR) for the country (which dates from 1999), this Report assesses the progress made to strengthen the investment environment and highlights additional actions to support the country's objectives and foster sustainable development.[1]

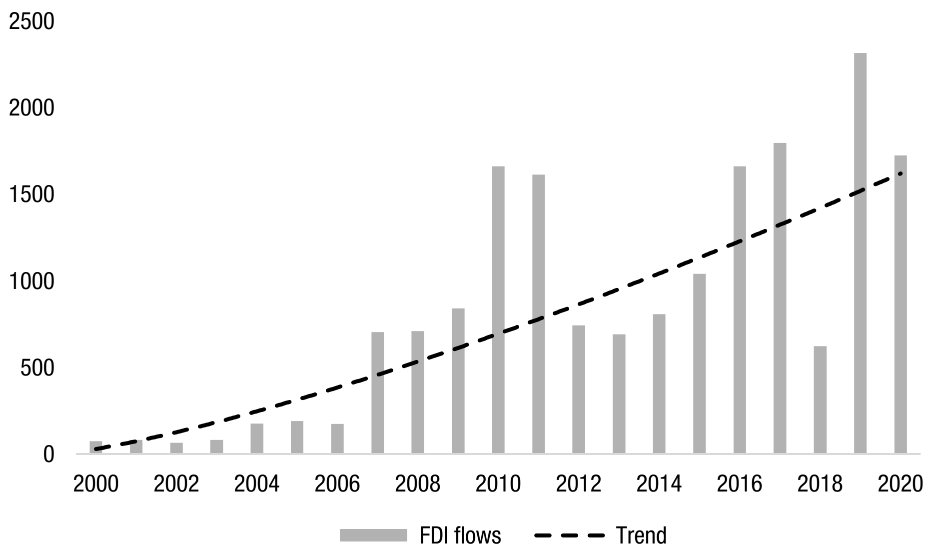
1. KEY FDI TRENDS

Uzbekistan had adopted a gradual transition strategy from a centrally planned economy to one driven more by market forces. During the 1990s, it focused on diversifying the economy through import substitution measures and the accelerated development of manufacturing activities. Foreign direct investment (FDI) was encouraged in specific industries and in primary products processing, while trading, distribution and other import-consuming industries were reserved to domestic businesses. The Government also launched an important programme to exploit the country's mineral endowments, including through FDI. All these initiatives led to the attraction of some major foreign investors, through joint ventures (JV), in mining, automotive industry, light industry, petrochemicals, metal production and telecommunications.

FDI inflows, which were generally very low until then, started rising in 2004 following an acquisition deal in the telecommunications sector (figure 1). In subsequent years, other successful mergers and acquisitions (M&As), including in the information and communication technology (ICT) sector, textiles, electrical engineering and food and beverages industries, sustained rising FDI inflows (UNDP, 2009).[2]

The Government's plan to reduce the country's energy dependency, coupled with the commodities boom of the 2000s, also led to significant foreign investments in the gas sector, which remains one of the major FDI recipients to date.[3] Indeed, the peaks in FDI over the period 2004–2018 can be linked to large-scale projects by Russian and Chinese companies in the exploration and development of gas fields, construction of gas processing factories and related chemical complexes, as well as construction of gas transportation systems, including the Uzbek segment of the Central Asia-China pipeline.[4]

Figure 1. FDI inflows to Uzbekistan, 2000–2020 (million dollars)



Source: UNCTADStat

Despite initiatives to foster private sector development, including through privatization programmes, the State remained very prominent in the economy. By the end of 2016, it was estimated that 84 per cent of the existing share capital of joint-stock companies (JSCs) was directly or indirectly controlled by the State (Abdullaev, 2020). The same study showed that enterprises with majority State ownership accounted for 47 per cent of the total industrial output in 2017. Furthermore, State-owned enterprises (SOEs) absorbed a significant share of skilled labour, energy and financial resources (IMF, 2019).

Overall, the limited scope of the privatization initiatives constrained private sector participation, including through FDI, in key economic industries. Restrictive measures and policy reversals, for example limiting the transfer from State to private ownership by retaining a majority stake in many SOEs or introducing the “golden share” rule in 2007, discouraged private investors, both local and foreign (Abdullaev, 2020).[5]

In 2017, the new Government announced a paradigm shift with the adoption of a three-pronged approach focused on strengthening corporate governance, restructuring SOEs and identifying enterprises which could be privatized.[6] To this end, the Government created a new entity – the Agency for Management of State Assets, mandated to address corporate governance issues. It also started unbundling the activities of SOEs in the energy and transportation sectors, and reviewing the management approach to separate supervisory and regulatory functions. Finally, it classified SOEs into enterprises to be fully privatized, those opened for minority stakes and those which will remain under the ownership of the State. In 2020, the Government announced the launch of a new privatization programme with the objective of attracting FDI in about 500 projects covering more than 20 economic sectors.[7]

These recent reforms met with success in attracting private investments. In 2019, FDI reached a record level of $2.3 billion. The majority of the investments were directed towards the production of building materials (35 per cent), prospection and development of oil and natural gas fields (25 per cent), textiles (11 per cent) and construction (9 per cent). Agriculture, fisheries and food production as well as socially-oriented investments (health, education, leisure and cultural activities) accounted for five per cent of total inflows.[8]

However, the COVID-19 pandemic significantly impacted the Uzbek economy and FDI inflows. While gross domestic product (GDP) growth remained positive, notably due to robust agricultural outputs and the substantial measures adopted to fight the crisis, growth slowed from 5.8 per cent in 2019 to 1.6 per cent in 2020.[9] Furthermore, as reported in the World Investment Report 2021, FDI inflows slowed down to $1.7 billion in 2020 (UNCTAD, 2021).

Despite the reforms and an increase in FDI attributed to the policy shift since 2017, a comparative analysis of Uzbekistan's performance shows that there is still room to attract more investment (table 1). Inflows have almost tripled and FDI per capita has more than doubled between 2001–2010 and 2011–2020. This represents a faster growth than in all other comparator economies, including for Commonwealth of Independent States (CIS). However, the country's FDI performance remains lower than that of other countries in the region. For example, the data show that in terms of FDI inflows per capita, Uzbekistan surpasses only Tajikistan. While the FDI stock in absolute terms is higher than that of Kyrgyzstan and Tajikistan, it is smaller than that of all comparator countries in relative terms (per capita and as percentage of GDP).

The Presidential Resolution on Measures to Implement the Investment Programme of the Republic of Uzbekistan (2020–2022),[10] adopted on 9 January 2020, provides valuable insights on the Government's FDI strategy. Indeed, Appendix No. 5 lists projects with foreign investment in 24 sectors. While the focus of several projects remains on the primary and secondary sectors, new potential projects are more diversified in terms of industries and size of the investment. Also, new investors are coming from a wider range of countries, including from the Eurasia and North America regions, with a slight predominance of Asian economies (e.g. India, Islamic Republic of Iran, Japan, United Arab Emirates).

The Government opened the exploration of some deposits (gold, graphite and uranium) to foreign companies, with the objective of transferring new mining technologies from foreign firms to domestic producers. However, there are no structured linkages programme to ensure that such transfers can take place. The construction of several business and logistic centres as well as shopping malls was also announced. The challenge of providing professional business services and support activities may slow down progress. Also, the networks of larger foreign retailers and distributors are not well developed.

The programme also features projects with a sustainable development focus, including Sustainable Development Goal (SDG) two on “zero hunger”, seven on “affordable and clean energy”, nine on “industry, innovation and infrastructure”, eleven on “sustainable cities and communities” and twelve on “responsible consumption and production”. For instance, these projects comprise energy and water saving technologies in agriculture, e.g. energy saving equipment, drip irrigation systems for greenhouses and innovative technologies for growing seeds, or infrastructure, e.g. solar energy projects, modern road and urban safety systems, electricity generation by converting landfill gas. Finally, the investment programme shows a shift in the Government’s approach regarding the growing role that medium and smaller-sized foreign companies can play in the economy, with roughly three quarters of the foreseen projects ranging between $100 000 and $25 million.

