

Uzbekistan
Preparation of the investment guidebook
of Uzbekistan and information gathering
and surveys regarding investment
promotion activities

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FINAL REPORT

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1. Deliverables

The following deliverables will be submitted in this project.

- Investment guidebook (in English and Japanese)
- Proposal for updates of the UzIPA website
- Proposal for investment promotion events by the government of Uzbekistan
- Summary of investment environment in Uzbekistan and overall issues of investment promotion activities by the government
- Proposal and plan for reinforcement of the capacity of the government of Uzbekistan to promote investment and support investors based on one-stop services

The issues that were recognized in the process of producing the above deliverables will be completed in this final report. The following documents and information are attached to this report as supplementary materials.

Appendix 1: Candidate Industries for Analysis

Appendix 2: Analysis of Priority Industries in Uzbekistan

Appendix 3: Presentations of Uzbekistan Business Seminar

Appendix 4: Summary of Interviews with Japanese Companies

2. Investment Guidebook (English and Japanese)

The guidebook focusing on investment in Uzbekistan was prepared in English for general foreign investors and in Japanese for Japanese companies. As for the format, it was intended to be read digitally on the personal computers or any other digital devices, as is often the case for business persons. However the investment guidebook was formalised in the way of being read as a book, upon the request of the Uzbek side.

The priority industries listed in the investment guidebook were initially finance, electricity, agriculture, ICT, manufacturing, mining, education, and healthcare, while the final list contains finance, electricity, agriculture, ICT, manufacturing (chemicals, textiles, pharmaceuticals, food processing and construction materials), education, pharmaceuticals, and oil and gas. The Uzbekistani side proposed to analyse other industries. In this regard, the priority industries were selected among the important industries for Uzbekistan, from the viewpoints of whether or not

foreign investment is realistically expected in the future, and whether or not official information to analyse is available (see Appendix 1: Candidate Industries for Analysis). For example, the petrochemical industry and the automobile industry were excluded from the list of the priority industries in Uzbekistan, even though if these industries are important or required to invest, from the perspective of whether they could really attract foreign investment. The petrochemical industry requires large-scale investment, there are few investment candidates, and investment opportunities are limited. The auto industry of Uzbekistan is not globally competitive and thus difficult to attract foreign investment.

On the other hand, mining is recognized as a prospective industry, and may be of interest to some foreign investors, but it was not included in the priority industry of this project. This is because the information required for consideration of business in this sector is not available as it is categorised as national strategic information, which makes it impossible to analyse this industry in this project. Some of the interviewees could not obtain the information necessary for their consideration of business in Uzbekistan, because it seems that the government of Uzbekistan had not compiled such information, while some others did not, either, because such information was designated as state secret information. It is understandable that state secret information should not be disclosed. However, it is requested that the government shall reconsider whether they keep confidential such information that may be disclosed to provide investment opportunities fairly to potential investors, in industries necessitating investment, particularly foreign investment.

Uzbekistan has abundant tourism resources, and the growth of the tourism industry is expected in the future. However, the tourism industry was ultimately excluded from the analysis, as no official statistics on visitors to Uzbekistan was available. There was information on the movement of people between the border by air and land, but no organized official information was available on whether they were tourists, or businessmen, or neighbouring people who across the border on a daily basis. The Chamber of Commerce and Industry also sought such information, as tourism is an important industry for Uzbekistan, but failed to find it. In order to develop the tourism industry and attract investment, it is requested that such information shall be made available to potential investors in a fair manner.

The transportation sector has the potential to become a candidate industry for attracting investment, depending on the privatization policy of the government of Uzbekistan. The government is cautious about opening up foreign capital in this sector, since transportation is an important part of the nation's infrastructure, while foreign investors also tend to be cautious to decide investment, because the amount of investment might be large. Nonetheless, cooperation with foreign companies (not limited to investment), including the involvement of the government of Uzbekistan and foreign governments, should be considered, because the development of transportation networks is directly linked to the development of other industries in Uzbekistan, a double landlocked country. Please refer, however, to the comments in Appendix 4 "PPP" in this regard.

It is understood that Appendix 2 "Analysis of Priority Industries in Uzbekistan" will be utilized on by the government of Uzbekistan and JICA, unlike the investment guidebook. From the viewpoint of investors and companies, market information is more important than information on investment system, tax system, and legal information. Therefore, it is requested to consider making Appendix 2 available to investors and companies in any form.

3. UzIPA website

The current UzIPA website needs to be completely revised from scratch. The fundamental problem is that UzIPA does not have the organization or authority to act as an investment support one-stop service organization, so its website cannot be the site of an investment support one-stop

service organisation. As described below 6, UzIPA is not responsible for this issue. It is necessary, first, to determine which institution is mandated as a one-stop service organisation, and develop its organisation and then discuss the direction of the website of such organisation.

On the other hand, the government of Uzbekistan has announced that it will hold an international forum at the end of March 2022, and many foreign companies may browse the current UzIPA website. For this reason, the memo on the UzIPA website comments on the current website, but the need for a complete revision of the website after the reorganisation has been developed should be reiterated. The fundamental problem is as described above, but in addition to the quality and technical aspects of the site pages, the selection criteria for the information provided should be reviewed. Information on their current site pages does not help companies make investment decisions, which might mean that information helping companies do so is not on the site. It is expected that the site contain such information as companies need to make investment decisions.

4. Investment Promotion Events

This project was expected to provide advice on holding an international investment forum, but the government of Uzbekistan decided to hold the Tashkent International Investment Forum in Tashkent from 24 to 26, March 2022, and completed the announcement and invitation. Therefore, this project decided to summarise (1) comments on general international forums and (2) points to be noted regarding seminars for Japanese companies.

With regard to international forums by emerging countries, the strategies for forums should be divided between those countries that are already highly recognised among foreign investors and those that are not. Uzbekistan is considered to belong to the latter country. In the latter case, even if specific investment opportunities are presented individually, companies might not seriously consider them, as they do not have an understanding of the country. Therefore, it is desirable to have a forum that is conscious of raising the awareness of the country.

A number of seminars have already been held for Japanese companies. The proposal is based on the idea that if the effect beyond that of the past seminars is desired, the approach should be changed.

5. Issues related to investment environment and investment promotion activities

What is considered to be an issue are those generally regarded as issues in emerging countries, except for the double landlocked country. These issues has also been addressed to Uzbekistan for some time, but they remains unsolved even in the course of economic reform. Some issues are related to the development of the system and legislation (for example, foreign investment is not allowed in some sectors under certain regime, or in practice), while some others hinder the operation of businesses (for example electricity is not available to operate the factory, no skilled workers are available to hire, it is impossible to procure materials for production.). The investment guidebook prepared in this project explains the improvement of the former issues (the development of the system and legislation), but it positively describe the situations related to the latter issues in general terms. In this regard, under an individual project, an individual company may encounter the situation which is different from what is described in the investment guidebook.

We conducted interviews with companies to confirm their perceptions. Some companies did not respond to requests for interviews, others declined to be interviewed, and others agreed to do so with complete confidentiality. It is assumed that one of the reasons for not responding to the interview was that the comments in the interview would be shared with the government of Uzbekistan. Some companies declined the interview because they were not considering doing business in Uzbekistan at all. In order to access companies interested in Uzbekistan, an online

seminar about business in Uzbekistan was conducted on October 26, 2021 (Appendix 3). Some 100 Japanese companies and public institutions participated, and the project requested interviews with those participants, except for those looking for ODA projects.

Interviews were requested to 65 companies and organisations, 30 of which as a result accepted to be interviewed. In order to avoid identifying companies, the detailed information of the interviewees and the presence of their businesses in Uzbekistan are not provided here. Approximately 80% of the interviewees are Japanese organisations, while the rest are non-Japanese. Their industries are finance, manufacturing of consumer goods and equipment manufacturers, trading, engineering and others.

Based on the results of interviews with Japanese companies, comments to the government of Uzbekistan are summarised in Appendix 4. Most, but not a few, want to remain anonymous, so the summary does not list the names of the interviewees, and contains only those comments which the interviewees agreed to share, though anonymous. The minutes of each interview shall not be shared or disclosed. If the interview discloses the company name or name, or if the interviewee can be identified, the summary reflect their comments as they provided. Please note that the comments in Appendix 4 are based on the theory of Japanese companies, particularly the theory of each Japanese company (or each employee), which do not necessarily take into account the development of Uzbekistan as a whole, and do not necessarily reflect the views of companies in other countries. Please also note that these comments are not an opinion or advice of this project.

It is assumed that many of the members involved in this project may not have business experience, though individual background of each has not been confirmed. There might be a discrepancy in the understanding of factors inhibiting investment between these members and company-investors. It is strongly hoped that private sector personnel with business experience will be employed as a member in policymaking to improve the investment environment. In addition, the criteria for investors' investment decisions have changed significantly in recent years, and the environment, corruption, and human rights have become as important as securing profits. For example, the EU has adopted the EU Taxonomy on environment, but it is planned to cover governance (corruption and others) and social factors (human rights and others) in the future. Officials in the government who can understand such mind of global investors are necessary.

6. Establishment of a one-stop investment support service system and capacity development

This project assumes UzIPA as an investment support one-stop service organization. Therefore, the proposal is addressed to UzIPA.

From the viewpoint of companies, investment support one-stop service organizations cannot so exists, unless they have the authority to coordinate related departments and departments within the government. At present, UzIPA does not have such authority to compel other agencies within the government of Uzbekistan. Thus it is understand that UzIPA may have difficulties in functioning as an investment support one-stop service agency, even if UzIPA is reformed within its current mandate. The investment guidebook refers to PPP and privatization of state-owned enterprises as investment methods, and potential investors need to have direct recourse to PPPDA in considering about PPP projects, and UzSAMA when participating in the privatisation of state-owned enterprises, if the investment support agency is unable to issue enforceable instructions to these agencies. Furthermore, depending on the type of business or employee, companies are required to go through separate procedures to obtain permission or authorization from the competent government agencies or immigration bureau. It is too costly to have to deal with these institutions individually in accordance with their own procedures. It is expected that an investment support one-stop service organisation integrates and arranges these processes. In addition, when establishing and operating a one-stop investment support service organization, it is expected that

persons with business experience who can understand a project from a business perspective will participate as internal staff instead of external advisors.

