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LEGAL NEWSLETTER FOR JUNE 2019

Dear Clients and Partners,

In June 2019, the Uzbek government continued to tune legislation in many areas. Thus, among other things, liquidation procedures for legal entities were simplified, further steps were made to promote competition by cancelling numerous tax and customs incentives for different categories of businesses, it was set that the system of electronic invoicing would be introduced for better control over payment of taxes.

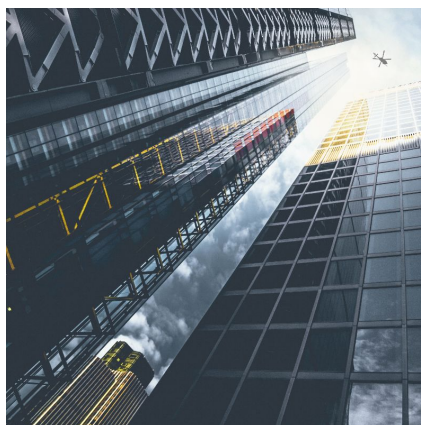
Further, there are many initiatives at various levels of the government that promote participation of the local and foreign private sector, including the introduction of PPP mechanisms and approval of promising investment projects.

Speaking of the main economic developments, it is of interest that a number of international financial institutions, including the Asian Development Bank and the International Finance Corporation reaffirmed their commitment to work in Uzbekistan and to support social and commercial projects within the country.

PPP Legislation in Uzbekistan:

Adoption of the PPP law

The Uzbek Law “On Public – Private Partnership” No. ZRU – 537 (the “**PPP Law**”) has been adopted on May 10, 2019. It shall take effect on 10 June 2019. Unofficial English version of the PPP Law can be found at [here](#). The Law provides a legal framework for co-operation between the public and private sectors, when developing public infras...[Read more](#)



Adoption of Renewable Energy law



has been adopted. [Unofficial English version](#) of the Law can be found at our [website](#). The purpose of the Law is to promote the production of energy through the use of renewable energy sources...[Read more](#)

1. SIMPLIFICATION OF LIQUIDATION PROCEDURES

Starting from January 1, 2020, the following changes in respect of liquidation procedures for legal entities will come into effect:

- legal entities will no longer be subject to the *mandatory* liquidation if they fail to form the authorized capital within 1 year from the date of their state registration;
- legal entities that undergo *voluntary* liquidation procedures will no longer be required (i) to publish a liquidation announcement in newspapers, (ii) to undergo tax audit by state tax authorities, if there are no tax arrears; in other cases, the tax audit of enterprises in liquidation will cover only the period of 3 years preceding the audit; (iii) to obtain necessary documents from state authorities in person, since the electronic system for issuing documents will be introduced. The maximum term of voluntary liquidation will be decreased from 9 to 6 months;
- the term after which a non-operating enterprise is recognized “dormant” will be increased to 9 months. After this period expires, the company will have 3 years to resume its activities before being liquidated by the state registrar.

[*Presidential Decree No. UP – 5739 of June 7, 2019*](#)

2. USE OF ELECTRONIC INVOICES

The Regulation on the Use of Electronic Invoices has been adopted. Starting from July 1, 2019, business entities will be able to register, store and record invoices (a standard form document that confirms the sale and purchase of goods (works, services)) in electronic form. In 2020, such electronic handling will become mandatory. The Scientific-Information Centre for New Technologies under the State Tax Committee is an authorized state body for e-invoicing related matters.

[*Resolution of the Cabinet of Ministers No. 523 of June 25, 2019*](#)

3. DISTRIBUTION OF FOOD ETHYL ALCOHOL

The Regulation on the Distribution of Food Ethyl Alcohol among Producers of Alcoholic and Other Products has been approved. According to the document, the distribution will take place quarterly based on approved parameters for the production and consumption. Producers with the annual need for consumption

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To receive ethyl alcohol, producers will have to submit a standard form application (as provided in the annexes to the Regulation) to the Inspectorate for the Regulation of the Alcohol and Tobacco Market under the Ministry of Finance no later than 10 days before the start of the relevant billing quarter. The sale of ethyl alcohol must be carried out on the terms of 100 % prepayment.

Producers will have the right to purchase ethyl alcohol in excess of the distribution limits provided that initially distributed alcohol has already been used. In doing so, producers will have the obligation to notify the Inspectorate within 1 day after the last consignment of ethyl alcohol within the limits has been shipped.

