

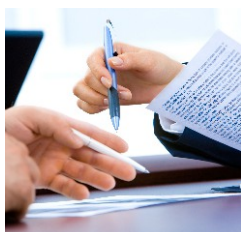
STATE PROGRAM 2019: Economic Development and Investment Promotion

15 February 2019

The President of the Republic of Uzbekistan issued the Decree No. UP – 5635 dated January 17, 2019 (the “**Decree**”) approving a state program for 2019 “The Year of Active Investments and Social Development”. The program was devised as a part of the Strategy of Actions for Further Development of Uzbekistan in 2017-2021. It encompasses state incentives that touch all five priority areas; however, this review is concentrated on the area of economy enhancement and attraction of investments.

Priority directions of the State Program

Annex 1 to the Decree provides for a broad range of state incentives and brief descriptions of prospective laws and regulations that are planned to be adopted this year, thereby giving a clear picture about the state's course of action for 2019 and its priorities in the economy.



The economic sectors, on which the Government sharpens the focus, are aimed to be primarily developed through attraction of direct investments, including foreign ones. Most of the investment projects envisaged by the State Program for 2019 will be implemented in accordance with the State Investment Program for 2019 adopted on December 19, 2018¹. The sources of funding, timeframe, value and purposes of the potential investment projects are reflected in the separate targeted investment programs being constituent parts of the State Investment Program 2019.

Having mentioned the purpose of the review, it is proposed to draw the attention to the following priority directions of the State Program: (i) economic development, (ii) reforming banking and finance systems, (iii) support of private business activities, (iv) reduction of government intervention, (v) agriculture development, (vi) integrated development of regions/towns/cities and their rational use, and (vii) integration into global markets and export support.

In the sphere of economic development, the Government concentrates its attention on the development of textile, oil and gas, energy, precious and nonferrous metals, automotive and chemical industries. In order to combat “shadow economy”, it is planned to develop transparent e-economy, including the introduction of the electronic labeling of the goods.

¹ <http://www.lex.uz/docs/4117467>

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With this regard, the Government decided, that starting from August 1, 2019 it would gradually adopt the procedure of mandatory labeling of imported or locally manufactured goods using special security prints or Nano-molecular technology. Not all goods are subject to mandatory labeling, the list of their groups is provided in Annex to Presidential Decree No. PP – 4042 dated 30.11.2018¹. Moreover, the Government is persistent in continuing with its policy of non-interference with the private business.

In the banking and finance industry, it is planned to enhance the capital market, facilitate the reduction of the State-controlled share of provision of banking services, develop "client-bank" remote banking services, introduce alternative sources of funding for business projects and further the foreign currency liberalization. Moving forward in this direction, the Government expressed its willingness to increase the role of the stock exchange market in the economy. In the beginning of February, it was announced that the emission of the first international bonds of the Uzbekistan would be initiated. As a result, on February 13, 2019, Uzbekistan placed its first Eurobonds on London Stock Exchange in dollars (up to a total of USD 1 bln) issuing two tranches with a 5- and 10-year maturity. The volume of investors' bids exceeded 1.5 billion dollars. Initially, the coupon range was set at 5.625–5.75% and 6%, but due to high demand, interest rates on Eurobonds dropped to 4.75% and 5.375%. Banking sector reform aims to increase the share of private and foreign banks in order to foster the competition that shall result in the expansion of the lending opportunities. The state-owned banks were instructed to issue and sell their shares. Client-bank services will be effected by the integration of the modern technologies, including the introduction of the online insurance services. The insurance market will be regulated by the revised version of the Law "On Insurance Activities" that grants insurance agent status to commercial banks. The currency exchange market will continue to develop through the gradual elimination of all boundaries. The simplified procedures allowing non-residences to freely convert received money into foreign currency will be adopted.

The private business sector will be affected by the proposed privatization of non-agricultural lands, simplification of the permitting and authorization procedures, implementation of public-private partnership (PPP) and its legal framework, and enhanced protection of the minority shareholders rights. The Government was instructed to submit a draft law "On Privatization of the Non-Agricultural Land Plots" by April 1, 2019. The draft law provides for the right of legal entities and individuals, residents of Uzbekistan, to privatize land plots where their buildings and facilities are located.

¹ <http://lex.uz/docs/4088159>

In order for the authorization procedure to be simplified, the licenses and other permits for construction companies from 36 member states of the state-members of Organization for Economic Cooperation and Development will be recognized in the territory of Uzbekistan.

As the practice of the implementation of PPP projects will be promoted, the legal framework of such partnership is going to be established. The Law “On Public-Private Partnership” shall be adopted that will be coordinated with the revised version of the Law “On Concessions”. According to the State Program for 2019, the Government is interested in the implementation of PPP projects in such sectors as construction of international/local roads, modern transit terminals and airports, development of energy and chemical industry, and utility services.