Table 1. Comparative FDI flows in selected countries, 2001–2020

Country	Average inflows of foreign direct investment								Foreign direct investment stock		
	Millions of dollars		Per capita (dollars)		Per $1 000 gross domestic product		As percentage of gross fixed capital formation		Total (millions of dollars)	Per capita (dollars)	Percentage of gross domestic product
	2001–2010	2011–2020	2001–2010	2011–2020	2001–2010	2011–2020	2001–2010	2011–2020*	2020		
Uzbekistan	469	1303	17	41	16	21	7	7	10 264	307	18
Kazakhstan	7 016	7 374	445	427	92	39	35	18	151 396	8 063	92
Kyrgyzstan	167	373	32	64	45	54	21	22	4 205	644	57
Tajikistan	206	314	29	37	58	40	39	17	3 129	328	39
Turkmenistan	1 249	2 588	252	468	67	68	20	15	39 323	6 520	74
CIS	43 384	48 501	189	203	35	22	16	11	712 316	2 886	39

Source: UNCTADStat.
Note: * data for 2011–2019

2. SUMMARY OF FINDINGS

The recent policy paradigm shift vis-à-vis private investment and FDI has translated into the adoption of many new laws, regulations and processes aimed at enhancing and further strengthening the investment and business environment. Almost all decisions, laws and decrees examined in this report and currently in force were adopted between 2017 and 2021. Driven by ambitious development objectives, they have had a positive impact on the business environment.

All the findings made on the investment environment in Uzbekistan are reported in the annex to this report, and are also available online.[11] The key policy changes include:

- **The adoption of a new investment law.** The Law on Investments and Investment Activity (the Investment Law) was passed in 2019. While certain provisions could be further improved (see below), the new law is a positive step to enhance the clarity, transparency and predictability of the FDI regime.[12]

- **Efficient business establishment procedures.** Important efforts have been made to simplify and digitalize business establishment procedures, and Uzbekistan has become a world reference in this area. Since 2017, companies can register online, and a discounted fee is applied to incentivize the use of eGovernment procedures. The licensing regime has also been overhauled in July 2021, with the adoption of several elements aimed to simplify, streamline and digitalize the licensing, permitting and notification procedures.

- **Access to information.** One of the objectives of the ongoing reforms is to ensure that all parties have easy access to information. In this regard, all laws, regulations, decrees and resolutions of the President and of the Cabinet of Ministers are available online on a dedicated website, in Russian and Uzbek languages (https://www.lex.uz/ru/).

- **Enhanced institutional structure for investment promotion.** Since 2019, the Ministry of Investment and Foreign Trade (MIFT) has the mandate to elaborate and implement the investment policy of the country. The Uzbekistan Investment Promotion Agency (UzIPA), restructured in 2019 and reporting to the MIFT, is responsible for investment promotion and facilitation functions.

- **Market access.** Uzbekistan integrated the European Union's Generalized Scheme of Preferences (GSP+) in April 2021. In addition to the potential positive impact on trade, this scheme also translates the progress made by

Uzbekistan in terms of improvement of business climate, judicial system, security services, labour conditions as well as administrative accountability and efficiency.[13]

- **Foreign exchange.** Uzbekistan adhered to Article VIII of the Articles of Agreement of the International Monetary Fund (IMF). The reform became operational in September 2017, when the country liberalized the foreign exchange regime by approving the convertibility of the Uzbekistani so'm (UZS) and cancelling the multiple exchange rates system. Foreign investors are now allowed to open bank accounts in foreign currency and the conditions for the repatriation of capital and profits are provided for in the Investment Law.

However, challenges remain and deserve the attention of the Government to foster an environment conducive to investment and private sector development. They include:

- **A scattered FDI-specific national legal framework.** The Investment Law adopted in 2019 replaced the two previous laws which regulated FDI. However, other pieces of legislation continue to affect the FDI-specific legal framework and some key aspects, such as FDI entry restrictions and requirements as well as treatment and protection provisions, are scattered in different legal instruments or remain insufficiently clear (see below). In addition, to ensure the effective implementation of the new investment law, regulations adopted in 2005 and 2012 will need to be updated and harmonized.

- **Unclear FDI entry restrictions and requirements.** The Investment Law refers to a negative list.[14] However, none could be identified. Instead, *de facto* or *de jure* restrictions exist in sectoral legislation and/or through SOE monopolies. It was not possible to determine if the FDI entry restriction, which was exercised by an administrative procedure at the time of the IPR, was still in place. This procedure is not mentioned in the legislation apart from the licensing and permitting requirements. In parallel and in line with the country's national development objectives, some sectors are identified as priorities in Presidential Decree Nº DP-3594 on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005). These sectors are provided privileges to stimulate the attraction of FDI.

- **Opportunities to further streamline FDI treatment and protection and to increase transparency and predictability.** The Investment Law contains FDI treatment and protection standards, including national treatment, guarantee against expropriation and free repatriation of capital and profits. The law also includes a fair and equitable treatment provision which, in the context of bilateral investment treaties (BITs), proved contentious in recent years. However, the 10-year stability clause is still in place. In addition, the law provides the possibility for foreign investors to conclude a specific investment contract in certain circumstances. While a model investment contract was adopted, it does not specifically delineate key aspects, such as incentives, nor does it frame the scope of the investment contract, which can be adjusted on a case-by-case basis. This risks multiplying the regimes applicable and creating a lack of predictability both for investors and the public administration.

- **The network of international investment agreements (IIAs) is built around the older generation of treaties.** Uzbekistan has concluded a total number of 54 BITs. Most of these treaties were concluded prior to the IPR and are part of the so-called first-generation treaties. Therefore, they may contain broadly drafted provisions that expose the country to claims before investment tribunals and lack sustainable development-oriented features.[15] The content of these treaties needs to be modernized to take into account the emergence of a "new generation" of investment policies, as well as to ensure consistency with the country's development objectives and preserve Uzbekistan's right to regulate.

- **Implementation and enforcement issues.** Many laws, decrees and resolutions examined in this report often lack sufficient details to ensure their effective enforcement. While this may be caused by the speed of policy changes and a strong will to reform, it can nevertheless negatively impact their implementation. For instance, provisions of the Investment Law are at times repetitive and certain concepts, such as the model investment contract, duplicate several parts of it without providing key expected substantive details.[16]

- **Differential treatment of investors.** There are various examples of situations where domestic and foreign investors are treated differently. For instance, business establishment is less expensive for domestic companies. At the same time, foreign investors benefit from an array of incentives by the Investment Law, the Tax Code or investment contracts. In fact, incentives in investment contracts can even go beyond those envisaged by the Tax Code (see below). These discrepancies may negatively affect the development of small and medium-sized enterprises (SMEs), which also operate in a market where SOEs are dominant. This in turn can undermine the potential for business linkages and ultimately affect the capacity to meet the country's development objectives.

- **Positive reforms in the area of taxation but continued reliance on incentives.** Provisions on loss carry forward, loans interest costs and value-added tax (VAT) were amended. Efforts were also made to limit the scope of incentives. The new Tax Code provides that incentives are time-bound and none can be granted outside its provisions. However, additional incentives can be offered through investment contracts, and this without a cost-benefit analysis. These investment contracts create a "case-by-case" basis regime, which has proven difficult to administer, monitor and evaluate in worldwide experience. Such contracts are also not accessible to small foreign or domestic investors. Finally, despite the Investment Law referring to priority sectors, the criteria in place to access incentives are such that a wide array of sectors are eligible. Usually however, a sector-specific approach, as the one which was recommended in the IPR, is seen as a more efficient way to promote the development of private sector activities.