[Resolution of the Cabinet of Ministers No. 474 of June 8, 2019](#)

4. PROJECTS IN THE TERRITORY OF “BUSINESS CITIES”

As “Business Cities” (commercial centers) are going to be created by the state in each city of the country, the *Procedure for Selecting the Best Offers of Investors and Providing them Land Plots in the Territory of the “Business City” Centers* has been approved. The document sets out the procedures for selecting investors interested in the construction of business facilities within these centers.

Detailed information on each potential project, including conditions for signing the relevant investment agreement and criteria for candidates, will be provided in announcements on project implementation. Such announcements will be placed in local and foreign media at least 30 days before the selection starts. Both local and foreign legal entities or individuals are eligible to participate in the selection by submitting a pack of documents (in English, Russian or Uzbek languages) to the Directorate for the Construction and Operation of Business Facilities under local municipalities (*khokimiyats*). As soon as an investor is selected and the investment agreement is signed and registered, the relevant land plot will be provided within 5 business days.

[Resolution of the Cabinet of Ministers No. 461 of June 5, 2019](#)

5. STATE CONTROL OVER DEBTS UNDER FOREIGN TRADE CONTRACTS

The government has established the state commission and territorial working groups to continuously monitor the receipt of foreign currency under export contracts and the supply of goods (services) under paid import contracts. These groups are instructed to examine foreign trade balances of entities engaged in foreign trade and to carry out a full inventory of registered import and export contracts, payments under which have not been made. The sanctioning measures applicable to entities with unpaid contracts are still to be determined.

In terms of export-import contracts that include advanced payments in foreign currency, the working groups have a right to cancel the debts unreasonably outstanding as of 1 May 2019.

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restrictive measures: (i) the order to use only guaranteed types of payment in carrying out foreign trade operations; (ii) a temporary restriction of the right to engage into foreign trade activities.

[Resolution of the Cabinet of Ministers No. 464 of June 6, 2019](#)

6. CHANGES IN RULES FOR THE PROVISION OF TAX AND CUSTOMS BENEFITS

A Presidential Decree providing for measures to streamline and to unify the practice of providing tax and customs benefits has been adopted. The Decree aims to create equal competitive conditions for all businesses. With this regard, the list of VAT payers (entities being not exempt from the tax) is expanded to include (i) legal entities distributing petrol, diesel and gas to end-users at petrol stations and (ii) all enterprises-importers, irrespectively of the amount of the revenue from the sale of imported goods or services.

[Presidential Decree of June 27, 2019](#)

7. PRIVATIZATION OF IPOTEKA BANK

One of the country's largest state-owned banks – Ipoteka Bank, created for supporting mortgage-related activities, will be restructured and privatized with the assistance of the International Finance Corporation by 2022. It is envisaged that the bank will dispose of its non-core assets and its corporate governance will be optimized to ensure bank's independence from the state. Also, an action plan for privatizing Ipoteka Bank will be adopted, setting out the main stages of the privatization process up until the end of 2022. It is planned that the state share in the authorized capital of the bank will be reduced to a level below 50% by 2022. The share owned by the state-controlled Fund for Reconstruction and Development of Uzbekistan worth USD 50 million will also be sold.

[Resolution of the Cabinet of Ministers No. 523 of June 25, 2019](#)

8. IMPROVEMENT OF URBAN AMENITIES

A recent Presidential Decree has set that PPP mechanisms will be applied in the sphere of urban amenities development. A relevant action plan for developing amenities in cities, towns and the countryside in 2019-2020 has been approved. Interested businesses and institutions are welcomed to make proposals for implementing relevant projects. The best proposals are going to be selected on a competitive basis.

Legal entities and individuals that render services of public amenities improvement, manufacture and sale goods in this sector have the right to enter into contracts with state authorities to provide their services. Applications can be directed electronically through the "Blagoustroennaya territoriya" system or call systems.

Starting from January 1, 2020, project-related documentation for the construction and the reconstruction of city streets will have to include a set of measures for improvement of adjacent territories. Moreover, the pre-commissioning examination of real property objects will also include the

*Presidential Resolution No. PP – 4351 of June 6, 2019***9. INCENTIVES FOR COMPANIES CARRYING GOODS BY ROAD**

The Uzbek government will support local companies engaged in cross-border carriage of goods by road in 2019-2021 by providing a number of incentives.