With regard to the protection of the minority shareholders, it is planned to increase their participation in the activities of joint stock companies and enhance the protection of their rights and legitimate interests. It will be possible to hold remote general meetings using modern technologies (e.g. videoconferences). The legislation on joint stock companies will adopt stricter requirements for contracts with affiliated persons.

In order to facilitate the reduction of government interventions, the reforms propose to transfer number of the state-owned companies to private sector through outsourcing. Moreover, the sale of state-owned shares in the legal entities on the basis of primary (IPO) and secondary (SPO) offers shall be initiated. This is particularly so in the sectors of processing of agricultural products, such as cotton, flour, oilseeds, meat, dairy and food processing industries.

In the development of the agriculture, the Government adopts a 'cluster approach'. The creation of new clusters in cotton growing, gardening, viticulture, vegetable growing, cattle breeding, poultry farming, seed production and fishing is envisaged by the State Program for 2019. With this regard, businesses engaged in such projects will be provided with all necessary infrastructure and tax exemptions. The Government will provide individuals and entrepreneurs with an opportunity to choose land for agricultural purposes at the auction through a special geoportal – “Yer Elektron”. Such land plots will be provided to private sector on the basis of the lease agreements. The project concerning the creation of seed clusters will be regulated by the separate legal act. The project is aimed at implementation of the seeds export and realized based on PPP. Moreover, the Government is interested in the attraction of investments in projects associated with the construction of reclamation systems for irrigated lands.

To promote integrated development of regions/towns/cities and their rational use, the PPP and investment projects will be envisaged by the Government encompassing the construction of the infrastructure objects. Such projects shall necessarily include the obligation of the private entities to manage and improve territories transferred to them in the framework of the project realization. It is intended to introduce the Presidential Decree that will approve the concept of urban development until 2030.

The Concept shall include the projects calling for the construction of the modern cities in the territory of Uzbekistan. One of the modern and modernization of urban infrastructure. cities shall be created in the territory of Muynak (the Republic of Karakalpakstan) that allegedly will have the casino within its territories. In order to further integration into global markets and facilitate export support, the State Program introduces the following measures. Until June 1, 2019, the website with the portal of goods and services available for export shall be created. The sellers and buyers involved in the foreign trade activities will benefit from the creation of the “personal cabinets” that will allow to accommodate the exchange of the documentation through electronic means in real time. The Government is willing to increase exports through air transportation and attract foreign airlines. Additionally, the attention is also drawn to the implementation of the PPP projects in the sector of cross border infrastructure. It is planned to construct several modern customs terminals that will be equipped with all necessary means of technical inspection and other technical means of customs control. The projects shall also encompass the construction of shopping centers, dealerships, hotels, restaurants and other consumer services within the border areas.


For Foreign Investors

Pursuant to the Decree, as of March 1, 2019:

- Founders, participants of entities with foreign investments and their family members will be entitled to investment visa for a period of 3 years with the possibility of further extension without the need to leave the country;
- Citizens of foreign countries that invested, including through capital investment, not less than USD 3 million in the production of goods and/or rendering services within Uzbekistan, are entitled to receive 10-year resident permit through a simplified procedure;
- Foreign investors holding a residence permit or an Investment visa, as well as their family members, will have a right to use medical and educational services under the same terms and conditions as do citizens of Uzbekistan;
- A temporary residence registration (*vremennaya propiska*) for foreign investors, foreign specialists and their family members, will be done at the place, where the investment project is being implemented, for the period of investment visa and, in the absence of the visa, for 1 year without the need for re-registration while staying in other regions of the country.

Support for investors

In order to introduce alternative sources of founding for the business projects and facilitate support for investors, Direct Investment Fund and Uzbek – Emirates Investment Company were created. The maximum amount of the Fund's investments in a single project will be no more than 30% of the total value of the project, the rest is provided by investors.



The Investment Company will have the right to make investments through acquisitions of equity participations in charter capitals of existing and newly created entities, provision of loans, issuance of securities, selling an investment company's shares in the charter capital to local and foreign investors and through other means not prohibited by law.

Pursuant to Presidential Decree No. UP - 5643 dated January 28, 2019 and the State Program for 2019, the Ministry of Investment and Foreign Trade of Uzbekistan (the “**Ministry**”) was created by merging the Ministry of Foreign Trade and the State Investment Committee of Uzbekistan. Thus, all applications and requests of investors shall be directed to the Ministry. Moreover, investment agreements worth more than USD 10 million and initiated by entities with a predominant state share in the capital are subject to prior coordination with the Ministry.

By March 1, 2019, the Investment Portal shall be developed and implemented as a centralized database for the information concerning investment opportunities and issues pertaining to the investment activities carried out in the territory of Uzbekistan.

According to Resolution of the Cabinet of Ministers No. 4 dated January 4, 2019, the Investor Support Centers shall be created at the local municipalities (*khomiyats*). The Centers shall assist foreign investors during the implementation of investment projects, including PPP projects.