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LEGAL NEWSLETTER FOR SEPTEMBER 2019

Dear Clients and Partners,

In September 2019, legal changes affected such spheres as the construction industry, the energy sector, banking, taxation, investment activities, and tourism. A number of sectoral investment programmes were approved with some relevant projects supported by the government having already been launched.

In the economic policy dimension, the government continued to clearly indicate its intent to prioritise the development of the power energy sector, including renewable energy. Active negotiations were conducted with investors from China, France, Russia and UAE in September. It is of interest that Dubai-based developer Masdar Clean Energy won the Uzbekistan's tender for the construction of a 100MW solar power plant with lowest bid of USD0.027/kWh.

UZBEKISTAN - PEOPLE'S REPUBLIC OF CHINA: COOPERATIVE PROJECTS

Following the President's visit to the People's Republic of China in April 2019 and the second Belt and Road Forum, numerous bilateral agreements, memorandums and direct contracts have been signed that have resulted in the adoption of Implementation Plans (**IP**) for the agreements reached. The IP reveals the information concerning the upcoming projects in such sectors as transport & logistics, telecommunications & IT, light industry, agriculture represented in a tabular form and attached to the Resolution. [Read more](#)



1. SALE OF STATE-OWNED SHARES

As the reduction of state's share in organizations in different sectors of the economy remains one of the government's top priorities, the Cabinet of Ministers has adopted a Resolution providing for the sale of state's shares in 63 enterprises.

Annex 1 to the Resolution includes the list of companies, in which the state's share is going to be sold with no pre-emptive rights being granted (presumably, to both other shareholders and companies themselves) and at a starting price equal to the proportional cost of the net assets of the relevant company or, if the value of the net assets of a company are lower than the amount of its authorized capital, equal to the nominal value of state's share.

Most of the state's shares that are going to be privatized amount to less than 25% of the authorized capital with the blocks only in 8 companies being over 50%. Some of the shares, including those in JSC "Ipak Yuli Bank", LLC Uzeltekhprom-Motorola-Telecom-Radio (engaged in the production of communication equipment) and LLC Bukhoroagrofrukt (of a relevant company production and delivery of grape), do not exceed 2%.

[Resolution of the Cabinet of Ministers No. 800 of September 24, 2019](#)

2. INCENTIVES FOR EXPORTERS

As the government is committed to supporting export activities, exporters may now apply for new types of state support. Some of such mechanisms are devised by the Resolution of Cabinet of Ministers No. 756 that designates the Export Promotion Agency under the Ministry of Investment and Foreign Trade as the central body responsible for financial assistance to exporters and equips it with new support instruments.

The Agency may now assist exporters by financing the following activities: (i) the establishment or application of international systems of standardization and certification locally or abroad (capped at USD 20,000), (ii) the registration of national products with foreign authorized bodies (capped at USD 10,000), (iii) the creation of exhibition stands and participation in international exhibitions and fairs, (iv) the organization of presentations and advertising campaigns, including the promotion of traditional national products and brands within

To get this funding, all eligible may submit a completed standard form application and a set of supporting documents that must be reviewed by the Agency within 7 business days.

Another Resolution of the Cabinet of Ministers – the Resolution No. 758 provides for an action plan, envisaging, among other things, accelerated export financing – export loans will be granted within 2 two weeks – and comprehensive assistance in simplified obtainment of international quality certificates (Global G. A. P., Organic, Halal, etc.) both locally and abroad. The implementation of the action a plan is supervised by a specialized Republican Commission headed by the Minister of Investments and Foreign Trade.

[Resolution of the Cabinet of Ministers No. 758 of September 11, 2019](#)

[Resolution of the Cabinet of Ministers No. 756 of September 11, 2019](#)

3. CHANGES IN THE TAX POLICY

Following the adoption of [the Concept on Improvement of the Taxation Policy of the Republic of Uzbekistan](#), the President has signed a Decree that, among other things, affects the VAT regulation, income tax rates and powers of tax authorities.

The VAT rate has been reduced from 20 % to 15%. This change will come into effect on October 1, 2019, and businesses will have to amend their contracts, including export-import ones, accordingly.

Further, tax authorities are no longer allowed to suspend operations on taxpayers' accounts. It is expected that relevant powers will be restored in a new Tax Code, but it will only be permitted to restrict the use of bank account for 30 days after conducting relevant risk analysis and warning the taxpayer whose rights are affected.