First, local carriers will get the right to receive financial support for the acquisition of heavy trucks, trailers and semi-trailers, including a financial compensation for the interest on relevant loans as well as a guarantee for up to 50% of the amount of loans (with certain limits having been set).

Secondly, local carriers will get the right to receive cash foreign currency from non-residents outside Uzbekistan as a payment under relevant transportation contracts. Such payments will have to be put on demand deposit accounts in Uzbek banks.

*Presidential Resolution PP – 4353 of June 7, 2019***10. CHANGES IN STATE OVERSIGHT OVER PRODUCTION SHARING AGREEMENTS**

At the beginning of 2019, the Ministry of Energy acquired controlling functions over existing production sharing agreements. In this regard, the Presidential Decree specifying which PSAs are now under control of the Ministry has been adopted. The list consists of 5 PSAs entered into with such companies as «Zarubezhneftegaz», «Gas Project Development Central Asia AG», «Lukoil», «Soyuzneftegaz Vostok Ltd», «Altmax Holding Ltd», «Gazprom EP international B. V.». As an authorized body, in addition to its other functions, the Ministry will represent and protect the interests of the state as a party to these PSAs and will monitor the fulfillment of investors' obligations and schedules through its subordinate body – a newly established company.

The Ministry is instructed to hold discussions with these investors within a 2-month period to make relevant amendments or addendums to the PSAs.

*Decree of the Cabinet of Ministers No. 503 of June 17, 2019***11. DEVELOPMENT OF AGRICULTURAL CLUSTERS**

Several legal acts creating new clusters in the agriculture sector were adopted in June. Thus, the following clusters are going to be created: (i) modern seed clusters in several regions (ii) an agro-industrial cluster in the Syrdarya region (iii) an agro-industrial cluster in the Bukhara region. Each legal act provides for the list of potential investment projects, to which private investors are going to be involved.

With regard to modern seed clusters, the investors are selected on a competitive basis. In order to participate in the tender, the potential investors must submit an application with particular documentation attached, including a tender offer. The winner is determined by a simple majority vote. The investors - winners will have to fulfil certain investment obligations.

A procedure for the selection of investors for other type of clusters has not yet been set.

[Resolution of the Cabinet of Ministers No. 512 of June 18, 2019](#)

12. IMPROVEMENT OF WATER SUPPLY AND SEWERAGE SYSTEMS IN TASHKENT REGION

A project supported by the Asian Development Bank (ADB) – “The Reconstruction and the Construction of the Water Supply and Sewerage Systems in Towns and Districts of the Tashkent Region (Phase 2)”, has been launched. Under the project, it is expected to improve the water supply and sewage systems of Yangiyul and Chinaz districts of the Tashkent region. The project will last for 7 years (2019-2025). The project will also be included into the Investment Programmes of the Republic of Uzbekistan for 2020 and subsequent years. As soon as the Programme is approved, it will be clear (i) what tax and customs benefits are provided to project participants and (ii) in what form the promising investment projects will be implemented.

[Resolution of the Cabinet of Ministers No. 516 of June 20, 2019](#)

13. EXPANSION OF THE FREE ECONOMIC ZONE ANGREN

The city of Bekabad in the Tashkent region has been included into the territory of the free economic zone Angren. It has been set in the relevant Resolution of the Cabinet of Ministers that projects for the development of the engineering and communication infrastructure and production facilities of Bekabad will be included in the Investment Programme of Uzbekistan for 2020-2021. The Resolution is silent as to whether these promising investment projects will be implemented in the form of PPP or as public procurement.

[Resolution of the Cabinet of Ministers No. 525 of June 25, 2019](#)

14. IMPENDING LEGISLATION & EXPECTED CHANGES

This section contains the information prepared based on published draft laws. It provides for review of such laws and explains what the proposed developments shall mean for entrepreneurs. All or some provisions of the draft laws may be changed and redrafted prior to its adoption.

- In 2018, Uzbekistan ratified the Paris Agreement on Climate Change and pledged to significantly reduce greenhouse gas emissions by 2030. In part owing to that, a [bill](#) aimed at furthering the development of the “green” economy has been prepared and published. According to the bill, some relevant measures may include: (i) the charging of emissions fees, (ii) the granting of financial incentives for using energy saving technologies, (iii) the introduction of mandatory energy efficiency requirements. The government will also aim to further promote the development of renewable energy.

Although the relevant drafts may still be changed, it is recommended to businesses to keep these developments in mind when planning their projects.

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