Companies need an investment support one-stop service organization having these authorities. The allocation of authorities within the government is not a matter that can be decided by each agency or department (including UzIPA), but the government only can. It is therefore expected that the government will make a clear allocation of authority.

Appendix 1: Candidate Industries for Analysis

[Inserted]

Sectors	Subsectors	Sectors	Subsectors	Notes
1 Agriculture		1 Agriculture		Agree
2 Education		2 Education		Agree
3 Finance		3 Finance		Agree
4 Healthcare		4 Healthcare		Agree
5 ICT		5 ICT		Agree
6 Mining		6 Oil & gas		Propose to change to Oil & Gas due to its vast investment potential and unavailability of publicly available data on mining sector
7 Tourism		7 Tourism		Agree
8 Power		8 Power		Agree
9 Manufacturing		9 Manufacturing		Agree
Utility				Utility sector is not attractive to wide circle of investors, only selected foreign utility companies are interested
Transportation				This sector is so diverse: government maintains its monopoly on railway and air transportation, and it has fully exited road transportation subsector. Will be interesting to foreign investors if the government decides to do privatization of national air and/or railways carriers
Construction				
	Automobile	1)	automobile	Uzb does not have a comparative advantage in this sector. Will be attractive to certain automakers, but can survive and thrive if only EV producers come
	Chemicals	2)	Chemicals	Large employment and exports potential. Loal industrial base and workforce.
	Retail and consumer goods	3)	Retail and consumer goods	Will become an important sector in 5-10 years when purchasing power of population increases
	Electronics	4)	Electronics	Requires integration into the global supply chains and developed logistics, which Uzbekistan does not have at the moment.
	Textiles	5)	Textile	Large employment and exports potential. Local raw materials.
	Pharmaceuticals	6)	Pharmaceuticals	Large employment and exports potential.
	Food processing	7)	Food processing	Large employment and exports potential. Strong agricultural sector serves as a basis.
	Construction materails	8)	Construction materails	Large employment and exports potential
	Petrochemicals	7)	Petrochemicals	Specific subsector with several producers. Requires large investments and specific technologies to enter this market.

Appendix 2: Analysis of Priority Industries in Uzbekistan

1. Agriculture
2. Food processing
3. Textile
4. Chemical
5. Pharmaceutical
6. Construction materials
7. Oil and Gas
8. Power
9. ICT
10. Finance
11. Education
12. Healthcare

1. Agriculture

- **Agriculture plays an important role in the economy of Uzbekistan**
- **Agricultural reforms have accelerated in recent years, have allowed to raise productivity of the sector**
- **The sector's production is expected to increase further**
- **Uzbekistan's agricultural exports is dominated by horticulture and cotton**
- **Subsector(1): Horticulture subsector shows high productivity with remarkable competitiveness for export**
- **Subsector(2): Livestock is the subsector with the highest productivity, but basically covering domestic demand**

Sector overview

Agriculture plays an important role in the economy of Uzbekistan. In 2021, agriculture accounted for 26.1% of GDP, 10% of export revenues, and over 25% of total employment. About 50% of the population lives in rural areas for whom agriculture is an important source of livelihoods, jobs, and food security.

Agriculture sector shows comparative advantage, with its high productivity. Uzbekistan's climatic conditions are favorable for producing a wide range of crops and products. Total crop harvested area in the country exceeds 4 million hectares. The crops planted in total harvested include wheat (34.4%), cotton (29.9%), orchards (8.9%), forage crops (7.1%), vegetables (5.9%), vineyards (3.2%), potato (2.4%), and other crops (9.7%). The climate permits two vegetable crop harvests in one vegetation period in most places, and three harvests in some regions. Uzbekistan's climate and geography also allows farmers to grow crops with different ripening periods (early, medium, and late).

The sector used to be heavily regulated by the government: the central and local government bodies determined the type of crop, amount of land allocated for each crop and procurement price of the most important crops – cotton and wheat. The procurement price of cotton and wheat remained low compared to the market prices. The economic reforms since 2017 also allowed to diversify crop allocation and get rid of the restrictive government procurement. Along with labor shedding in agriculture and increase in production and export volumes of agricultural products, there has been a significant improvement in the labor productivity.

According to the recent World Bank report (2020), during 2017-2019 the average agricultural labor productivity, estimated as a value added divided by number of farm workers using the national accounts data, grew by 13 percent in real terms. The average agricultural labor productivity is above average for the economy. The average agricultural productivity exceeds the productivity in construction and trade, accommodation & food services, only trailing behind the productivity in manufacturing (Table 1).

Table 1: Uzbekistan: Labor productivity by sector, value added by worker, national accounts, 2010-2019 (in real million soums) Source: Uzbekistan: Agri-Food Job Diagnostic (p. 28) by World Bank (2020)

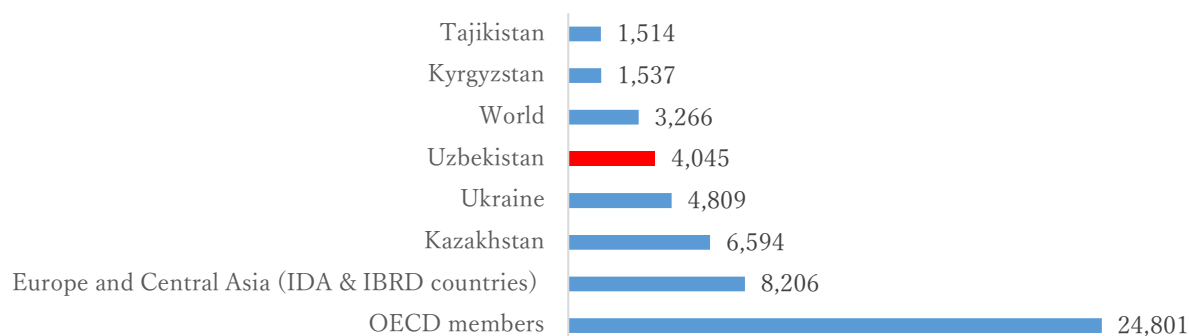
	2010-2014	2015-2019	2019
All sectors	7.53	13.51	17.5
Agriculture, including forestry and fishery	9.49	15.90	18.30
Manufacturing	10.35	24.73	39.29
Construction	4.61	8.96	12.35
Service sectors	6.11	10.10	12.41

Note: Land productivity was estimated by dividing the added value by number of employees

**estimated*

In global comparison, the agricultural labor productivity in Uzbekistan was lower compared to the more developed countries; however, the indicator was much higher compared to Uzbekistan’s neighbors in 2016-2018. The agricultural value added per worker in Uzbekistan, expressed in constant 2010 US dollars, was \$4,045 (Figure 1).

Figure 1. Agricultural labor productivity in selected countries and regions, 2016-2018, in constant 2010 USD. Source: World Development Indicators (online database)



Accelerated agricultural reforms in recent years have increased the sector growth and have led to the increase in productivity. Since 2017, the agricultural sector witnessed gradually transformations of the whole agricultural value-chain. The sector shifted toward fully integrated cluster system, with clusters created in cotton and textile, fruit and vegetable, seed, grain, meat and dairy, etc. As a result, size of the agricultural market has accelerated and been growing at double-digit growth rate in recent years.