The new Tax Code is expected to be adopted in 2020. Besides for the above changes, it is expected to include the reduction of the income tax basic rate down to 15%.

[Presidential Decree No. UP – 5837 of September 26, 2019](#)

4. PURCHASE OF BANK SHARES BY FOREIGNERS

The Regulation on Approval Procedures in the Banking Sector for Business Entities has been amended. Introduced changes simplify the procedure for purchasing bank shares for foreign investors. Before the changes has been made, foreigners had been required to obtain a prior permission from the Central Bank of Uzbekistan for purchasing any number of shares of local banks. Now, if less than 5% of shares are purchased, only a notification has to be sent to the Central Bank.

The limitation on the size of private shareholding by a single shareholders/or a group of related shareholders has remained unchanged and may not more exceed 25 % with the exception for private banks and banks, where

[Resolution of the Cabinet of Ministers No. 744 of September 6, 2019](#)

5. STATE-SUPPORTED CONSTRUCTION WORKS

A number of recently adopted legal acts for the construction industry have changed some rules for cases where the state supports (including direct funding) construction projects.

First, the Cabinet of Ministers has adopted a Regulation in respect of construction projects supported by the state within the framework of state investment programs where pre-calculated costs indicated in project related documents eventually increase e.g. as a result of negotiations with potential partners. According to the Regulation, a particular confirmation procedure has to be passed through in such cases. Relevant state authorities review proving documents within 10 business days and then, take corresponding decisions. If all recalculations are correct and additional costs are justifiable, provision of a larger sum for a construction project may be allowed and will be further confirmed by the adoption of the relevant Resolution of the Cabinet of Ministers. All related construction works must be suspended until such a Resolution is adopted.

Secondly, an Order of the Ministry of Construction has set the following time limits for performing state-supported design works: (i) capital repairs – 1.5 months, (ii) reconstruction – 3 months, (iii) construction of a new object based on standard design projects – 3-4 months. It was further resolved by the Order that the use of BIM technologies and the “fast track” method are now factors complicating construction works that may allow the use of special price coefficients increasing basic cost estimates for state-funded construction works.

[Resolution of the Cabinet of Ministers No. 740 of September 5, 2019](#)

[Order of the Ministry of Construction No. 3180 of September 9, 2019](#)

6. ICT TECHNOLOGIES IN THE CONSTRUCTION SECTOR

The President has signed a Resolution facilitating the introduction of some information systems assisting in monitoring over the performance of the construction sector.

By June 1, 2020, the government will launch a “Transparent Construction” experiment in Tashkent region that will focus on projects for the construction of facilities funded with the participation of the government, including funding within the framework of investment projects. Extensive open databases will be created with related information and documentation about relevant ongoing construction projects, including information about all related contracts, contractors and financial arrangements. Based on the outcomes of the experiment, the online National Informational System “Transparent Construction” will be established all over Uzbekistan. The system will be maintained by the established Center for Developing Information and Communication Technologies in the Construction Sphere.

It is also planned to launch the Geographic Information System “State Urban Cadastre” (GeoPortal) by March 1, 2020, that will make the data related to the

[Presidential Decree No. 4464 of September 20, 2019](#)

7. INVESTMENT VISAS

Foreigners who have invested at least 8,500 times the baseline calculated value (UZS 1,723 mln or approx. USD 183 ths) in the economy of Uzbekistan may now get an “investment visa” for a 3-year period with the possibility of extension. The investment requirement may be satisfied by purchasing shares in local companies or establishing “enterprises with foreign investments” (a special status granted to companies based on certain thresholds). Relevant applications for the visa must be filled in by these entities. Family members of the investor (a spouse, parents and children) may apply for a “visitor’s visa” that is effective for a validity period of the investment visa. Investment visa may be prolonged without leaving Uzbekistan.

[Presidential Decree No. 5833 of September 19, 2019](#)

8. ADB'S AGRICULTURE MODERNIZATION PROJECT

Uzbekistan and the Asian Development Bank (ADB) have signed a loan agreement for USD 197,000 for the implementation of the [Horticulture Value Chain Infrastructure Project](#). The project envisages the construction of agro-complexes for the processing, sorting, packaging, storage and supply of fresh and processed fruits/vegetables to consumers in Andijan, Samarkand and Tashkent regions.