- **An uneven level-playing field.** While privatization is still ongoing, several sectors, including mining, energy, oil and gas, remain dominated by SOEs. The adoption of the Competition Law, to be enforced by the State Committee of the Republic of Uzbekistan to promote privatized enterprises and to foster competition, is a positive development. In addition, different documents adopted to improving the assets valuation and better targeting the privatization efforts also constitute an improvement. Nevertheless, the Government remains in a controlling position regarding private activities. This is particularly visible in the Investment Programme 2020–2022 and in the law on entrepreneurial activities (https://lex.uz/docs/4403340). While the latter delineates the rights of entrepreneurs, it also emphasizes that the type of activities which can be carried out by individual entrepreneurs shall be established by the Cabinet of Ministers. The country has indicated its intention to reduce the State involvement in the economy and increasing the role and importance of the private sector. In this regard, the number of SOEs, which currently exceeds 2500, is expected to be reduced by 75 per cent by 2025.

- **Lack of clarity of the investment promotion strategy.** Several policy documents provide guidelines on investment potential projects, but it is not possible to discern a clear list of priority sectors. Thirteen industries are highlighted on the website of UzIPA. However, no details are given on how these industries were selected, and what type of efforts are made to target investors, apart from the organization and participation in forums and roadshows. In practice, the investment promotion strategy of the country continues to rely on incentives. A project is ongoing with the assistance of Japan International Cooperation Agency (JICA) in this area to notably clarify the investment promotion approach (see below).

- **Business linkages could be further enhanced and entrepreneurship skills reinforced.** While the Law on Guarantees of Freedom of Entrepreneurial Activity does not explicitly mention these terms, it provides for the support of SMEs and attraction of investment, including FDI. UzIPA reported playing the role of intermediary between foreign investors and domestic entrepreneurs in the implementation of investment projects. Several other entities were reported as providing some support to business linkages, including the Chamber of Commerce and Industry, the Export Promotion Agency (also under the MIFT) and the State Fund for Support of Entrepreneurship Activities. However, a fully-fledged business linkages programme could be set up and additional capacity-building for entrepreneurs could be carried out to complement the assistance notably provided with export procedures.[17]

3. CONCLUSION AND RECOMMENDATIONS

Over the past decade and in particular since 2017, Uzbekistan has adopted several reforms to improve its business and investment climate. The paradigm shift vis-à-vis private investment and FDI has translated into significant policy, legal, regulatory and operational improvements. However, in spite of noticeable progress, the investment-specific legal framework remains scattered, some legislations are difficult to implement due to a lack of operational specifications, and the investment promotion strategy is not clear enough and continues to rely, to a large extent, on incentives.

The COVID-19 pandemic has had an important negative effect on the world economy, including on investment flows. In this context, competition to attract FDI is very likely to intensify. It is therefore important for the Government of Uzbekistan to continue reforming its investment environment to fully tap on the momentum generated by the policy shift taken in 2017 and to further enhance openness, transparency and predictability. This will help in reducing the involvement of the Government in economic activities and open the market to private actors. Furthermore, it would also be key to establish clearer priorities on sectors to promote around which government authorities and, in particular, investment-related entities can mobilize and focus their efforts.

Furthermore, a strong local private sector is a *sine qua non* condition to fully reap the benefits of FDI. In this regard, support mechanisms to local entrepreneurs and business linkages are recognized worldwide as effective ways to strengthen the private sector and enhance the likelihood of achieving national development goals.

Against this background and on the basis of UNCTAD's IPFSD, this report recommends the following areas of actions to further strengthen investment policymaking and institutions in Uzbekistan:

- **Develop an investment policy statement.** In line with the national development objectives, the aim of the statement is to: 1) define the role FDI is expected to play in the economy; 2) clarify the priority sectors for FDI attraction; 3) specify the Government's commitments in terms of entry and establishment, as well as treatment and protection conditions for investors; 4) identify supporting measures, including incentives, applicable to the priority sectors.

- **Amend the investment-specific legal framework.** The Government could consider streamlining the existing legislation and bring it further in line with best international practice. This would notably include a clarification of FDI entry requirements and restrictions as well as an alignment of FDI-specific provisions still scattered in sectoral legislation. It would also entail a progressive phase-out of the use of investment contracts, with the exception of specific sectors, such as for example mining and other extractive industries. UNCTAD has developed expertise in reforming investment legal frameworks. On the basis of the IPFSD and its experience in other countries, it could provide assistance to the Government of Uzbekistan in this area.

- **Elaborate an investment promotion strategy and related capacity-building activities** for the investment promotion agency (IPA). Uzbekistan has adopted several policy documents aimed at guiding the activities of the investment-related authorities. However, no clear investment promotion strategy could be identified. The determination of a list of priority sectors could also provide the opportunity to develop a specific investment promotion strategy. By focusing on a limited number of sectors, UzIPA could develop its promotion activities and undertake efforts to attract specific investors. This would enable the IPA to develop its targeting function, an approach seen as more efficient than generic promotion efforts. Within the context of the ongoing project with the cooperation of JICA, UNCTAD could assist in developing the skills and techniques to carry out this new function, by providing capacity-building on investor targeting techniques and strategies, as well as on aftercare and policy advocacy.

- **Include sustainable development features in IIAs.** The Government should consider designing and modernizing its investments treaties in line with national development objectives and sustainable development principles. UNCTAD's tools, including the IPFSD, the Reform Package for the International Investment Regime and the IIA Reform Accelerator, could provide useful guidance in this area and form the basis to train negotiators on sustainable development-oriented approaches to IIAs (UNCTAD, 2015, 2018, 2020).

- **Strengthen entrepreneurship** with a view to enhance the domestic private sector by building entrepreneurial skills. The assistance could include a review of the national strategy to foster entrepreneurship development, following UNCTAD's Entrepreneurship Policy Framework and Implementation Guidance (UNCTAD, 2012).

- **Facilitate and set up a business linkages programme** to extend the benefits of FDI. UNCTAD could provide assistance to develop such a programme. The goal would be to link foreign firms and local suppliers to promote local entrepreneurship and economic diversification through enhanced productivity and efficiency for all participants.

ANNEX: IMPLEMENTATION MATRIX

What	Why	How	Status	Findings
1. Adopt a strategic approach to investment, including on the entry of foreign direct investment (FDI)	The Law on Foreign Investments and the Law on Guarantees and Measures for Protection of Rights of Foreign Investors of 30 April 1998 provided an open regime for FDI. However, the registration required for an enterprise with foreign investment translated into a case-by-case comprehensive FDI screening, involving lengthy negotiations of investment terms.[1]	1.1. Limit FDI screening to specific activities by: • Reconsidering the registration procedure and ensuring that it contributes to the country's policy and development objectives • Replacing the "enterprise with foreign investment" approach with a "project approach" and limiting the registration procedure to cases where a special tax treatment could be granted • Precising the roles of individual agencies involved with foreign investors' facilitation procedures, including permitting and licensing	◔	Uzbekistan has made, in particular since 2017, important reforms to improve the business environment, including by simplifying and digitalizing procedures. Business registration can now be done online in 20 minutes, using the automated system for registering business entities integrated in the Unified Portal of Interactive State Services and available in Russian language.[2] The Law on Investment Activities (24 December 1998) and the Laws on Foreign Investments and Guarantees and Measures for Protection of Rights of Foreign Investors (30 April 1998) were repealed by the Law on Investments and Investment Activity ("the Investment Law", 25 December 2019). Uzbekistan has adopted other laws to regulate activities outside the scope of the Investment Law.[3]

1 The process was explained in the law for an investment above $20 million (and required the approval of the Cabinet of Ministers), but not for smaller-size investments.