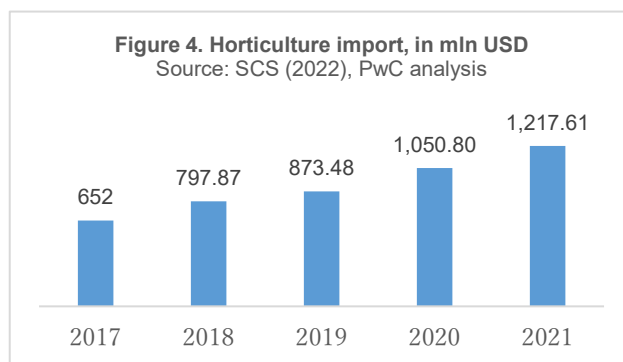
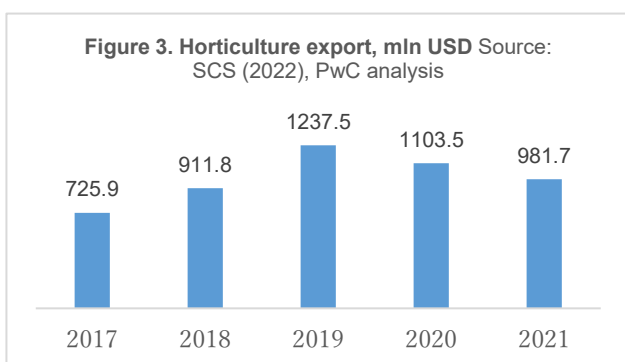
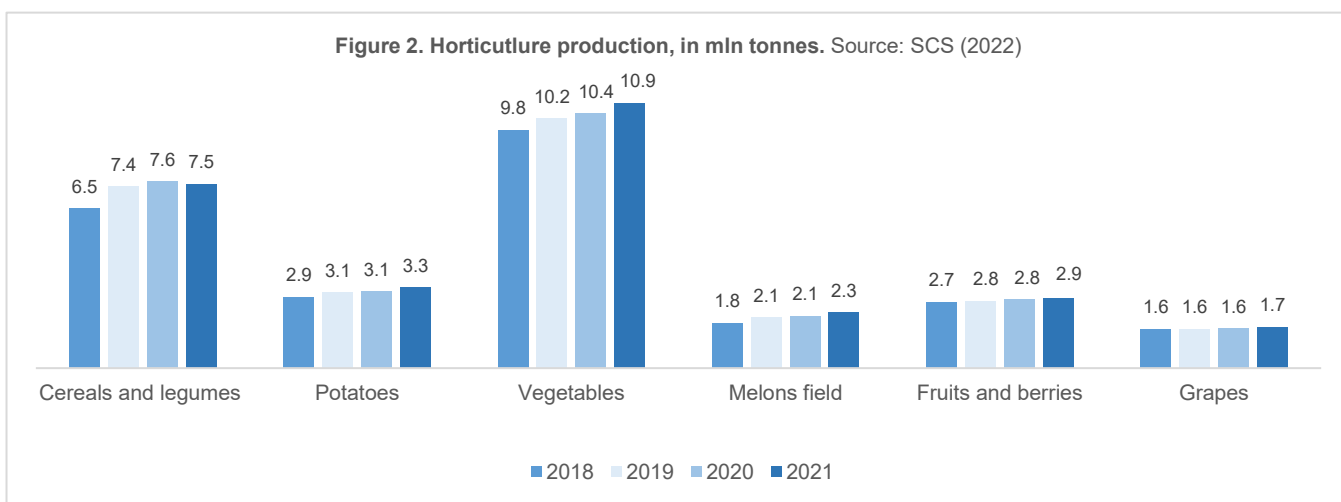
The government plans to further decrease planting area for cotton production at the same time increasing the subsectors productivity through higher involvement of private sector. Additionally, due to implementation of fully integrated cotton-textile clusters a large portion of cotton fields has been released for production of fruits and vegetables. As a result, within 2017-2020, the cotton yield increased from 26.4 c/ha to 30 c/ha, grain yield from 57.8 c/ha to 63.5 c/ha, while the profitability of agricultural producers increased by 1.5 times while more than 152 thousand new jobs have been created in the regions based on clusters. Uzbekistan also increased exports of horticulture products from \$570 million in 2017 to \$1,200 million in 2019.

Horticulture subsector shows high productivity with remarkable competitiveness for export.

Uzbekistan produces a vast number of different fruits and vegetables, including sub-tropical fruits. (Figure 2). And owing to its high productivity, the country has become a major producer of horticultural products, with a global potential. The subsector, apart from its domestic comparative advantage, also has remarkable export competitiveness. The export amount in horticulture subsector was showing rapid growth 2017 -2019; however, starting from 2020 it started falling as shown in Figure 3.

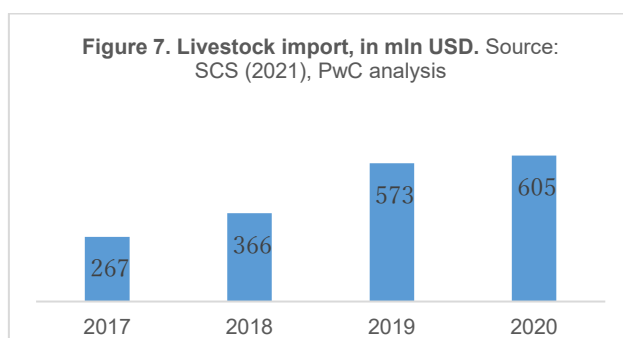
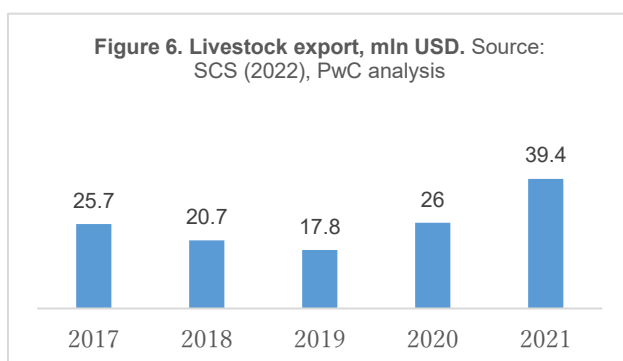
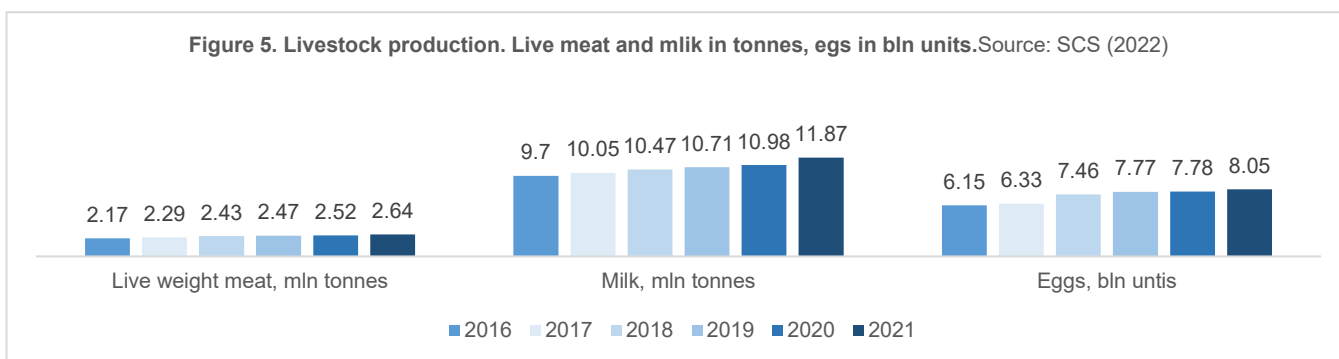
Uzbekistan is still remaining a big market for foreign exporters of horticulture products.

The total volume of imports of horticulture products of the Republic of Uzbekistan in 2021 amounted to 1.38 billion US dollars (Figure 4) , which is 15.6% more than in 2020. Import growth was observed throughout 2017–2021. The main volume in value terms fell on wheat, sugar, sunflower oil - and soybean cake. The main exporting countries are Kazakhstan, Russia, Belarus, China and Brazil.

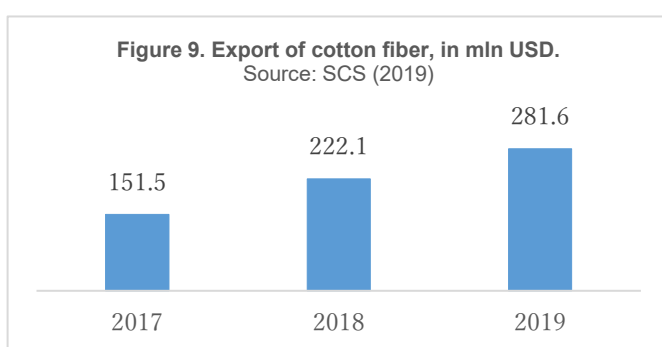
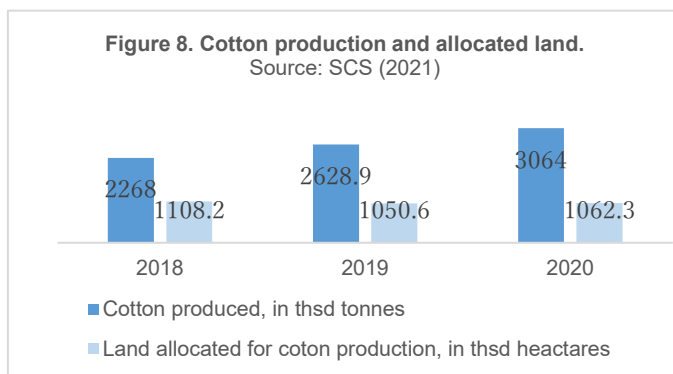


Livestock is the subsector with the highest productivity, it is basically covering rapidly growing domestic demand. Among all subsectors in agriculture, livestock, whose share is shows especially high productivity and rapid growth. But majority of its production is consumed domestically, and the share of livestock in export of agriculture sector is negligible (Figure 6), while in the share of import livestock product constitute around 25% of total agricultural products (Figure 7). There was almost 50% increase in the export of livestock in 2021 in terms of USD.

The main reason is that Uzbekistan imported almost 40% more meat related products than in 2020. As the subsector is confronting rapidly growing domestic demand, the product price tends to be higher even than neighboring countries. Despite rising demand, livestock production levels remained constant between 2016 and 2020, due in part to cropland scarcity, with only 10% of cropland dedicated to fodder production, resulting in a deficit in livestock products.



Uzbekistan is the world’s 6th largest cotton producer. Cotton is one of the main agricultural crop in Uzbekistan. In 2020, about 3,064 thousand tons of cotton was produced. Uzbekistan export of cotton fiber in 2020 accounted to be 1,200 mln USD and it is further expected to increase due to the recent cluster reforms. From 2020, the government ceased the export of raw cotton and shifted its focus to processing and manufacturing value-added products. As a result, raw cotton exports' share of total export volume is decreasing, falling from 4.1 percent (501.4 million USD) in 2016 to 0.9 percent (136.3 million USD) in 2020. At the same time, regular raw cotton exports are linked to the fulfillment of obligations under long-term export contracts.



Agricultural clusters have become an important form of horticulture production. By the end of 2021, agricultural clusters produced 100% of cotton and 60% of wheat. More than 100,000 farms have become part of 463 agro-clusters. The clusters primarily operate in production of cotton, wheat, fruits and vegetables. The clusters cover 2.2 million hectares of agricultural land. In 2018-2020, the agricultural clusters attracted \$1.4 billion in investments. In 2019-2020, 10.8 thousand hectares of intensive orchards and 19.7 thousand hectares of vineyards were formed. Around 5,000,000 dekhkan farms ¹ produce more than 90% of fruits and vegetables as well as 97% of meat, eggs, and dairy products.

