

**Secretariat of the Foreign Investors Council
under the President of the Republic of Uzbekistan**

Annual Report 2020

1. Introduction

Further a number of discussions between the EBRD and the Government of Uzbekistan, including by the both Presidents, the Memorandum of Understanding was signed between the State Committee for Investments of Uzbekistan (SCI) and the EBRD on 8 October 2018 in Paris. The MoU envisages setting up a Foreign Investors Council (FIC) and lays out its foundations as well as parties' cooperation points. In January 2019, the SCI was transformed into the Ministry for Investment and Foreign Trade (MIFT).

In April 2019 Head of FIC Secretariat was appointed through a competitive selection process.

Resolution of the President of the Republic of Uzbekistan "On measures for the establishment and organization of activities of the Foreign Investors Council under the President of the Republic of Uzbekistan" dated 13 November 2019 No. PP-4519 endorsed the status and structure of the FIC.

In December 2020 Economic Expert was appointed through a competitive selection process.

The main objective of this report is to present an overview of the work performed by the FIC Secretariat during the period of January 2020 – December 2020 in view of the accomplishment of the tasks as specified in:

- Memorandum of Understanding signed between the Government of Uzbekistan and EBRD on 8 October 2018;
- Terms of the Reference related to the Head of the Secretariat of the Foreign Investors Council position;
- Resolution of the President of the Republic of Uzbekistan "On measures for the establishment and organization of activities of the Foreign Investors Council under the President of the Republic of Uzbekistan" dated 13 November 2019 No. PP-4519.

2. About FIC

Foreign Investors Council under the President of the Republic of Uzbekistan (hereinafter – the "Council" or "FIC") operates in accordance with the **Resolution of**

the President of the Republic of Uzbekistan “On measures for the establishment and organization of activities of the Foreign Investors Council under the President of the Republic of Uzbekistan” dated 13 November 2019 No. PP-4519 (hereinafter - the “Resolution”). The full text of the Resolution is available at the following link: <http://lex.uz/docs/4593913>

The FIC is an institutional platform for **direct dialogue between the Government of Uzbekistan and investors** (including international financial institutions) doing business or investing in Uzbekistan.

The work of the FIC is focused on identifying and analyzing key impediments to the investment attraction and investors’ activity, developing solutions to address those impediments in cooperation with the government authorities, ensuring favorable business environment and investment climate in Uzbekistan. The tasks of the Council are described in detail in the Annex No.1 to the Resolution - the Regulation on the Council (hereinafter - the Regulation).

The Chairman of the FIC is the President of the Republic of Uzbekistan. FIC **plenary session** chaired by the President of the Republic of Uzbekistan shall be held **once a year**. **Interim session headed by the Minister of Investments and Foreign Trade of the Republic of Uzbekistan** shall be held **at least twice a year**.

FIC working groups is the main structure for preparing recommendations and providing expert support to the activities of the FIC. Working groups are analysing suggestions of FIC members, conduct research, prepare analytical reports, recommendations, assessments and summarize opinions in order to prepare detailed proposals for the FIC interim and plenary sessions. FIC working groups consist of representatives of government authorities and investors, as well as representatives of wider business community, local companies and business associations.

FIC carries out its activities under the coordination of the **Ministry of Investments and Foreign Trade of the Republic of Uzbekistan with the assistance of the European Bank for Reconstruction and Development**. Overall coordination, organizational and practical support of the work of the FIC is carried out by the **FIC Executive Committee**, which consists of:

- The Minister of Investments and Foreign Trade of the Republic of Uzbekistan – Head of the FIC Executive Committee;
- Head of the Representative Office of the European Bank for Reconstruction and Development in the Republic of Uzbekistan;
- Head of the FIC Secretariat.