2 A discounted fee is applied when using the portal to promote its use.

3 Activities excluded from the Law on Investments and Investment Activity are: relations associated with centralized investments, concessions, conclusion, execution and termination of production sharing agreements, portfolio investment, mutual and venture capital funds, capital market regulation, including securities transactions, public-private partnerships and SEZs, which are regulated by separate laws.

● = implemented; ◑ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				The notion of enterprise with foreign investment (EFI) has been defined by the Investment Law as "an enterprise in which foreign investment makes up at least 15 per cent of the stocks (shares, units) or statutory fund (charter capital)". When all the company shares are owned by a foreign legal or natural person, it is called a foreign enterprise (FE).[4] There is no formal definition of the "enterprise with foreign capital (EFC)". The Government indicated that it applies to entities in which there is a foreign participation.[5] Discrepancies are introduced regarding EFIs by Resolution No. 66, notably for the establishment duties and fees, which are twice the amount charged for other companies. Entry restrictions remain unclear. Article 46 of the Investment Law provides that the legislation may contain restrictions or a ban on foreign investment in certain areas of the economy and the protection of public health, flora and fauna, the environment, and of national security interests. In practice, restrictions apply in media and finance, where JVs are required, and the Government exercises scrutiny when the sector is considered strategic, e.g. mining, cotton processing, oil and gas refining, transportation (United States Department of States (USDOS) Investment Climate Statement, 2020).

4 For both EFIs and FEs, the size of the authorized capital is not less than UZS 400 million ($37 179).

5 See Law on Investment and Investment Activities, Law of the Republic of Uzbekistan On Limited and Additional Liability Companies and Presidential Decree DP-5495 of 1st August 2018 On Measures to Radically Improve the Investment Climate in the Republic of Uzbekistan for more information. The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan – Procedure for Establishment, State Registration, Activity and Liquidation of EFIs in the Republic of Uzbekistan RCM 76 provides that enterprises with the participation of foreign capital are: enterprises with foreign investments; international associations and organizations; joint ventures, as well as economic companies and partnerships, a stake (shares) of which was sold to foreign legal entities and individuals; subsidiaries, branches whose parent enterprises are located outside the republic; subsidiaries, branches with the participation of Uzbek and foreign legal entities and citizens established in the territory of foreign countries.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				In addition, foreigners cannot access land and due to the prevalence of SOE monopolies, establishment rights are limited to some sectors. It is also reported that licensing can be a tool of control in several sectors, including energy, telecommunications, wholesale trading and tourism. The licensing regime was overhauled by the Law No. ZRU-701 On Licensing, Permitting and Notification Procedures of 14 July 2021 to create favourable conditions for business. By fostering transparency, digitalizing processes, enforcing the obtention of licences and permits prior to starting regulated activities, the new law aims to eliminate bureaucratic barriers and corruption factors. The Law unifies and simplifies the licensing regime, clarifies the list of activities requiring licences, permits and notification procedures. A compliance and monitoring system is also embedded in the law, which will enable its implementation. All licences can be obtained through the online Single portal of interactive services, available in Russian at my.gov.uz and at Public Service Centres. Presidential Decree UP-5718 of 14 April 2019 on Measures to Radically Improve the System of Support and Protection of Entrepreneurial Activity for the Comprehensive Improvement of the System of Support and Protection of Entrepreneurial Activity was adopted in March 2019 to establish enforcement mechanisms to protect the private sector, including foreign investors. Reports indicate that local officials have occasionally inconsistently interpreted laws, often in a detrimental manner to the private sector (USDOS, 2020). The Government has stressed that this is no longer the case with the new Investment Law.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				According to information provided by the Government, these entities are responsible for investment entry and promotion: • The Ministry of Investments and Foreign Trade (MIFT), as per Presidential Decree DP-5643 of 28 January 2018 on Measures to Improve the Management System in the Areas of Investment and Foreign Trade, designs and implements the country's investment policy, conducts activities to attract investment, particularly FDI, cooperates with international financial institutions and organizations of foreign governments, and coordinates the activities of several departments and executive authorities for the implementation of measures affecting trade activities in domestic and foreign markets. The MIFT also elaborates and implements the foreign trade and international economic cooperation policy, and coordinates the development of regional and sectoral development concepts based on the strategy of investment policy for the medium term and the concept of socio-economic development of the country until 2030, developed by the Ministry of Economy and Industry. • The Ministry of Foreign Affairs conducts economic diplomacy to promote trade and strengthen economic relations, the attraction of advanced knowledge-intensive technologies and innovation, the digitalization of the economy and the promotion of tourism. • The State Assets Management Agency issues and sells bonds and shares of SOEs, including through initial and secondary public offerings on stock exchanges (domestic and foreign), FDI and portfolio investment.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				• The Investment Promotion Agency under the MIFT (UzIPA) promotes the economic potential of the country and attracts investment. It organizes events with foreign business circles on the conditions and guarantees available to investors. • The territorial departments of the MIFT assist territorial subdivisions of ministries, departments and other entities to attract foreign investment, and monitor the effective implementation of investment projects. • The State Committee for Tourism Development designs the strategy for developing the tourism sector and attract tourists.
	At the sectoral level, discrepancies in industry policies and a lack of standardization of key commercial terms governing foreign investment added uncertainty and unpredictability	1.2. Introduce an investment policy statement setting out the country's national objectives, priorities and applicable terms to investment, and in particular to foreign investment. Consider also the possibility of industry-specific investment policy statements	◔	Uzbekistan did not adopt an investment policy statement. Presidential Decree on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005) lists 22 sectors in which FDI is provided privileges. The country also adopted a State Programme for Implementation of the National Action Strategy on Five Priority Development Areas 2017–2021 in the Year of Active Investments and Social Development. The Programme presented Uzbekistan's priorities over five years in areas related to the economic policy, including investment and FDI. The Presidential Decree on Measures to Improve the Management System in the Areas of Investment and Foreign Trade (28 January 2019) summarizes the principles that should guide investment policy. These documents, in line with the objectives of the overall economic policy, have a strong focus on exports. While they mention policy priorities, they are not fully aligned with the priority sector identified on the UzIPA website (see below).

● = implemented; ◑ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				This makes it challenging to adequately promote specific sectors. Also, the priorities of these three documents are not fully aligned to the Presidential Resolution on Measures to Implement the Investment Programme of the Republic of Uzbekistan (2020–2022) which describes the lists of projects to be implemented over the period by public investment, foreign loans and FDI, with clear targets. Appendix No. 5 lists projects with the name of the foreign investors in 24 sectors, ranging from extractive industries to agricultural manufacturing and production, railway transport, education, pharmaceuticals and ICT. Such a detailed approach is rather unusual and tends to suggest an important level of control by the State over projects' implementation. At the same time, it focuses on many sectors, thus giving a sense of lack of prioritization.
	Uzbekistan was falling behind regional competitors in terms of measures to foster competitiveness and improve business services. The foreign investment law recognized the potential contribution of SMEs. However, they could not access incentives and were not considered as priorities to obtain import licences and access foreign exchange.	1.3. Encourage the development of suppliers of business services by: • opening the access to private investment and fostering competition in relevant activities • reviewing discrepancies of treatment (incentives, import licences, foreign exchange) for small and medium-scale FDI projects	◔	Efforts have been made by the Government to improve the competition framework. First adopted in 2012 and amended in 2019, the Competition Law covers goods, works, services and financial markets. It is enforced by the State Committee of the Republic of Uzbekistan for the promotion of privatized enterprises and the development of competition. The Committee has initiation of procedures and investigative rights, but does not prosecute the offences. This legislation is accompanied by the Law about Natural Monopolies (19 August 1999). Monopolies are defined as "the state of the commodity market, in which, due to technological features, it is impossible or economically inexpedient to create competitive conditions for meeting the demand for a certain type of goods (works, services)".