As part of this project, French company “Semmaris – Rungis” will be engaged for preparing project related documents and estimates. Foreign consulting companies and EPC-contractors will be attracted to the implementation of the project through competitive bidding. The Ministry of Agriculture and the Agency for the Implementation of Projects in the area of Agriculture and Food Security are the authorized state bodies for the project implementation from the Uzbek side.

[Resolution of the Cabinet of Ministers No. 761 of September 11, 2019](#)

9. EMERGENCE OF THE NUCLEAR ENERGY SECTOR

The President has signed the Law on the Use of Nuclear Energy. Currently, there are no nuclear power stations within Uzbekistan. However, despite some previous reluctance to use nuclear energy, in February 2019, the Uzbek government adopted [the Concept for the Development of Nuclear Energy for 2019–2029](#), envisaging the construction of a nuclear power station with the total capacity of 2.4GW. Russia's Rosatom is going to be engaged to lead the project, under which the commissioning of the first nuclear power station is scheduled for 2028–2029.

Following the above February’s decision, the Law on the Use of Nuclear Energy was published and entered in force, establishing the legal framework for the nuclear energy sector. The Law provides for relevant licenses and certification rules. According to these rules, among other things, foreign entities

[Law on the Use of Nuclear Energy for Peaceful Purposes No. ZRU – 565 of September 9, 2019](#)

10. POTENTIAL PROJECTS WITH PARTICIPATION OF CHINESE COMPANIES

Following the President's visit to China in April 2019 and the 5th meeting of the Uzbek-Chinese Inter-Governmental Commission in August 2019 that had resulted in signing several bilateral agreements, memorandums and direct contracts between Uzbekistan and China, the Cabinet of Ministers has adopted a Resolution providing for the relevant implementation plan (IP) for the reached agreements. IP reveals some information concerning upcoming projects in such sectors as transport and logistics, telecommunications and IT, the light industry and agriculture. The information on the projects include description of the scope of the projects, of steps to be taken for their implementation, the relevant time frames and responsible state authorities.

Some of the projects are (i) the production of electric pick-up trucks in cooperation with "Hebei Cape of Good Hope Logistic Development Corporation"; (ii) the establishment of a branch of an engineering institute specializing in designing industrial and civilian facilities with the assistance of "Tianjin Kaiteng"; (iii) a project for the road construction with "China Geo-Engineering Corporation" and "China XinXing Construction & Development Co. Ltd". One of the largest projects (for approximately USD 1 bln) is the establishment of the comprehensive IT system "Safe City", envisaging the introduction of software and technical solutions for greater safety in big cities of the country. It is expected that the system will be launched across the country in January 2021.

It will be possible to monitor the implementation of the projects through the online system "ljro.gov.uz".

For more information on the potential projects with Chinese partners, please follow the link provided at the beginning of newsletter.

[Resolution of the Cabinet of Ministers No. 805 of September 24, 2019](#)

11. INVESTMENT PROJECTS IN BUKHARA REGION

A Resolution of the Cabinet of Ministers on measures for the development of Bukhara region up to 2023 has been adopted. The document, among other things, contains the list of potential projects, including PPP-based ones, that will be implemented with the use of funds of the government, international financial institutions and foreign governments' financial institutions in 2019-2023.

The following projects seem to be of particular interest: (i) a project for USD 240 mln for the construction of 200 MW wind farms with the participation of the investment company "Liaoning Lide Investment Holding Company Corp" (China) (ii) a PPP-based project for the construction of a cancer clinic in the Bukhara region with «LR Group» (Israel) (see Annex 9 to the Resolution for more information on these and other projects).

Annex 4 to the Resolution contains information about potential investment

agriculture. All potential investors/partners are foreign companies.

Annex 7 to the Resolution lists potential infrastructure projects for 2019-2023 involving debt financing from foreign financial institutions. It is envisaged that feasibility studies for these investment projects will be developed by December 31, 2019.

Annex 8 covers projects in the tourism sector, some of which are: (i) the opening of direct flights from Bukhara to Novosibirsk (Russia), Istanbul (Turkey), Dubai, and some European cities; (ii) investment of LLC "Avicenna Groups" for USD 50 mln in the creation of an international medical university, a modern clinic, an eco-garden, a hotel, a center of folk medicine, an ethno-village and residential complexes in Afshona village of Peshkun district.

[Resolution of the Cabinet of Ministers No. 794 of September 21, 2019](#)

To ensure that we are addressing the topics that are most important to you, we would welcome your feedback and suggestions.

Have a good day!

Sincerely,
Kosta Legal Law Firm

Feedback



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