Uzbekistan has created two free economic zones in the agricultural sector. The country hosts two Specialized Economic Zones focusing on agricultural producers - FEZ Bukhara-agro and FEZ Karakalpak-agro.

The Government pays particular attention to the exports of agricultural products. The government provides a wide range of incentives for exporters of agricultural products such as tax, customs, and transportation and logistics benefits. Also, the Government is promoting “Made in Uzbekistan” agricultural products in the main exports markets. In particular, in June of 2021, an agreement on the implementation of the Agroexpress service, providing for accelerated deliveries of products between Russia and Uzbekistan, was signed with the Uzbek company Uzagrologistics Centers. Transportation of goods according to the "green corridor" principle ensures the maximum delivery time for products from Uzbekistan to Russia in no more than five days. According to the, minister of economic development of Russia, said the main goal of the project is to increase the railway cargo turnover of products between the countries to 1 million tons by 2030.

¹ According to the Law on Dehkan Farms, households producing agricultural products in the land plots are classified as "dehkan farms". Typical size of the land plots dehkan farms possess does not exceed 0.2 hectares.

Uzbekistan is implementing international standards into the production of agricultural products. In particular, global Hazard Analysis and Critical Control Points (HACCP) and other food safety management systems are being implemented. The Ministry of Agriculture is implementing the development of Centers for agro-food technologies on the basis of the Republican network of the National Center for Agricultural Knowledge and Innovation AKIS under construction. The tasks of the Centers for Agro-Food Technologies will include laboratory research to ensure compliance with international quality and safety standards for produced, exported and imported food products of agricultural origin. The centers will directly certify products of Uzbekistan in accordance with international standards ISO, HACCP, FSSC, Global GAP.

The sector's production is expected to increase further. Due to that recent agriculture sector received a boost from the adoption of the Strategy for Agriculture Development in Uzbekistan during 2020-2030. (<https://lex.uz/ru/docs/4567337>). The main goals of the strategy are

- development of a competitive and market oriented agricultural sector for the domestic
- export markets and implementation of sustainable agricultural ecosystem
- introduction of mechanisms to reduce the role of the state and increase the investment attractiveness of the industry
- improvement of the system for ensuring the rational use of natural resources and environmental protection

	Indicator	Base (2018)	Goal for 2021	Goal for 2025	Goal for 2030
1	Annual increase in value added in agriculture	117.3 trl UZS 14 bln USD	3%	5%	5%
2	Job growth in the agriculture sector	3,671,300	2%	1%	1%
3	Increasing the volume of exports of agri-food products	2.3 bln USD	3.5 bln USD	10 bln USD	20 bln USD
4	Percentage of food insecure population	6.3%	5%	3%	0%
5	Labor productivity in agriculture (per worker per year, in USD)	3,960 USD	4,300 USD	5,200 USD	6,500 USD
6	Increasing the volume of attracted investments in the agri-food business	650 mln USD	20% increase	40% increase	80% increase

Major foreign investors in the sector

- **Indorama Corporation (Singapore)** established FE Indorana Agro LLC, one of the largest cotton farms in Uzbekistan, in 2018. The company produces cotton, wheat, and other agricultural crops, and has invested around \$225 million.
- **Silverleaf International (USA)** formed Uzbek-American joint venture JV LLC Silverleaf in 2018 with a USD 344 million investment to establish a modern agricultural cluster in the

Jizzakh region. The company specializes in raw cotton cultivation, deep processing of agricultural raw materials, and others.

- **Bukhara Varnet** a greenhouse which was built for foreign direct investments (120 mln USD), currently it has become a training center, a laboratory, and a factory for the production of structures for greenhouses, 113 hectares of land have been allocated for the enterprise, which, after reaching full capacity, will have a production capacity of 33.8 thousand tons per year, which will create a total of about 2 thousand jobs.

Investment Opportunities

- Creation of agro-industrial complex
- Creation of poultry farm for meat production
- Production of vegetable oil
- Organization of fish farming and canning
- Storage of vegetables and fruits
- Creation of greenhouses
- Organization of sheep breeding farms
- Creation of dairy cattle breeding complex
- Creation of a livestock complex for milk processing
- Production of bioprotein- Gaprin
- Production of dry pectin

Key takeaways

- Farming Enterprise is the most widely spread business form of legal incorporation in Uzbekistan
- As a general practice, foreign investors establish joint ventures with local Farming Enterprises to avoid possible obstacles and barriers related to obtaining land plots by foreign entities
- Agricultural land plots are provided based on a tender mechanism through the regional/district municipal authority (khokimiyats) for a long-term lease right (usually from 25 to 30 years).
- Foreign entities and local entities with foreign investments can only use agricultural land plots based on lease rights

Presence of SoEs

- **JSC “UzDonmahsulot”** has 43 grain enterprises and their branches. Uzdonmahsulot enterprises conclude contractual agreements with farmers to purchase wheat and seeds, as well as store food products in the state reserve. In November 2021, the Government of Uzbekistan decided to privatize JSC “Uzdonmahsulot” by selling its enterprises in public auctions. Business entities that buy grain enterprises in the public auctions should keep the direction of their activity unchanged.

Key regulators, laws and regulations

Key regulators

The Ministry of Agriculture of Uzbekistan (“MoA”) is the primary regulatory authority of the field of agriculture. The MoA is responsible for developing the state policy, supporting the industry, regulatory and supervisory role in the field of agriculture.

In addition, the Association of Cotton-Textile Clusters of Uzbekistan (“Association”) plays an essential role in facilitating cotton production enterprises in Uzbekistan. As a non-governmental entity, it acts as a bridge between the government and entrepreneurs. The functions of the Association include representing and defending clusters before the state authorities, expanding export ratio for high-value-added cotton products, streamlining relations between cotton clusters and local farmers, and others.

The list and additional information on other related organizations, agencies, scientific centers, state entities, etc. are provided at: <https://www.agro.uz/ru/tizimdagi-tashkilotlar/>.

Key laws and regulations

The list of key laws and regulations include:

- [Land Code](#) of the Republic of Uzbekistan,
- [Law](#) of the Republic of Uzbekistan “On Water and Water Use”,
- [Law](#) of the Republic of Uzbekistan “On Farming Enterprises”,
- [Law](#) of the Republic of Uzbekistan “On Seed Production”,
- [Law](#) of the Republic of Uzbekistan “On Pastures”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Approval of the Agricultural Development Strategy of the Republic of Uzbekistan for 2020-2030”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Approval of a Water Sector Development Concept for 2020-2030 of the Republic of Uzbekistan”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Measures for the Development of Agricultural Cooperation in the Fruit and Vegetable Industry”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Regulation on the Organization of Cotton-Textile Clusters”.

Licenses required for establishing a company

Establishing a company

There are multiple legal forms available to conduct entrepreneurial activity in the agriculture sector including, Agricultural Cooperatives, Farming Enterprises, Limited Liability Companies (“LLC”), and Joint-Stock Companies (“JSC”).

Agricultural clusters

In addition, a single legal entity, or a group of entities can organize a cotton-textile cluster or other specialized agriculture clusters to conduct agriculture related activity. The cluster operation differs from other traditional forms of agricultural activity, encompassing all streams (production, initial and deep processing, manufacture of high value-added products) under the

single umbrella, carried out by one or several interrelated entities.

In order to organize a cluster, a legal entity submits an application through the [Portal](#) for the State Interactive Services (“PSIS”). The application shall be reviewed by several state authorities during 20-working days period. The final decision shall be taken by the Republican commission on coordination of activities of cotton and textile clusters, headed by the Deputy Prime Minister in charge of agriculture. If the decision is positive, the applicant (entity or group of entities) shall sign a four-sided agreement for the organization of the cluster with the MoA, Association, regional khokimiyats (or Council of Ministers of the Republic of Karakalpakstan). In the end the entity or group of entities shall sign a lease agreement for the land with the district khokimiyats (30 years for residents, 25 years for entities with foreign investments). The information about available land plots for the organization of clusters is published on the official webpages of the abovementioned authorities.

Licensing and permit requirements

In general, agricultural activity does not require licenses, except for several specific activities.

Licenses

The following activities are conducted based on specific licenses:

- Activities related to cultivation and storage of narcotic plants
 - State fee - up to 4,200 BCU² (around USD 4,500),
 - Validity period - 5 years.
- Activities related to cultivation, import (export), processing, storage, sale (release), purchase and transportation of industrial cannabis with up to 0.2 per cent tetrahydrocannabinol content
 - State fee - up to 5 BCU (around USD 130),
 - Validity period - 5 years.

Other permissive documents

Moreover, in the course of agricultural activities, local enterprises might need to receive the following additional permits:

- Permit for import of seeds, plants and plant products, transit of cargoes containing seeds, plants, and plant products,
- Permit for export of seeds, plants and objects originating from plant objects,
- Certificate of conformity and sanitary conclusion for certain types of goods (meat, vegetables, fruits, oils, sugar, cocoa, coffee, tea, cereals, etc.).

Sector incentives

General FEZ incentives

- Exemption from payment of property, land and water usage taxes for up to 10 years, depending on the amount of investment made by the FEZ participant
 - 3 years: investment of 300,000 to 3 million USD
 - 5 years: investment of 3 million to 5 million USD

² BCU is a basic calculation unit used to determine the amounts of state fees, fines, etc. updated annually. As of February 2022, one basic calculation unit is equal to UZS 270,000 (around USD 26)

- 7 years: investment of 5 million to 10 million USD
- 10 years: investment of more than 10 million USD
- Customs payments (except for VAT and customs processing fees) on construction materials not produced in Uzbekistan and imported for implementation of the investment projects during the construction period
- Customs payments (except for customs processing fees) on import of technological equipment not produced in Uzbekistan, as per the approved list, as well as on import of raw materials and components used for production of export-oriented goods

Cotton cluster incentives

- Subsidies for loans,
- Leasing opportunities for the purchase of machinery,
- State financial aid to cover the operating expenses.