The **FIC Secretariat**, set up with the assistance of the European Bank for Reconstruction and Development, is a standing body, which provides **technical**

support to the daily activities of the FIC. The FIC Secretariat organizes the work of the FIC plenary and interim sessions, working groups and other activities of the FIC (consultations with FIC members, collection and summarizing proposals, etc.). The FIC Secretariat shall be staffed by full-time head of the secretariat, and economic and legal experts (currently only head of secretariat and an economic expert, with further experts being recruited).

Resolutions (recommendations) of the FIC plenary and interim sessions are subject to **monitoring by the FIC Secretariat**. Responsible government authorities on a monthly basis provide to the FIC Secretariat information on the implementation of the recommendations of the FIC plenary and interim sessions.

Uzbek part of the Council consists of Advisor to the President, Head of Department for Legal Expertise and Comprehensive Analysis of the Administration of the President, Deputy Prime Minister, Minister of Finance, Commissioner of the President for Protection of Rights and Interests of Business Entities, Chairman of the Central Bank, Minister and First Deputy Minister of Investments and Foreign Trade, Minister of Economy and Industry, Minister of Foreign Affairs, Minister of Justice, Minister of Innovative Development, Chairman of the Chamber of Commerce and Industry, Director of the Foreign Investments Promotion Agency.

Both **legal entities** and **individuals** are eligible to become FIC members.

To become a member, the applicant is required to meet:

- (1) at least **one of the main (technical) criteria**; and
- (2) at least **two of the additional (qualitative) criteria**.

(1) Main (technical) criteria.

To meet main (technical) criteria a **legal entity** shall be either:

- a foreign enterprise; and/or
- a joint enterprise with a share of foreign capital of more than 30 percent; and/or
- a branch or representative office of a foreign company in the Republic of Uzbekistan; and/or
- an enterprise employing at least 15 professionals, providing consulting services primarily to foreign investors in the territory of the Republic of Uzbekistan; and/or
- an international financial institution / foreign governmental financial organization (IFI/FGFO), a foreign association, representation or educational institution, which through their activities contributes to the development of international economic cooperation and accepts the goals of the Council.

To meet main (technical) criteria an **individual** (public figure, scientist, diplomat etc.) shall be able to make a significant contribution to the creation of favorable

conditions for increasing foreign direct investments in Uzbekistan and overall development of the country.

(2) Additional (qualitative) criteria.

In addition to the main (technical) criteria, a legal entity or an individual must meet **at least two of the additional (qualitative) criteria**:

- have significant experience and excellent business reputation;
- carry out activities significant for the economic and social development of the Republic of Uzbekistan;
- invest actively, including in the Republic of Uzbekistan, and be willing to strategically expand investment activities in the country;
- participate actively in the promotion of a positive investment image of the Republic of Uzbekistan abroad;
- participate actively in the work of FIC working groups.

When choosing potential FIC members, the FIC Executive Committee is guided by the principle of **wide representation so that each strategic industry and country of origin of investments are represented by one or more members**. FIC members should be guided by the interests of the entire industry and a wider community of investors, rather than the interests of their company or personal gain.

Applications shall be reviewed by the FIC Executive Committee within 15 calendar days. Based on the submitted applications, the FIC Executive Committee chooses initial pool of candidates for subsequent submission for the approval of the Chairman of the Council.

The final composition of the Council is approved by the Chairman of the Council based on the proposals of the FIC Executive Committee.

The FIC Executive Committee may submit for approval of the Chairman of the Council a member rotation scheme after two years from the first plenary or interim session, based on the need to include new members, as well as on the results of activities of current members and the level of their contributions to the effectiveness of the FIC.

3. Summary of achieved results

Covid-19 has had a major impact on the activities of the FIC. Prior to the lockdown, the preparations were full speed ahead for the plenary FIC session to be chaired by the President of the Republic of Uzbekistan. Lockdown pushed back those plans, with the new date for the plenary session yet to be set. Nevertheless, the work

on pushing forward the reforms and suggestions from the previous session (Interim Session held in November 2019) was ongoing during the lockdown.