● = implemented; ◑ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				Several entities are in place to support the development of small and medium-sized enterprises (SME): • The Agency for Development of Entrepreneurship under the Ministry of Economic Development and Poverty Reduction implements the policy to develop entrepreneurship. • The Chamber of Commerce and Industry (CCI) of Uzbekistan fosters entrepreneurship, assists entrepreneurs in establishing foreign contacts, promotes exports and attraction of FDI. • The Export Promotion Agency under the MIFT assists to identify foreign buyers and supports the negotiation process, including the preparation of export contracts, conducts information and training events for new exporting entities, and organizes business forums abroad on foreign trade activities. • The State Fund for Support of Entrepreneurship Activities under the Agency for Development of Entrepreneurship supports innovative activities of business entities, promote the development of new products and the utilization of new technologies in production process. • The Business Ombudsman participates in the design and implementation of the entrepreneurship policy, and contributes to protecting the rights and legitimate interests of businesses. The Law on Guarantees of Freedom of Entrepreneurial Activity (2012) contains provisions on small business entities, including individual entrepreneurs and foreign investors, independently of their legal status.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				Activities that can be carried out by individual entrepreneurs are, as per the Law, established by the Cabinet of Ministers and licensable activities are established by legislation. The procedure to obtain the licence is set by the Cabinet of Ministers, except when provided for legally. The Law forbids authorities to impose requirements other than those legally established. It highlights the exemptions, concessions, guarantees and rights small businesses can benefit from without requesting an authorization. Public authorities are requested to explain the procedure of application of exemptions and concessions provided for by the legislation, and ensure effective implementation. After registration, small businesses can open foreign currency accounts and conduct their activities, except for individual entrepreneurs who need to register. The Law contains a guarantee to freely access the securities market, raw materials, goods and services.
	The foreign investment law contained important assurances of protection and rights for foreign investors. However, a 10-year stability clause offered to all investors and covering all areas of public policy strongly limited the Government's regulatory space	1.4. Repeal the 10-year stability clause and replace it with a provision allowing the Government to enter into investment agreements, reserved to large investments in priority industries and focused on selected issues such as taxation, foreign exchange as well as export and import rights	◔	The Investment Law still contains a 10-year stability clause. As a general rule, adverse legislative changes cannot be retroactive. When a new provision is detrimental, it does not apply to investors for 10 years "from the date of investment". This is assessed differently depending on the type of investment. The stability clause does not apply to the adoption, addition or cancellation of legislative acts aimed at protecting national security, and is limited to the following cases: • Additional requirements complicating the repatriation or reducing profits, except as defined by the Investment Law; • Quantitative restrictions on the volume of investment and other requirements regarding the size of the investment;

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				• Restrictions on equity participation of the foreign investor in statutory funds of enterprises; • Additional procedures of registration and extension of visas of foreign investors, and other requirements applying to foreign investment. These provisions do not preclude other specific clauses in investment contracts. The operationalization of the stability clause is described in Resolution No. 180, as amended by Resolution No. 264. Chapter 8 of the Investment Law (articles 40 to 45) and Resolution of the Cabinet of Ministers No.180 of 2nd August 2005, as amended by the Resolution of the Cabinet of Ministers No. 264 of 30 April 2020, regulate investment contracts. Concluded between the Government, represented by the MIFT, and foreign investors by mutual agreement, they provide support measures, including incentives provided on a case-by-case basis,[6] to ensure the fulfilment by investors of their obligations. Conditions apply, including ensuring sustainable economic growth and/or progressive technological changes, as well as promoting the expansion and strengthening of the export potential and the country's integration into the world economy. Given that investment contracts are reserved to foreign investors, attention must be paid to the discrepancy this might create for domestic investors in terms of treatment and protection.

[6] The Investment Law stipulates that for EFIs, incentives are timebound, and that contracts can enter into force after a decision by the President of the Republic. The Investment Law and Resolution No. 264 also provide that investors and other "subjects of investment activity" can also conclude investment contracts with foreign investors if the project is not more than $10 million.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				The MIFT shared with UNCTAD the model investment contract (an Appendix to Resolution No. 264). Projects must be in line with article 5 of the Investment Law, and are not limited to a specific sectors, albeit Presidential Decree on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005) lists 22 sectors in which FDI is provided privileges. The model contract contains standard definitions, and provisions on investor and State rights and obligations, force majeure, amendment, termination terms and dispute settlement. It refers to other incentives without describing them. They can take the form of tax and customs advantages, infrastructure and stability clause. It is unclear whether rights and obligations of both parties can be amended by negotiations. Article 44 of the Investment Law and the model investment contract indicate that a contract can be terminated unilaterally by the Government, provided described procedures are followed. It is reported that "these [contracts] have proven easily revocable" (USDOS, 2020). The Investment Law and Resolution No 264 provide that investors and other "subjects of investment activity" can conclude contracts with foreign investors if the project is not more than $10 million.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
	The methodology of valuation of State assets contributing to new ventures involving FDI was a persistent difficulty. It did not sufficiently take into account wear and tear on assets or market principles.	1.5. When considering privatization or State divestiture from economic activities, adopt a market-based approach to asset valuation by: • developing a market-based disposal programme for State assets. • define a list of internationally attractive State assets and a list of locally attractive assets in industries that are of interest to FDI, tendered locally • tendering the assets on the first list locally and internationally in a competitive manner • seeking professional advice to ensure that commercial terms are well structured and asset disposal values are set by a competitive bidding process and not by a government formula. • tendering the assets on the second list locally	◐	The Government accelerated State enterprise reforms by creating an assets management agency, unbundling responsibilities in the energy and transportation sectors, and identifying enterprises for restructuring or privatization (IMF, 2019). Article 9 of the Law on denationalization and privatization (19 November 1991) was latest amended in 2010 and 2017, and reflects that the sale price is set by the manager of the public property, based on the value at the date of denationalization and privatization. The sale price must consider the market conditions and a set of objective factors affecting its value. The Law on Valuation Activities (19 August 1999, as amended in 2009, 2014, 2015 and 2017) regulates appraisal organizations, gives a definition of what is meant by the “market value of the subject of assessment”, frames the valuation standards and lists the cases where an assessment is mandatory. In accordance with this law, the Ministry of Justice registered in June 2020 the Order of the Director of the State Assets Management Agency on the Approval of the Unified National Assessment Standard. The Government indicated that this standard was elaborated by a working group established by the with State Assets Management Agency, including experts from international public and private financial institutions. It determines the procedure for valuation, harmonizing the national valuation standards with international principles and unifying the 13 existing departmental normative acts.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				The Presidential Decree on Measures to Further Improve the Mechanisms for Attracting Foreign Direct Investment to the Economy of the Republic (29 April 2019) approves the proposals to intensify work to attract FDI through: • the sale of state blocks of shares in the authorized capital of economic entities in various industries (see below); • the creation of priority areas for the implementation of public-private-partnership projects. For the sale of State assets, the Agency approves the lists of corresponding projects in the annexes, namely: • The list of state blocks of shares in the authorized capital of business entities offered for sale to investors, including foreign (Annex No. 1 – financial institutions, construction, "fat and oil" industry, production of alcoholic beverages, chemical, electricity and oil and gas industries); • The list of state assets to be sold in accordance with the established procedure (Appendix No. 2); • The list of investment proposals for foreign investors (Appendix No. 3 – fuel, energy and petrochemical industries, metallurgical, machine-building, electrotechnical industries and light industry, agriculture and processing of agricultural products, road and transport infrastructure, municipal housing construction and production of building materials, social, tourism and pharmaceutical fields).