Agricultural FEZ incentives

In addition to the general FEZ incentives, the agricultural FEZ participants are exempted from Customs payments (except for customs processing fees) on import of technological equipment not produced in Uzbekistan, as per the approved list, as well as on import of raw materials and components used for production of export-oriented goods

Tax incentives

Agriculture producers and fisheries are subject to 0% CIT in relation to profits received from sale of their own agriculture / fishery production provided that income from such activities comprises at least 90% of the total income.

Immovable property of agricultural enterprises used for production and storage of agricultural goods is exempt from property tax.

Land plots irrigated through water-saving methods (drip, sprinkler, discrete etc.) are exempt from land tax for 5 years starting from the month in which the method is deployed.

Land plots on which reclamation works are carried out are exempt from land tax for 5 years starting from commencement of such works, as per the projects approved by the authorized body.

Please also note that production of grape and fruit wine of natural fermentation, as well as production of sparkling wine is subject to a reduced excise tax rate (UZS 1 per dL). Import of certain types of equipment required for viticulture and winemaking is exempt from customs duties.

Rates of CIT, property tax and land tax and tax on usage of water resources for main business activities for enterprises engaged in breeding and poultry businesses are subject to 50% reduction until 1 January 2024. Such enterprises are also subject to deferred VAT payment and expedited procedure of VAT refund upon import of specified goods.

Sale of beef, lamb, chicken, livestock poultry (including products of their slaughter), potato, and frozen fish, as well as import of those products to Uzbekistan is exempt from VAT until 31 December 2021.

Employment income of individuals attracted for seasonal cotton harvesting is not subject to personal income tax and social tax.

Import of seeds, seedlings and rootstock, mineral fertilizers, pesticides, modern energy-saving greenhouses, and their spare parts, as well as systems of drip and sprinkler irrigations and their spare parts, as per the approved list is not subject to customs duties until 1 January 2023.

2. Food processing

- **The contribution of food processing sector in Uzbek economy, compared to the scale of agriculture, still seems small, but which implies it has huge potential for growth and export**
- **The sector is, in the coming years, projected to be one of the fastest growing sectors in the country**
- **Investing in this labor-intensive subsector might enjoy advantage of adequately educated reasonable cost of labor**
- **Uzbekistan seeks to increase the production and export of higher value-added food products**

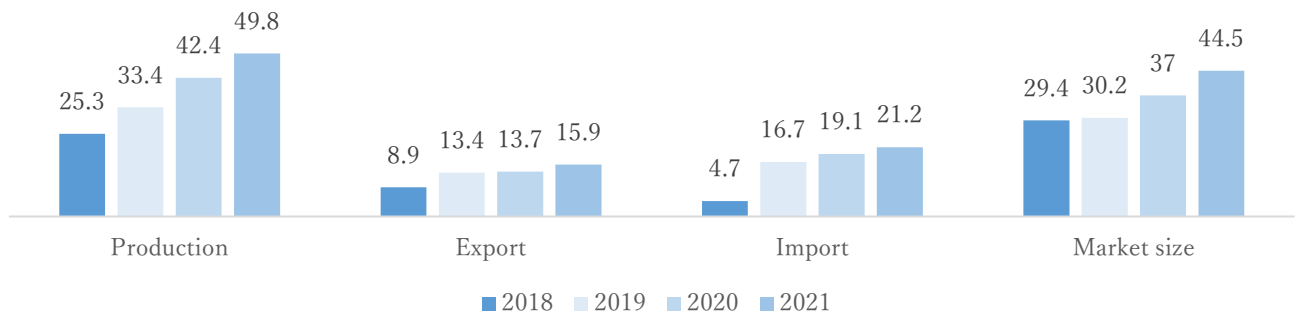
Sector overview

The contribution of food processing sector in Uzbek economy, compared to the scale of agriculture, still seems small, which implies it has huge potential for growth and export. As shown in table 3, in 2019 the food processing subsector's share in Uzbekistan's GDP was 3.0%. The same shares in Uzbek export total 1.8%. These figures show that:

- The sector has smaller scale compared to agriculture, which implies that it has huge potential to grow by utilizing materials produced in agriculture sector;
- Its share in export is significant, compared to the small scale of whole sector.

	2017		2019	
	GDP, %	Export, %	GDP, %	Export, %
Agriculture	34	7.3	28.1	8.3
Food processing, beverages and tobacco	3.6	1.8	3	1.8
Textile, wear apparel, and leather products	2.9	6.6	2.9	9.1
Food services	8	0	6.9	0
Total agri-food	48.5	15.7	40.9	19.2

Figure 10. Uzbek food processing market size (production+ net imports), in trl UZS
(Source: SCS, 2021)



The food processing sector is, in the coming years, projected to be one of the fastest growing sectors in the country. Not only does the country have abundant raw materials (with agriculture making up more than a fifth of GDP and agricultural output growing as farms become more efficient); it also boasts a range of other important inputs – from inexpensive overland access to the regional market, to well-qualified, low-cost labor – that bode well for investments in the sector. In 2021, Uzbekistan harvested 20 million tons of fruits and vegetables, about 7.4 million tons of grain, 2.6 million tons of meat, more than 11 million tons dairy products. The general annual capacities of oil-producing enterprises total more than 4.39 mln tones of oilseeds for processing, including 3.59 mln tones of cottonseed, and more than 0.80 mln tones of soybeans and sunflower seed. There are 20,236 food processing enterprises in Uzbekistan produced products worth 21,885.8 billion soums between in January-June 2021. Being underpinned by such firm growth of agriculture sector, food processing sector is also expected to show its growth speed in the coming years, as reflected by the growth of firm number and employment (Table 4).

Table 4. Growth in food industry’s firms and employment, 2015-2019. Source: Uzbekistan: Agri-Food Diagnostic (p. 60) by World Bank (2020)

	Change in number of firms		Change in employment	
	Number of firms	%	Employment	%
Food processing	6884	82.4	20,864	29.7
Meat	323	74.4	2,354	92.6
Fish	22	26.5	148	54.2
Dairy	435	55.6	1,793	37.9
Fruits & Vegetables	634	115.3	2,206	55.0
Vegetable & animal oils	236	88.4	651	4.4
Flour & flour products	324	71.4	1,283	-6.5
Bread & bread products	3855	86.0	9,133	58.0
Other foods	820	75.6	5,182	65.5
Feed	124	110.8	680	93.3
Beverages	154	30.5	1,634	12.7

Table 5. Job outlook in food industry, 2020-2030. Source: Uzbekistan: Agri-Food Diagnostic (p. 78) by World Bank (2020)

	Estimated employment, 2019	Annual change in employment, actual, 2015 – 2019, %	Projected annual change in employment, 2020 – 2030, %	Projected employment, 2030
<i>Food processing</i>	<i>154684</i>	<i>6.8</i>	<i>12.8</i>	<i>350237</i>
Meat	7343	20.9	15.0	29705
Fish	632	13.0	5.0	1029
Dairy	9780	8.4	10.0	25367
Fruits & vegetables	37320	11.8	15.0	113660
Vegetable & animal oils	18365	1.2	0.5	19304
Flour & flour products	22174	-1.6	1.0	24493
Bread & bread products	37313	12.2	4.0	55232
Other foods	19646	14.2	7.0	38646
Feed	2114	19.6	10.0	5482
<i>Beverages</i>	<i>17356</i>	<i>3.1</i>	<i>2.0</i>	<i>21156</i>
<i>Tobacco</i>	<i>1352</i>	<i>-0.9</i>	<i>0.0</i>	<i>1352</i>
<i>Food industry</i>	<i>173392</i>			<i>372746</i>

Investing in this labor-intensive subsector might enjoy advantage of adequately educated reasonable cost of labor. Demographics of Uzbekistan (high number of new entrants into the labour market, young age structure of population) requires proactive job creation policies, and promotion of labor-intensive industries, such as food-processing and textile. Food-processing industry might be attractive for investors due to the well-educated workforce at relatively attractive labor costs. A resolution of the President "On measures to accelerate the development of the food industry and full provision of the population with high-quality food products" entrusted the Ministry of Agriculture with a number of additional tasks. The Ministry, in particular, will create conditions for mutually beneficial relations between enterprises growing (producing) fruits and vegetables, meat, dairy and other food products, and enterprises for processing, procurement and sale of these products.

Uzbekistan seeks to increase the production and export of higher value-added food products. Uzbekistan's food processing industry is divided into production of the following group of products: milk and dairy products, meat and meat products, cereals and wheat products confectionary, oil-fat, processed fruits and vegetable products and fish and fish products. Only 15% of the 20 million tons of fruits and vegetables grown each year is processed for longer shelf-life, while 30% is lost due to insufficient storage and processing capacity. Only 16% of meat and milk is processed. Uzbekistan's 1,500 existing refrigerated warehouses can accommodate only 4.5% of the harvest, and the government plans to triple its cold-storage chain capacity by 2025. The current development plan calls for adding 3.4 million tons of processing capacity by 2030, accommodating 30% of the harvest.

On June 4, 2021, the government approved the list of 676 types of technological equipment (including several models of food processing equipment) to be exempted from customs tax and VAT when imported into the country. The President's decree of September 9, 2020 instructed an establishment of a Main Directorate for the development of the food processing industry at the

Ministry of Agriculture. It is tasked with creating conditions for productive collaboration between producers of agricultural products and food processing companies, devising a strategy for the development of food processing industry, facilitating construction of necessary trade and logistics centers, and promoting export of food products.

Some of the larger companies currently doing business in food processing in Uzbekistan include Nestle, Coca-Cola, and PepsiCo. Local companies prefer working with a foreign partner and value foreign management, technology, technical expertise, and export market access.