There are two key achievements:

- 1) Continued activities of working groups (remotely) with specific outputs by these working groups – policy recommendations, draft laws and regulations.
- 2) Four major policy recommendations formally endorsed by Government authorities in 2020 (laws and regulations adopted or amended following discussion at FIC). This results in a total of six major policy recommendations formally endorsed since inception of the FIC in April 2019.

4. FIC sessions and working group meetings

Due to Covid-19 restrictions, the first plenary session, planned for March 2020, was rescheduled to November 2020. As Covid-19 related restriction continued beyond 2020, the session was rescheduled again with the aim to hold the first plenary session in-person, rather than online due to the importance of the event.

Three FIC working groups continued to work remotely on the recommendations of the FIC interim session of 20 November 2019. A total of 12 meetings of these working groups were organized by December 2020.

FIC Banking Working Group is focused on (a) privatization of state-owned banks; (b) consolidation of smaller banks; (c) reduction of paperwork and digitalization of banking services; (d) treasury products (overnight, hedging, swaps, etc.); (e) ensuring banking confidentiality; (f) update of resident/non-resident concept in banking legislation, etc.

Representatives of the World Bank Group, IFC, ADB, EBRD, JP Morgan, Tenge Bank, TBC Bank, Ipak Yuli Bank, Amcham, AUCC, Visa, Baker & McKenzie and others participated in the working group's meetings.

Key achievements of the working group include:

(a) All major recommendations of the FIC interim session of 20 November 2019 and results of the FIC working group discussions relating to the privatization of state-owned banks, consolidation of smaller banks, reduction of paperwork and digitalization of banking services were incorporated into the Presidential Decree “On the strategy of reforming of the banking system of the Republic of Uzbekistan” dated 12 May 2020 No. UP-5992;

(b) The working group has provided opinion in relation to the Acceptable Interest Rates Policy, introduced by the decision of the Management Board of the Central Bank of Uzbekistan №13/4 “On measures to be taken under the preemptive

impact system to reduce interest rate risks in the banking system” dated 11 June 2020, and prepared recommendation on alternative policy measures. As a result, the Acceptable Interest Rates Policy was not extended for 2021.

FIC Corporate Law Working Group is focused on (a) providing greater flexibility to foreign investors in structuring their investments; (b) enabling accreditation of branches of foreign commercial legal entities in Uzbekistan; (c) introducing international concepts familiar to foreign investors into corporate legislation; (d) work permits of top management of foreign enterprises.

Representatives of the Ministry of Justice, MIFT, SAMA, CMDA, Dentons, Baker & McKenzie, KPMG, EY, PWC, Amcham, AUCC, ADB, UzBAT, Falk Porsche and others participate in the working group’s meetings.

Key achievements of the working group include:

(a) Drafted the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On introduction of amendments to the Regulation on attraction and use of foreign labour force in the Republic of Uzbekistan”. The resolution enables employment of foreign directors by foreign and joint enterprises without obtaining of work permit during the initial 3 months of employment. Adopted on 8 January 2021 under No. 5.

(b) Drafted the Law on Introduction of Amendments to the Civil Code of the Republic of Uzbekistan. The latest draft Civil Code prepared by the Ministry of Justice incorporates most of the changes proposed by the working group. Our proposals introduce international concepts familiar to foreign investors, such as indemnities, warranties, escrow accounts and agreements, put and call options, irrevocable PoA.

(c) Drafted the Law “On introduction of amendments to the Law on Limited and Additional Liability Companies”, enabling various types of shares in LLC, excluding foundation agreement from the list of founding documents of LLC (to provide greater flexibility to foreign investors in structuring their investments and entering into JV agreements). The draft submitted to the Government.

(d) Drafted the Resolution of the Cabinet of Ministers “On approving Regulation on accreditation and activities of representative offices and branches of foreign commercial legal entities in the territory of the Republic of Uzbekistan”, enabling accreditation of branches of foreign commercial legal entities. The draft submitted to the Cabinet of Ministers.