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				As per the Decree, the Commission can amend the conditions and methods for the sale. The process on how this is conducted is however unspecified. The Decree introduces modifications to the Presidential Decree on Measures to Implement the Law on Public Procurement (27 September 2018) by including in the list of goods which purchase is carried by state customers under direct contracts the appraisal services for state assets subject to privatization or transfer, as well as services of investment intermediaries, consultants, including foreign ones, involved in the sale of state blocks of shares and initial and secondary public offerings placement on domestic and foreign stock exchanges. Regarding State assets listed in Annex No. 1, some specific conditions are higlighted, including that their valuation should be carried out by reputable international valuation companies in line with accepted international valuation standards. The exercise can be carried out by investment intermediaries or consultants. It is not clear whether this procedure would apply to other assets. In parallel, the Presidential Decree "on Measures for Accelerated Reform of Enterprises with State Participation and Privatization of State Assets" No. PD-6096 (27 October 2020) includes the list of the following assets: • Large SOEs and State-owned business holdings subject to transformation (List No. 1); • SOEs where corporate governance should be strengthened, and a financial audit undertaken. Operational efficiency should also be improved (List No. 2);

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				• State-owned assets put up for public auctions through targeted pre-privatization programmes (List No. 3); • Companies whose State-owned shares are subject to complete sale to private investors through public auctions (List No. 4); • State-owned real estate for sale to private investors (List No. 5). Resolution of the Cabinet of Ministers On Approval of the Strategy for Management and Reform of Enterprises with State Participation for 2021-2025 No. 166 (29 March 2021) sets the strategy for the management and reform of enterprises with State participation for 2021–2025, a roadmap for its implementation in 2021–2022, as well as target parameters. The strategy includes the development of draft laws on state property management and on privatization, and introduces a "sell or explain" principle.
2. Improve regulatory and tax policies to enhance the investment climate	Several policies lacked coherence and were not in line with the Government's objective to attract FDI. In particular, the trading and foreign exchange restrictions (e.g. import licensing, rationing of foreign currency, multiple exchange rates) were damaging the investment climate. Incentives proliferated without effective cost/benefit analysis, putting pressures on tax revenues. Several features of the tax regime, e.g. on profits, import duties and the value-added tax (VAT), were burdensome and impacted negatively on new investment	2.1. Improve the foreign exchange and import/export arrangements, review the import duties on a wide range of imported capital items, grant investors prompt refund of excess VAT and create an effective system to administer the payment of refunds	◐	The country formally adopted Article VIII of the Articles of Agreement of the IMF, liberalized currency convertibility and abolished multiple exchange rates in 2003. The reforms became effective with Presidential Decree No. PD-5177 (2nd September 2017) on Priority Measures for the Liberalization of Foreign Exchange Policy. Legal entities can purchase foreign currency from commercial banks without restrictions and pay for current international operations. The requirement for the mandatory sale of revenues in foreign currency of exporters, regardless of their form of ownership, was cancelled. The Law on Currency Regulation No. ZRU-573 (22 October 2019) defines the persons (natural and legal) who are considered as residents for currency control purposes, including entities registered in Uzbekistan, as well as their representative offices and branches.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				It distinguishes between current international and capital movement transactions. Current international transactions comprise all payments in connection with foreign trade and other current activities, including services and works, and can be conducted without limitations. Capital movement transactions, including FDI, are subject to compliance with certain conditions, also specified in the Resolution of the Board of the Central Bank of Uzbekistan on Approval of the Regulation of the Procedure for Conducting Certain Foreign Exchange Transactions Related to the Movement of Capital (17 December 2013). Residents are allowed to open bank accounts in foreign currency in Uzbekistan; resident legal persons can open a bank account abroad provided decisions of the President, the Government or international treaties, and are subject to strict requirements. Article 51 of the Investment Law provides that EFIs have the right to open, use and manage accounts in any currency, in any bank on the territory of Uzbekistan, as well as abroad, and to receive and pay loans in foreign currency. This creates a differential of treatment of domestic and foreign businesses. This differential affects import/export operations. The Government has undertaken several structural reforms to enhance the export potential, including by improving customs administration and creating a system of incentives for business to engage in foreign trade activities (see below). Secondary sources reported that the customs clearance process remains complicated and capital equipment imports are subject to long delays (United States International Trade Administration Country Commercial Guide).[7] Excessive documentation requirements make customs clearance costly and time-consuming.

[7] Available at: https://www.trade.gov/country-commercial-guides/uzbekistan-market-overview?section-nav=11987.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				In the absence of a system of pre-arrival clearing and systematic risk analysis, the customs clearance requires physical inspection of all consignments. However, a Single Window, expected to reduce the registration time of cargo customs declarations was launched on 1st September 2020. The Government reported that after its operationalization, customs payments rose by 25 per cent due to the improvement of logistics control functions, capacities of border customs ports increased due to the expansion and modernization of the main border checkpoints, customs clearance time reduced by five for exports and by two for imports due to the improvement of the customs information system, and contributed to reducing the number of offences committed by customs officers. The International Bureau of Fiscal Docmentation (IBFD) reports that customs duties range between 5 to 70 per cent for imports. Fixed rates are set for certain goods as a minimum. A number of exemptions of customs payments (except VAT and customs processing fees), custom duty, customs processing fees and VAT payment deferments are available for a wide range of goods. These apply to goods either not available in the country, and/or that are meant to be used for the production of exported items and/or by foreign investors, large size investments or companies operating in the special economic zones (SEZs).

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				In accordance with the Resolution of the President of the Republic of Uzbekistan of 24 May 2019, subsidies and compensations are provided to exporting enterprises to cover interest expenses on pre-export credits of commercial banks and transportation by railroad transport when exporting certain products. Legal entities with a share of exports of finished products in the total revenue of more than 50 per cent may, upon request, be deferred for the payment of VAT for up to 120 days from the date of acceptance of the customs declaration for the import of raw materials, components and materials used to manufacture exported products. Finally, the Resolution PKM-826 of the Cabinet of Ministers (31 December 2020) approved the financial assistance procedure of the Export Promotion Agency for costs associated with the introduction of international standardization and certification systems in the country and abroad, registration of national products in foreign authorized bodies, creation of exhibition stands and participation in international exhibitions and fairs, presentations and promotional campaigns, as well as the participation in international tenders and competitions. Article 54 of the Investment Law and the Presidential Decree on Additional Measures to Encourage Attraction of Direct Private Foreign Investments (2012) provide that EFIs can carry out import/export operations in compliance with legal requirements. They can import products without a licence for their production needs. The procedure is established by the Cabinet of Ministers. Certain categories of imports are exempted from customs duties.[8]

[8] These include: imports of EFIs with a share of foreign investment in the authorized capital of at least 33 per cent for their own production needs for two years from the moment of the state registration; property imported for foreign investors and citizens of foreign countries located in Uzbekistan in accordance with

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				Specific additional benefits are given to manufacturing EFIs and foreign companies engaged in prospection and exploration work for oil and gas, as well as foreign contracting and subcontracting organizations attracted by them. Since 1st January 2020, are considered taxable persons for VAT purposes all legal persons, as well as individual entrepreneurs with a turnover over UZS 1 billion ($92 949) and foreign legal entities with a permanent establishment selling goods and services in the country or importing into it. A limited list of items is zero-rated and exemptions apply to certain categories of products (see also above). The Tax Code provides for the conditions under which input VAT can be offset against output VAT and VAT refund obtained. Once approved, a 60-day limit applies for the refund. No indication of time is given by the Tax Code regarding the cameral audit. Listed categories of taxpayers can benefit from an accelerated procedure where the refund is processed within seven days.
		2.2. Amend the profits taxation regime by: • removing all tax holidays and rate reliefs. Replacing them with accelerated capital allowances for investment	◔	Uzbekistan had successfully implemented a first wave of economic reforms, including on taxation, by simplifying taxes, significantly reducing labour taxes in the formal private sector and casting a wider VAT net (IMF, 2019). The need for further reforms was emphasized, including a widening the tax base and improvement of tax administration. High tax rates and tax compliance time and cost, as well as a need to overhaul investment incentives were among key issues identified by an (domestic and foreign) investor survey.

labour contracts concluded with foreign investors; goods imported by foreign legal entities that have made direct investments in Uzbekistan totaling more than $50 million, provided they are used for for their own production; technological equipment imported that are on the list approved by the legislation, and components and spare parts, provided that their delivery is covered by the terms of the contract for the supply of technological equipment listed in the Resolution of the Ministries of Economy, of Finance, of Foreign Economic Relations, the State Customs Committee No. 2436 of 20 March 2013 On Approval of the List of Technological Equipment Exempt from Import Customs Duty and Value Added Tax Upon Import into the Territory of the Republic of Uzbekistan.