Major foreign investors in the sector

- **Nestle Uzbekistan LLC (France)** - established in 1999 and specializes in the production of drinking water, sterilized milk and children's cereals. In 2019, Nestle sold its dairy and water business in Uzbekistan to Lactalis (France).
- **JV Samfruit (Switzerland)** - one of the largest wholesale producers of dried fruits, vegetables, and herbs in Uzbekistan founded in 2002 as an Uzbek-Swiss joint venture.

Investment opportunities

- Creation of trade logistics centers on storage, primary processing, packaging fruits and vegetables;
- Canned and frozen foods;
- Meat and poultry processing;
- Creation of modern greenhouse complexes in the regions of Uzbekistan;
- Production of juices
- Fruit and vegetable processing
- Packaging material (cardboard, paper, aluminum foil, stretch films)
- Compact processing machinery for use by small businesses
- Purchase of 51 % share of "Kokand yog-moy" JSC
- Purchase of 84.4 % share of "Fergana yog-moy" JSC
- Purchase of 51.1 % share of "Asaka yog-moy" JSC
- Purchase of 58.4 % share of "Andijan yog-moy" JSC
- Purchase of 89.2 % share of "Yoggar" JSC
- Purchase of 40 % share of "Turon Khujayli" JSC
- Purchase of 60.3 % share of "Urgench yog-moy" JSC

Presence of SoEs

State-owned edible oil producing enterprises

There are 24 cooking oil-producing companies that are either state-owned or have a state stake producing cottonseed oil, sunflower oil, soybean oil, linseed oil, corn oil and others in Uzbekistan. The major companies are: JSC Andijon yog-moy, JSC Uchkurgan yog, JSC Tashkent yog-moy

combine and others.

Other state-owned food processing companies

The state stakes in the major 36 enterprises, including edible oil, meat processing, and tea producing companies, were transferred to UzSAMA after the dissolution of Uzbekoziqovqatholding in 2020, the holding company which was responsible for the management of the major enterprises in the food and beverage industry.

3. Textile

- **Textile sector plays an important role in Uzbek economy, especially in its export**
- **The sector is expected to grow rapidly, showing strong comparative advantage with high productivity.**
- **Over the past four years, the sector has undergone drastic changes**
- **Today more than 7,000 enterprises operate in the industry**

Sector overview

Textile sector plays an important role in Uzbek economy, especially in its export. Today, the textile and sewing-knitting industry of Uzbekistan is one of the leading and dynamically developing industries. According to the SCS (2021), in 2021, the industry's share in GDP was around 2.7, while in 2020 its share was around 2.5. The sector's contribution in the export of Uzbekistan is more significant, according to SCS, within January-December 2021, the export of textile products constituted 2,927.2 million USD, which accounted for 17.6% of the total export volume and, compared with January-December 2020, it increased by 52.3%. The industry, despite the situation with the coronavirus pandemic, continues to demonstrate high growth rates, remaining one of the most dynamically developing sectors of the economy of the country. (Table 6)

	2019	2020	2021
Value-added in the textile sector	12.54	15.22	20.43
Share of textile in total manufacturing output	13.2 %	12.9%	13.9%

The sector is expected to grow rapidly, showing strong comparative advantage with high productivity. Textile is one of the sectors which has compatible advantage, with high productivity. According to the World Bank analysis, the sector showed 78.0 mln UZS/worker in 2018, which is 4.5 times higher than the average productivity for all economy. Having such a high productivity, the sector is expected to show a rapid growth in the coming years if it does not encounter resource constraints or institutional bottlenecks.

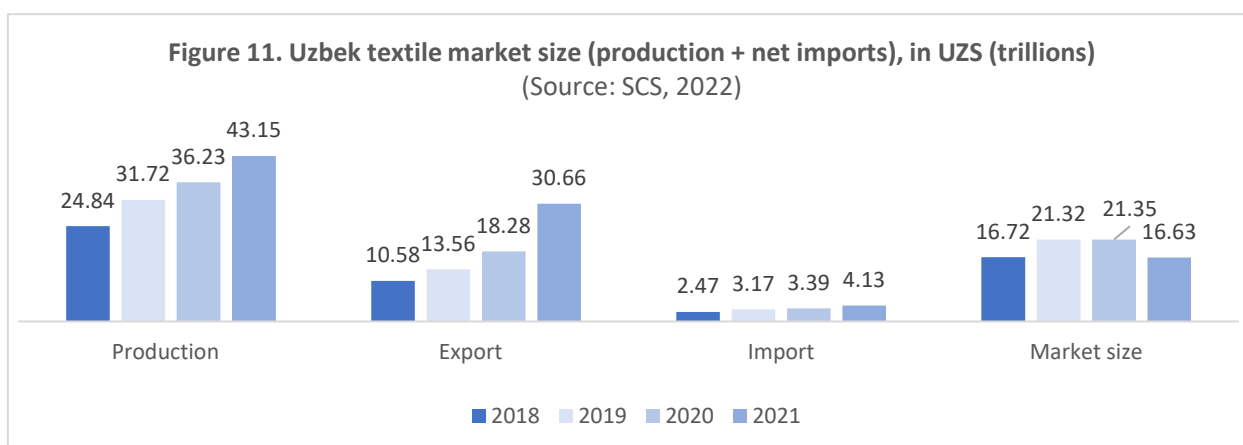
Table 7. Light manufacturing's labor productivity, 2018. Source: Uzbekistan: Agri-Food Diagnostic (p. 69) by World Bank (2020)

	Value added, bln	Employment, workers	Labor productivity, mil UZS/worker
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	UZS		
Textile industry	9,035	115,884	78.0
Wear apparel industry	2,828	61,883	45.7
Leather industry	621	10,444	59.4
Light manufacturing, total	12,484	188,211	66.3

Demand is expected to be increasing in the future. Main factors driving the demand for textile products include shift in customer perception, increase in disposable income and relatively low cost of production. Thus, the textile industry of Uzbekistan over the past four years have demonstrated rapid development, and kept growing in spite of strong headwinds associated with the COVID-19 pandemic.

Figure 11 shows that both production and exports of the sector have growth rapidly in recent years. The negative impact of the COVID-19 pandemic was the largest in 2020, but in 2021 the sector fully recovered.



Silk Products: Uzbekistan ranks 3rd in the world in terms of raw silk production and exports after China and India. Uzbek silk exports accounted for 7.3% of global silk trade volume. In 2021, Uzbekistan exported silk and silk products worth \$67.6 million to 17 foreign countries. Major export destinations are China, Kyrgyz Republic, Tajikistan, Vietnam, Iran, India and Korea. Nonetheless, the export volume of finished products is small in comparison to raw silk. As a result, investments are required, particularly in the production of higher-value-added silk products. More than 440 thousand boxes of silkworm grenades were grown, 22.4 thousand tons of live cocoons were harvested for the amount of 504 billion soums. Over the previous four years, the volume of cocoon production increased 1.8 times (12.4 thousand tons in 2017), in value terms, the growth was 4.2 times (118.5 billion soums in 2017).

Leather and footwear products. The leather and footwear industries are one of the promising areas of the economy of Uzbekistan. In recent years, serious attention has been paid to the

development of this industry: tax breaks and preferences have been provided to manufacturers, conditions have been created for the formation of a raw material base, and support has been provided for export activities. As a result, the industry has been developing dynamically throughout 2017-2020 and has not lost its acquired positions even during the pandemic, continuing to build up its potential. According to the Uzcharmsanoat Association, production in 2017-2020 increased by almost 19 percent annually on average. Footwear production increased 10.4 times in four years: from 10.2 million pairs in 2016 to 105.8 million pairs in 2020. Also, in 2020, 14.6 million m² of leather goods were produced. The output of leather of the second and third stages is actively increasing, while the output of leather of the first (in the form of final products) has been declining after 2018. Thus, the domestic leather industry tends to produce more complex products. And this creates additional opportunities for manufacturers of finished leather products.

In recent years, in Uzbekistan, a number of government decisions have been made to reform the cotton industry and support the development of the textile industry. Since 2017, the practical implementation of market mechanisms in agriculture has begun, in the Navoi region a project (cluster) has been implemented to place cotton growing orders based on the conclusion of direct contracting agreements between farms and a textile enterprise (Baxt Textile LLC) at 8,0 thousand hectares of land occupied by cotton. In 2018, 15 textile clusters concluded contracting agreements with more than 4.0 thousand farms for the supply of raw cotton for more than 160 thousand hectares (more than 15% of all land for cotton). Textile enterprises purchased more than 3.0 thousand units of agricultural machinery, including more than 130 units of modern cotton-harvesting equipment. In 2019, 75 projects were implemented to create clusters on land over 647.4 thousand hectares (63% of all fields under cotton) in 88 regions of the republic. When harvesting cotton in 2019, 165 units of cotton harvesting equipment were involved.

As a result, it enabled to create a solid reserve of stability of industries and to overcome the difficulties in country's economy with minimal losses.

Major foreign investors in the sector

- **Indorama Corporation (Singapore)** established JV LLC Indorama Kokand Textile in 2011 through its Indonesian subsidiary Indo-Rama Synthetics Tbk. Indorama Kokand Textile specializes in the production of cotton yarn.
- **Daewoo International (South Korea)** formed FC Daewoo Textile Fergana in 1996, specializing in the production of cotton fabric and yarn operating in Fergana region.
- **Tarmak Group (Turkey) - FC Osborn textile** is a company which produces and supplies the market with yarn and cotton fabric as well as realization knitted fabrics and terry fabrics and also ready-made terry and velor products.