FIC Valuation and Privatization Working Group is focused on (a) improving local valuation standards, their harmonization with international valuation standards (IVS); (b) expanding types of services of valuation companies in Uzbekistan (financial Due Diligence, industry analysis, valuation according to IVS, feasibility study, etc.); (c) softening regulation, licensing and certification of valuation companies and

professionals, the transition to regulation by self-regulatory organizations; and (d) other related proposals.

Representatives of KPMG, EY, Deloitte, SAMA participate in the working group's meetings.

Key achievements of the working group include:

(a) Provided comments and recommendations for the draft Unified National Valuation Standard of Uzbekistan (NVS). New NVS has been approved by the State Assets Management Agency (SAMA) and registered with the Ministry of Justice on 4 June 2020 (entered into force on 4 September 2020). The NVS incorporates recommendations of the FIC working group aimed at harmonization with the International Valuation Standards, which is a significant improvement as compared to the previous version. However, there is a room for further improvement.

(b) Provided comments and recommendations for the draft Law on Valuation Activities. The new draft law is being developed by SAMA.

(c) Presidential Decree "On accelerated transformation of SOE and privatization of state owned assets" dated 21 October 2020 No. UP-6096 incorporates conceptual recommendations discussed by the FIC Interim Session of 20 November 2019.

In addition, the Secretariat:

- conducted a number of individual meetings and consultations with FIC members and representatives of the government
- collected proposals of FIC members and delivered them to the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan (from situation caused by the COVID-19 pandemic and lockdown and other matters outside the agendas of the FIC – e.g. COVID-related tax reliefs and holidays, solutions for logistics and transportation difficulties, issues with work permits and visas of foreign employees during lockdown, etc.)
- distributed at the request of the Ministry of Investments and Foreign Trade a number of drafts legislation among FIC members to collect their proposals (i.e. draft Law on Audit Activities, drafts Resolutions regulating transfer pricing, draft Law on Public Procurement, draft Law on State Assets Management, draft Law amending Law on Joint Stock Companies, draft Presidential Resolution abolishing individual tax and customs incentives, etc.).

5. Policy recommendations formally endorsed by Government authorities.

Laws and regulations adopted or amended following discussion at FIC in 2020 include:

1. Presidential Decree “On the strategy of reforming of the banking system of the Republic of Uzbekistan” dated 12 May 2020 No. UP-5992. All major recommendations of the FIC interim session of 20 November 2019 and results of the FIC working group discussions relating to the privatization of state-owned banks, consolidation of smaller banks, reduction of paperwork and digitalization of banking services have been incorporated into the Strategy.

The strategy is aimed at increasing efficiency, ensuring financial stability, decreasing the participation of the government, and increasing the accessibility and quality of financial services. After the reforms, the sector should achieve the following indicators by 2025:

- Assets of banks without government participation should increase from 15% to 60% of total banking assets;
- Banks’ liabilities to the private sector should increase from 28% to 70%;
- At least three foreign strategic investors, which have relevant experience, knowledge, and reputation, should invest in at least three banks with government participation;
- The share of non-banking financial institutions in the total volume of lending should increase from the current 0.35% to 4%.

2. Order of the Director of the State Asset Management Agency “On approval of the Unified National Valuation Standard of the Republic of Uzbekistan”, registered with the Ministry of Justice on 4 June 2020 under the No. 3239 (entered into force on 4 September 2020), The adopted Unified National Valuation Standard, although still requires further improvement, incorporates major recommendations of the FIC working group aimed at harmonization with the International Valuation Standards.

Harmonization of the national valuation standards with international valuation standards improves framework for privatization and investment in Uzbekistan companies and assets.

3. Presidential Decree “On accelerated transformation of enterprises with state participation and privatization of state owned assets” dated 21 October 2020 No. UP-6096 (adopted following discussion of this topic on FIC Interim Session of 20 November 2019).