● = implemented; ◑ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
		• reforming the regime for deductions: • remove the restrictions on the deductibility of capital allowances and on losses carried forward, labour costs, entertaining and advertising • allow for the full deduction of loan interest costs (with safeguards to prevent excessive gearing and rates on shareholder loans)		Information provided by the Government indicates that businesses operating in Uzbekistan are taxed through the standard tax regime or a special tax regime. The former includes the following for resident companies: corporate income tax (CIT), VAT, personal income tax, unified social payment, property tax, land tax, water use tax, excise tax, and subsurface use tax. Regarding the CIT, all expenses used to generate income are deductible (IBFD).[9] The accelerated depreciation method is not accepted for tax purposes and the depreciation allowances are calculated using the maximum rates defined by the Tax Code (which vary between three and 20 per cent). Amortization is applied monthly during the useful life of the asset and when the latter cannot be assessed, for five years. Capital investments that cannot be classified as fixed or intangible assets, and other items listed in the Tax Code, cannot be depreciated. An investment deduction was introduced in January 2020 for eligible depreciable assets. Expenses in the form of interest on debt obligations are deductible, with some limitations. Losses can be carried forward for up to 10 years, used partly or in whole (with the amount available for offset limited to 60 per cent of the taxable income in the current tax year). Losses incurred prior to 1st January 2020 (date of entry into force of the new Tax Code) may be carried forward for up to five years and the total amount of losses may not exceed 50 per cent of the taxable income in the current tax year. Capital losses may be offset against the profits from the taxpayer's earnings.

9 Available at: https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_uz.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				Several tax holidays and reliefs are in place. Articles 34 to 36 of the Investment Law provide the incentives available for investments and investment activity. For all investors, these can take the form of tax and non-tax incentives granted by decisions of the Council of Ministers of the Republic of Karakalpakstan, and governors of regions and Tashkent City. Incentives are application-based and assessed by the MIFT and the Ministry of Finance. It is unclear what it consists of in practice and which criteria are used to grant them. The Presidential Decree on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005) indicates that EFIs in the 22 sectors listed in its annex can benefit from tax incentives determined in the Tax Code. These take the form of an exemption from the land tax, the property tax and the water use tax. The duration of the exemption depends on the invested amount. Some conditions must also be met, including for example on the location of the enterprise, guarantee provided or the share of foreign capital of enterprises. Even if the Tax Code stresses that tax incentives can only be provided through its provisions and cannot be individualized, benefits for certain taxes (except VAT, excise tax and subsurface use tax) can be provided by the President in the form of a reduction of the established tax rate at maximum 50 per cent for a period not exceeding three years. Investment contracts can include other incentives that are not covered by the Tax Code. Overall, investment incentives, which focus almost exclusively on foreign investors and EFIs, create an uneven level-playing field.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
3. Strengthen capacities for investment policy formulation and for FDI promotion	Investment promotion was led by the highest level of Government. The Foreign Investment Agency (FIA) was mandated to facilitating FDI. However, the efforts were not supported by enough information on investment opportunities. The first contacts with investors were not properly followed up. The Agency also lacked the capacity to provide support to foreign investors and to help them overcome challenges in the investment climate.	3.1. Assign the FIA a leading role in ensuring that the FDI dimension is considered in policy formulation and that the foreign investor community is consulted	●	The FIA was replaced by UzIPA in 2019, which operates under the MIFT. Among its functions, UzIPA provides information and legal support to foreign investors, and assistance to meet State entities and domestic business. The Agency reported conducting an anonymous annual survey among foreign investors through its regional representatives. In the past two years, more than 200 respondents shared their opinion about the investment climate and challenges. The data collected is analyzed by UZIPA staff, which develops proposals to improve the situation. More than 34 proposals for changing the legislation were submitted to management. The investment visa is, for instance, an outcome of the survey.
		3.2. Involve the FIA in drafting the Foreign Investment Policy Statement	◔	Uzbekistan did not adopt a Foreign Investment Policy Statement (see above). The MIFT, established by the Presidential Decree on Measures to Improve the Management System in the Areas of Investment and Foreign Trade (28 January 2019) on the basis of the Ministry of Foreign Trade and the State Committee of the Republic of Uzbekistan for Investments, is the body responsible for designing and implementing the country's investment policy. UzIPA is responsible for implementing the policy to attract FDI. In addition to its policy advocacy role, it has to: • submit proposals to determine the list of priority sectors of the economy and the most important industries to attract FDI; • participate in the development and implementation of state, regional and sectoral investment programmes implemented through FDI; • assist government entities to develop investment proposals and target potential foreign investors to implement projects.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
		3.3. Review the general investment promotion policy in the light of the Foreign Investment Policy Statement	●	Several policy documents contain guidelines regarding the investment policy and attraction strategy of Uzbekistan. These include the State Programme, the Presidential Decree on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005), the Presidential Decree on Measures to Improve the Management System in the Areas of Investment and Foreign Trade (28 January 2019) and the Presidential Decree on Measures to Further Improve the Mechanisms for Attracting Foreign Direct Investment to the Economy of the Republic (29 April 2019). The 2005 Decree contains a list of 22 sectors for which FDI in several industries, tourism and waste management is provided privileges. The 2019 Decree contains state assets disposal procedures and investment promotion measures. It defines the mandate of the entities involved, including the MIFT, the Ministry of Foreign Affairs, the State Assets Management Agency, the CCI, the heads of sectoral ministries and departments, the Chairman of the Council of Ministers of Republic of Karakalpakstan, the Agency for Information and Mass Communications under the Administration of the President of the Republic, Ministry of Economy and Industry, the khokims (regional administrations) of regions and the city of Tashkent.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				The Investment Programme also describes the list of projects to be implemented over this period by public investment, foreign loans and FDI, with clear targets. Appendix No. 5 lists projects with a mention of the foreign investors' name in 24 sectors. This sends the signal of a tight control exercised by the State over certain sectors that are considered strategic. In terms of investment promotion however, the number of sectors is too important to be efficiently supported by an IPA. Furthermore, an important part of the investment promotion strategy for FDI remains linked to specific investment contracts and incentives. An Investment Guide, comprising an investment promotion strategy and priority sectors, is in preparation by the MIFT with support from the Japanese International Cooperation Agency (JICA). A Task Force comprising representatives of the MIFT, including the Department of Investment Climate, UzIPA, the Department of Cooperation with Japan and a JICA expert as core m embers, was set up to support this initiative.
		3.4. Strengthen the capacity of the FIA to prepare and market industry profiles as well as individual investment opportunities for promotion to foreign investors. Carry out a regional benchmarking of the cost/ quality of business services to inform policy reform and support the production of promotional material highlighting the areas in which the performance of Uzbekistan is notable	◔	In addition to the functions of UzIPA described above, the IPA maintains a database of pleged and implemented foreign investment projects. It monitors their implementation, promotes the country through an investment portal and informational campaigns, and contributes to the image building of the country. According to Presidential Decree on Measures to Further Improve the Mechanisms for Attracting Foreign Direct Investment to the Economy of the Republic (29 April 2019), it also provides support to identify priority sector and prepare investment project proposals together with other government entities.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
				The UzIPA website highlights 13 industries for investment: education, tourism, ICT, electronics, textile, leather and footwear, food, pharmaceutical, fuel energy complex, chemical, machine manufacturing, construction, and agriculture and water management.[10] The site includes a brief presentation of the industry and relevant data for investors. An investment map is also available, providing fact sheets on each of the regions. While some of these industries are in line with those highlighted in the Presidential Decree on Additional Measures to Stimulate Attraction of Direct Private Foreign Investments (11 April 2005), it is not clear how and why these specific industries were selected, and there is not always a distinction between where domestic investment should be attracted and where FDI is targeted. Furthermore, no indications were given regarding how UzIPA conducts its activities, as well as on the number of staff allocated to these functions. A project is ongoing at the MIFT, in cooperation with JICA, to design a capacity development programme on the basis of a comprehensive analysis of UzIPA's investment promotion activities.