Investment opportunities

- Production of shirts
- Production of denim products
- Production of terry products

Presence of SOE

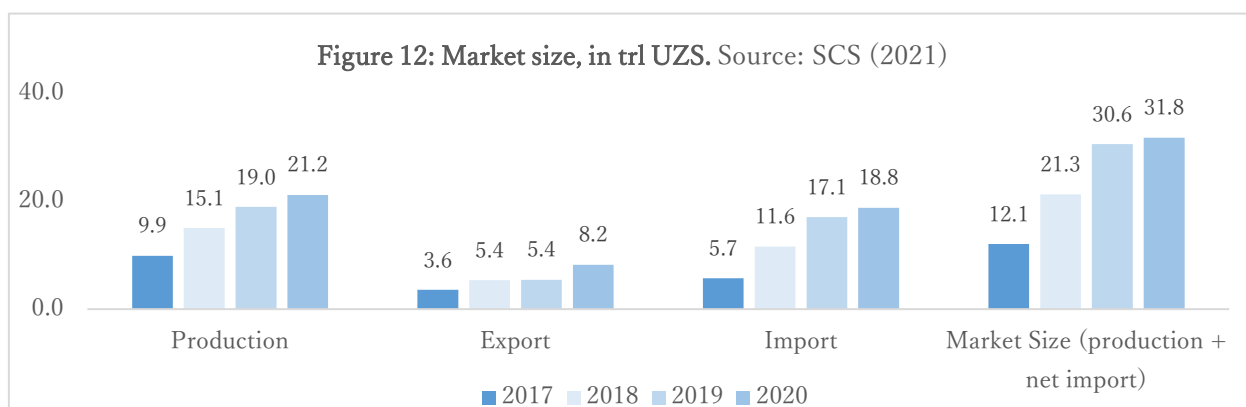
Key SoE in textile industry is Uzbekistan Textile and Garment Industry Association which includes more than 500 enterprises that ensures sustainable development of the textile industry of the republic. Nowadays, the Association unites more than 1,400 manufacturers in the textile market of Uzbekistan. 156 of these textile enterprises were established with the participation of state investors from South Korea, India, Singapore, Germany, and Switzerland.

4. Chemical

- **Chemical sector plays an important role in Uzbek economy, especially in its export**
- **The sector is expected to grow rapidly, showing strong comparative advantage with high productivity.**
- **Over the past four years, the sector has undergone drastic changes**

Sector overview

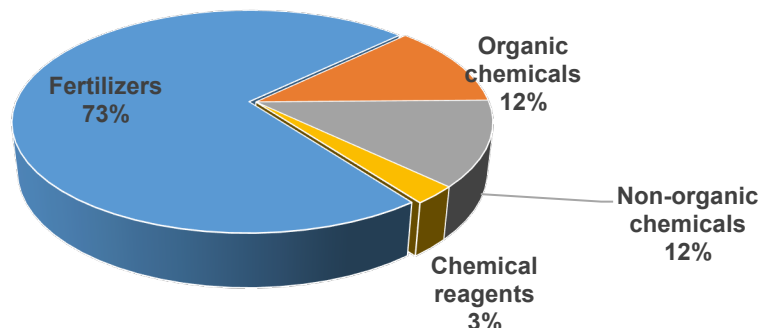
The chemical industry³ of Uzbekistan is of great importance not only for diversifying exports and strengthening the country's defense capability, but also for meeting the vital needs of citizens. The consumers of the products of the chemical industry are such industries as agriculture, mining, construction, and others. The production of chemicals in Uzbekistan experienced significant growth; it more than doubled in terms of UZS from 2017-2020. Even though the industry's growth slowed down in 2020 due to the pandemic, the industry is expected to expand significantly in the coming years.



Main chemical products produced in Uzbekistan are mineral fertilizers, inorganic materials, chemical re-agents. The Uzbek chemical sector primarily supplies agricultural producers (with fertilizers and other chemicals for farming). According to Uzkiyosanoat, holding company (<https://uzkiyosanoat.uz/en/company/history>), chemical sector in Uzbekistan produces all three types of fertilizers (N-nitrogen, P-phosphorus and K-potassium), as well as methanol and caustic soda.

³ The chemical sector in Uzbekistan comprises of fertilizer and industrial chemical producers. It does not include petrochemicals and their products (e.g. plastic).

Figure 13. Share of product categories in overall chemical production, % (2021)



According to the Presidential decrees № PP-4265, "On measures for further reform and increasing the investment attractiveness of the chemical industry", program of the development of Chemical Industry 2019 – 2030 was stated. According to this program, implementation of 31 investment projects with an estimated value of US \$ 12.1 billion, including US \$ 1.7 billion through foreign direct investment and loans aimed at: modernization, expansion of existing and creation of new energy efficient production of chemical facilities, creation, jointly with Uzbekneftegaz JSC, of new production facilities for the production of polymer products,

Uzbekistan's exports of chemical products mostly comprise of fertilizers, such as ammonium nitrate and potassium chloride. To diversify exports and modernize the obsolete equipment, the chemical sector has embarked on large-scale investment programme. In particular, the existing production of soda ash at Kungrad Soda Plant was expanded. Also, a PVC production line at NavoiAzot Plant was launched. As a result, Uzbekistan began to export phosphate rock, soda ash and PVC.

Major foreign investors in the sector

- **Maxam Corp, S.A.U" (Spain)**- invested in total around 120 mln USD, owns 49 % of share of JSC Ammofos (JSC "Ammofos-Maxam") and 49 % of stake of CHIRCHIK Elektrohimbkombinat (JSS" Maxam-Chirchiq").
- **Ferkensco Management Limited (Cyprus)** – possess 100 % of shares of Samarkandkimyo, invested around 200 mln USD, plant's capacity is 600,000 tons of ammonium sulfate, urea, melamine and phosphorous-based fertilizers.
- **NCV International (UAE)** – acquired 51 % shares of the JV LLC "Kungrad Soda Plant", the only soda ash producer in Central Asia, for \$25 million in 2020.

Investment opportunities

- Privatization of JSC "Fargonaazot"
- Privatization of JSC "Uzbekkimyomashzavodi"
- Privatization of JSC "ELECTROKHMZAVOD"
 - Production of nitrogen, phosphorus, potash and complex mineral fertilizers;

- Production of polymer products, including polyethylene terephthalate (PET), polyvinyl chloride (PVC), synthetic rubber, polystyrene, polyurethane, polyol, acrylonitrile-butadiene-styrene (ABS) plastic, polyacrylonitrile (PAN);
- Production of melamine, methylamine, formaldehyde, urea-formaldehyde and melamine-formaldehyde resins, ethyl acetate, edible salt, bicarbonate sodium, chloroacetic acid, sodium nitrate, butyl acetate, trisodium phosphate, nitrocellulose, reagents, catalysts
- Production of chemical additives for the metallurgical, oil and gas and textile industries.

Presence of SOE

Joint Stock Company "Uzkimyosanoat" - an integrated corporate structure that combines chemical enterprises of the Republic of Uzbekistan. The company develops and sells industrial, innovation, marketing program development of chemical plants, thus creating the conditions and prerequisites for the sustainable development of the industry as a whole.

The company comprises 14 industrial enterprises, 13 regional distribution organizations involved in the implementation of mineral fertilizers to agriculture, scientific research and design institutes, foreign freight forwarding organization "Kimetrans" and "Kimetrans Logistics", and brokerage company "Hamkor - kimeservis".

5. Pharmaceutical

- **The sector is expected to grow rapidly, showing strong comparative advantage with high productivity.**
- **Over the past four years, the sector has undergone drastic changes.**
- **Uzbekistan intends to increase the value share of domestic pharmaceutical products in the market to 50% by 2025.**
- **Pharmaceutical FEZs have been created and new concept was developed.**

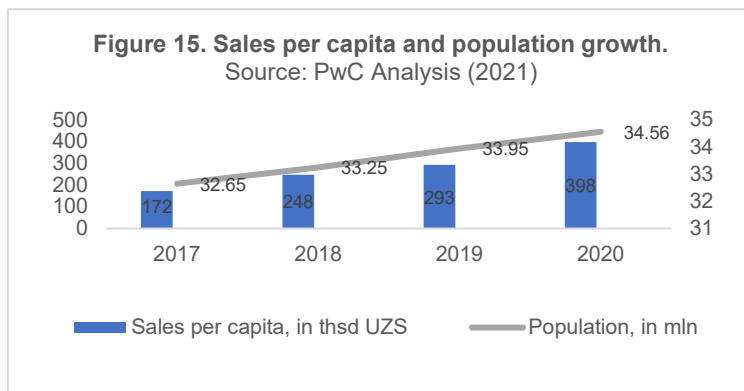
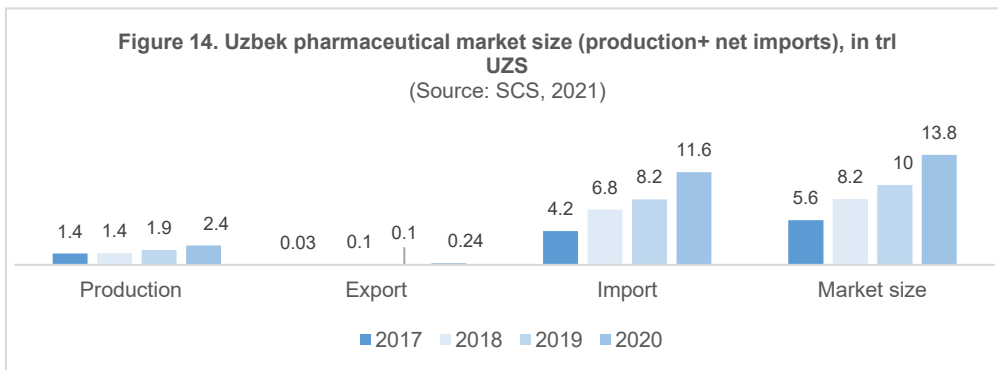
Sector overview

The pharmaceutical market of Uzbekistan is the third largest in the CIS after Russia and Ukraine. Also, it is one of the fastest growing markets in the CIS region in terms of growth dynamics (8-10% per year). The size of the market is estimated to be around 13 trillion UZS annually. The sales per capita have been increasing over the years (figure 15) and it is further expected due to anticipated population growth. According to the SCS of Uzbekistan, in 2020 the share of this sector in GDP was 0.2%.