Presidential Decree “On accelerated transformation of enterprises with state participation and privatization of state owned assets” dated 21 October 2020 No. UP-6096, creates legal and regulatory framework for the massive privatization program of the Government:

- 479 SOEs to be fully sold to private companies;
- 62 state assets for public auction by pre-privatization program;
- 39 SOEs to introduce corporate governance and financial audit
- 32 SOE to undergo radical transformation
- 15 state real estate assets to be sold to private investors

4. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On introduction of amendments to the Regulation on attraction and use of foreign labour force in the Republic of Uzbekistan” dated 8 January 2021 No. 5. The resolution enables employment of foreign directors by foreign and joint enterprises without obtaining work permit during the initial 3 months of employment.

In addition, the following laws and regulations have been prepared by or with participation of FIC working groups, but are under consideration now:

1. Draft Law on Valuation Activities (new edition);
2. Draft Civil Code of the Republic of Uzbekistan (new edition). Our proposals introduce international concepts familiar to foreign investors, such as indemnities, warranties, escrow accounts and agreements, put and call options, irrevocable PoA.
3. Draft Law “On introduction of amendments to the Law on Limited and Additional Liability Companies”, enabling various types of shares in LLC, excluding foundation agreement from the list of founding documents of LLC to provide greater flexibility to foreign investors in structuring their investments and entering into JV agreements.
4. Draft Resolution of the Cabinet of Ministers “On approving Regulation on accreditation and activities of representative offices and branches of foreign commercial legal entities in the territory of the Republic of Uzbekistan”, enabling accreditation of branches.

Promoting each of the above and other initiatives could take a long time (normally years) from businesses initiating the request for reform, to research of the

sector and preparing the recommendations, consensus-building for support of these among the Government authorities and the businesses. Achievement of the results mentioned above during initial years from the establishment of the FIC in Uzbekistan, demonstrates that the mechanism works.

In addition, there is a number of laws and regulations (adopted or amended by the government), which addressed problems raised or incorporated solutions proposed by the FIC members after sharing details of such problems and solutions with the Ministry of Investments and Foreign Trade by the FIC Secretariat prior to discussion at FIC sessions or working group meetings. Those include:

- improvement of statistical data;
- publication of court decisions at public.sud.uz;
- introduction of the Regulatory Impact Assessment mechanisms;
- substantial decrease of and unification of laws and regulations; regulatory guillotine;
- decriminalization of tax and other business -related wrongdoings;
- improvement of tax administration system;
- land rights reform;
- public procurement reform;
- improvements related to rule of law;
- improvements in property rights protection (including prohibition for government authorities to challenge privatization results);
- IFRS reporting by certain categories on businesses;
- improvement of intellectual property rights protection;
- a number of initiatives aimed at digitalization of the economy;
- switch from government regulated oil and gas prices to market regulated prices linked to global exchanges.

6. Applications for FIC Membership

Following formal establishment of the FIC through the Presidential Resolution from November 2019, which, inter alia, established procedure for submission and review of applications for FIC membership, FIC Secretariat has prepared Application Guidelines for prospective members. Application Guidelines (<https://drive.google.com/file/d/13ppGymA7vU4mHcD1RiW56ZItwQAwBNOi/view?usp=sharing>). The guidelines were distributed among foreign investors, including through social media channels of the FIC (<https://t.me/ficsuz>, <https://www.facebook.com/fics.uz>), and published on the FIC website at [fics.uz](https://www.fics.uz).

As a result, in 2019 55 applications for FIC membership were received and reviewed by the FIC Secretariat. In 2020 additional 25 applications for FIC membership were received and reviewed by the FIC Secretariat. A total number of applications reached 80.

The final composition of the Council shall be approved by the Chairman of the Council – President of the Republic of Uzbekistan based on the proposals of the FIC Executive Committee.