10 Available at: http://invest.gov.uz/investor-taxonomy/otrasli/.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

What	Why	How	Status	Findings
		3.5. Provide support to SMEs to foster business linkages with foreign investors	○	The Investment Law does not contain any specific indication regarding business linkages. Chapter 5 of the Law on Guarantees of Freedom on Entrepreneurial Activity (2nd May 2012) provides for the support of SMEs and attraction of investment, including FDI. UzIPA reported being an intermediary between foreign investors and domestic entrepreneurs in the implementation of investment projects. The territorial departments of the MFIT also have a role to play in linking SMEs and foreign investors given their on-the-ground presence. In addition to the investment authorities, several entities provide some support for business linkages, including the CCI, the Export Promotion Agency under the MIFT and the the State Fund for Support of Entrepreneurship Activities under the Agency for Development of Entrepreneurship, and for the introduction of new technology and modern production processes. While these represent very positive steps, some activities are more of a commercial nature rather than an exchange and transfer of production methods and know-how.

● = implemented; ◐ = substantially implemented; ◔ = partially implemented; ○ = not implemented.

REFERENCES

Abdullaev, U. (2020). State-Owned Enterprises in Uzbekistan: Taking Stock and Some Reform Priorities. ADBI Working Paper 1048. Tokyo: Asian Development Bank Institute. Available at: adb.org/publications/state-owned-enterprises-uzbekistan-taking-stock-reform-priorities.

IMF (2019). Republic of Uzbekistan. 2019 Article IV Staff Consultation – Press Release and Staff Report. IMF Country Report No. 19/129. May. Washington, DC.

UNCTAD (2021). World Investment Report 2021. Investing in Sustainable Recovery. United Nations: Geneva.

UNCTAD (2020). International Investment Agreements Reform Accelerator. Geneva: United Nations.

UNCTAD (2018). Reform Package for the International Investment Regime. New York and Geneva.

UNCTAD (2015). *Investment Policy Framework for Sustainable Development.* Geneva: United Nations.

UNCTAD (2012). Entrepreneurship Policy Framework and Implementation Guidance. United Nations: New York and Geneva.

UNDP (2009). Investment Guide to Uzbekistan.

USDOS (2020). Investment Climate Statements: Uzbekistan.

UNECE (2020). Environmental performance reviews: Uzbekistan. Third review.

ENDNOTES

[1] This report was prepared by Maha El Masri under the direction of Chantal Dupasquier, Chief of the Investment Policy Review Section, Division on Investment and Enterprise (DIAE). Overall guidance was provided by Joerg Weber, Head of the Investment Policies Branch, and James Zhan, Director, DIAE. Irina Stanyukova provided written inputs and statistical support. Comments were received from Hamed El Kady, Massimo Meloni, Maria Florencia Sormiento and Astrit Sulstarova. The data were made available by the Trends and Data Section, DIAE.

[2] Mobile TeleSystems (MTS) of the Russian Federation spent $121 million on the acquisition of a 74 per cent stake in Uzdunrobita in July of 2004, the largest cellular operator of Uzbekistan.

[3] Uzbekistan is the third largest natural gas producer in Eurasia. The country consumes about 90 per cent of its production, leaving about 10 per cent for export. The share of natural and manufactured gas increased from 7 to 17 per cent in total exports between 2000 and 2019 (UNECE, 2020; UNCTADStat, available at: https://unctadstat.unctad.org/EN/).

[4] According to available sources, between the signature of its agreement with NHC Uzbekneftegas in 2004 until the end of 2019, the Lukoil Group (Russian Federation) invested over $6.2 billion in the gas sector of Uzbekistan, i.e. 40 per cent of total FDI flows to the country during this period. See http://www.cnpc.com.cn/ru/wzbkst/wzbkst_index.shtml and https://www.lukoil.com/Company/BusinessOperation/GeographicReach/Asia/LUKOILinUzbekistan for additional information.

[5] The application of this rule meant that when a private enterprise was considered strategically important, even if the State had no share or its share was up to 25 per cent, the State Property Committee had the right to include its representative on its board of directors, thus empowering a potential veto of key decisions. See: https://lex.uz/docs/1232495 for more details.

[6] See the State Programme for Implementation of the National Action Strategy on Five Priority Development Areas 2017-2021 in the Year of Active Investments and Social Development, available at: https://president.uz/en/pages/view/strategy?menu_id=144.

[7] See the Presidential Resolution PR-4563 of 9 January 2020 on Measures to Implement the Investment Programme of the Republic of Uzbekistan (2020–2022) or https://lex.uz/ru/docs/4689644 for more information.

[8] UNCTAD calculation based on Appendix No. 5 of Presidential Resolution PR-4563 on Measures to Implement the Investment Programme of the Republic of Uzbekistan (2020–2022). The calculation does not cover FDI projects completed in 2019. See: https://lex.uz/ru/docs/4689644#4692442 for more information.

[9] See: https://www.worldbank.org/en/country/uzbekistan/overview#economy for more information.

[10] See: https://lex.uz/ru/docs/4689644 for more information.

[11] See: https://investmentpolicy.unctad.org/investment-policy-review/234/uzbekistan. UNCTAD developed the Live Implementation Matrix, a tool to assist member States to better address the challenges of dynamic investment policymaking and improve prospects for achieving the Agenda 2030 for Sustainable Development. It will help countries provide up-to-date information on investment policy reform, strengthen implementation results, improve transparency and enhance accountability. The matrix has been operationalized at the end of 2020 and Uzbekistan was one of the first countries to pilot it.

[12] The Investment Law has repealed the Law on Investment Activities (24 December 1998) and the Laws on Foreign Investments and Guarantees and Measures for Protection of Rights of Foreign Investors (30 April 1998).

[13] See https://trade.ec.europa.eu/doclib/press/index.cfm?id=2263 for more information.

[14] A negative list approach catalogues sectors and activities from which foreign investors are fully or partially excluded.

[15] Nine ICSID cases were brought against Uzbekistan, out of which three are pending (see: https://icsid.worldbank.org/cases/case-database). Additionally, two cases were brought under UNCITRAL Rules (see https://investmentpolicy.unctad.org/investment-dispute-settlement). Importantly, all the cases invoked the previous investment law and/ or an old generation BIT as the basis of arbitration.

[16] See also: https://www.roedl.com/insights/internationalisierung/usbekistan.

[17] See: http://www.epauzb.uz/services/list/125?lang=en for more information.

REPORT ON THE **IMPLEMENTATION** OF THE INVESTMENT **POLICY** REVIEW: **UZBEKISTAN**

IPR
INVESTMENT POLICY REVIEW

Visit the website on IPRs
http://unctad.org/ipr

Layout and Printing at United Nations, Geneva – 2117729 **(E)** – December 2021 – 332 – **UNCTAD/DIAE/PCB/2021/3**