Uzbekistan intends to increase the value share of domestic pharmaceutical products in the market to 50% by 2025, according to the Concept for development of the pharmaceutical industry of Uzbekistan in 2020-2024. The development concept envisions the phased implementation of Good Manufacturing Practices (GMP) and Good Vigilance Practices (GVP), as well as other practices, to ensure the quality of pharmaceutical products in accordance with international standards. It also calls for the development of new types of pharmaceutical products, as well as an increase in the proportion of innovative drugs in local manufacturers' portfolios. The government actively promotes the use of public-private partnership mechanisms in the development of new pharmaceutical products.

Uzbekistan heavily relies on imported medicines. The local production covers less than 20% of domestic needs in general. Most of drugs vital for certain groups of population are imported from other countries. In general, the pharmaceutical sector needs large investments.

The Government of Uzbekistan sees large potential for growth in the pharmaceutical sector. These efforts are in line with the general reforms in healthcare sector. To create favorable investment climate, the government established 6 specialized pharmaceutical free economic zones. The enterprises in these areas can fully utilize the raw material base these regions offer. The recent changes and general reforms occurring in Uzbekistan and reforms regarding directly pharmaceutical sector could boost the pharmaceutical sector by attracting FDI and creating favorable conditions for medical producers and distributors.



Major foreign investors in the sector

- **Nika pharm** Over the 15 years of its existence, it has become one of the most innovative, modern and technologically advanced drug manufacturers in our republic. From the very beginning of its activity, the company has established itself as an enterprise for the production of high-quality products in demand, designed for the general population.
- **Jurabek laboratories** An Indian and UAE joint venture operating a pharmacy in Tashkent. It is the largest privately owned pharmaceutical company in Uzbekistan. The company claims to account for around 38% of the main products in the domestic market and supplies its products to the majority of the country's wholesalers.
- **Nobel Pharmsanoat** is a recognized Turkish brand. The company has been operating in Uzbekistan for a long time and at the moment is one of the leaders in the market.

Investment opportunities

- Production of generics, medicinal herbs, medical devices such as masks, gloves
- Manufacturing of disposable syringes and bandages - medical, elastic, plasters
- Production of drugs based on blood plasma
- Production of oncological drugs
- Production of gynecological hormonal drugs
- Production of endocrinological drugs
- Production of urological and nephrological medicines by GMP

- Production of anti-inflammatory drugs and analgesics

Presence of SoEs.

In spite of presence of 190 manufacturers, with their total number increasing in recent years, in Uzbekistan, the quality of national products cannot compete with foreign companies. Ongoing privatization of the pharmaceutical industry can attract foreign investment over the coming years, boosting production and drug exports.

6. Construction materials

- In recent years, construction sector's productivity and growth rate are at average level
- Along with a demand rise, which is largely due to an increasing global demand, production of construction materials is constantly growing
- Domestic demand for the sector is also expected to show rapid growth, due to policy reforms.
- Uzbek government has been strongly supporting the growth and reforms in the sector.
- The development of the building materials industry will contribute to a more complete satisfaction of the needs of the economy.
- Uzbekistan exports of construction materials has been showing lively performance.
- Imports in construction materials sector shows decreasing trend, which is expected to contribute to improving trade balance of the country's economy.
- Investments in the sector is firmly growing, even under the pandemic period.

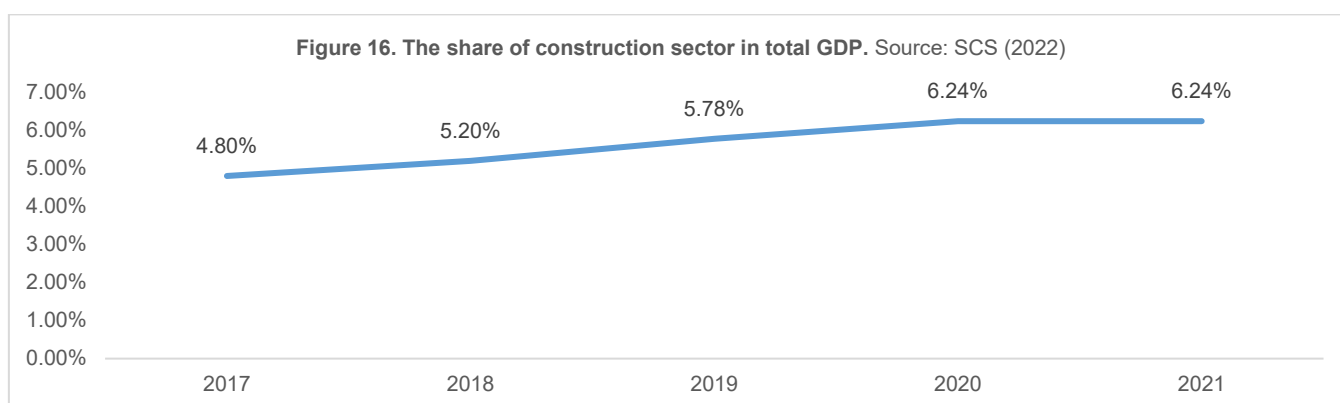
Sector overview

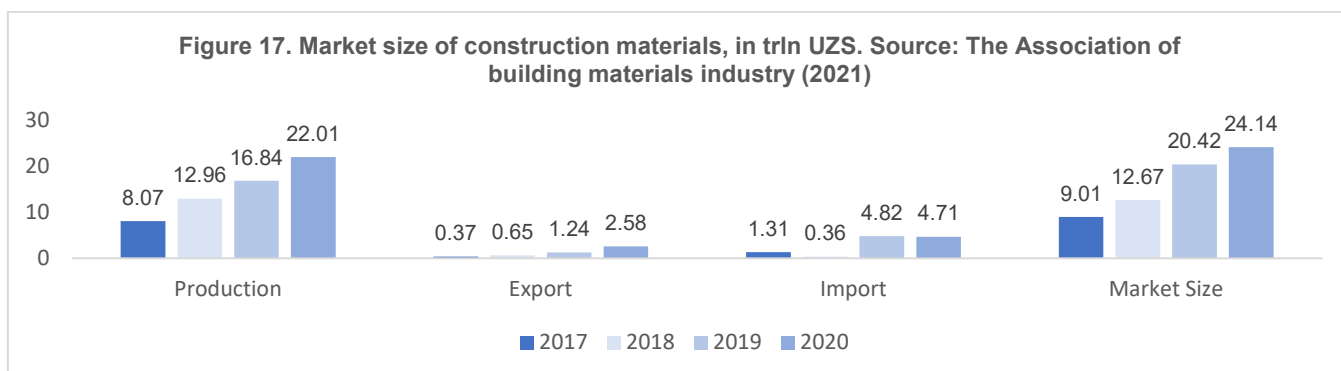
In recent years, the construction sector has been on a rise in Uzbekistan. The share of the sector in GDP has been increasing since 2017 (Figure 16) and so has the labor productivity (Table 8).

Table 8. Labor productivity of construction sector, value added by worker, in constant 2017 mln UZS Source: SCS (2021), PwC analysis

	2017	2018	2019	2020	2021*
All sectors	20.91	22.50	23.88	25.21	26.37
Construction	11.81	14.44	15.43	17.21	18.63

Note: Land productivity was estimated by dividing the added value by number of employees
**expected*





Increasing demand for construction materials is driven by the ongoing construction boom in the country. At the same time, the annual domestic and global demand for energy-saving, import-substituting, innovative and new types of construction materials constantly grow. As result, the volume of production of construction materials in Uzbekistan for the last 4 years has increased significantly.

Uzbek government has supported the reforms in the sector. According to Presidential Resolution No. PP-4198 dated 20 February 2019 “On measures for radical improvement and integrated development of the building materials industry”, a large-scale work is being carried out in the republic to further deepen structural reforms in the building materials industry, aimed at ensuring sustainable growth rates in production and export of competitive products, as well as modernization, technical and technological renewal of enterprises.

Production of construction materials composites following segments: cement (86.3%), special building materials (12.0%), non-ore materials (0.8%), wall materials (0.5%), and Others (0.4%).

The development of the building materials industry will contribute to a more complete satisfaction of the needs of the economy. There are 19 cement plants with a total capacity of 11 million tons per year. Among major cement plants are JSC Kizilkumcement, JSC Almalyk MMC, Jizzakh Cement Plant, Sherabad Cement Plant, Kuvasaycement JSC, Bekabadcement JSC. The bulk of the capacity (91%) is for 6 large enterprises. It should be noted that for the main types of materials, local production does not cover the needs. Demand is satisfied for cement by 74.8%, glass - 50.6%, linolum - 86.6%, sanitary products - 33%, and the rest is covered by imports. The development of the building materials industry will contribute to a more complete satisfaction of the needs of the economy, ensure the accelerated construction of individual and multi-storey housing, infrastructure and social facilities.

Domestic demand for the sector is also expected to show rapid growth, due to policy reforms. According to the Worldbank studies Uzbekistan has been one of the countries where the scale of domestic population migration is low (around 2 %). This is partially due to strict regulation inside the country to control such migration. Recent years, however, such regulations have been substantially eased, which might imply increase in movability of the population. Such changes are expected to be accelerate the growth in domestic construction, thus the demand for relevant materials.

Uzbekistan exports of construction materials has been showing lively performance. These include as drywall, heat-insulating glass wool, quicklime, ceramic tiles, gypsum. In 2021, the country planned to export over \$270 million worth of construction materials, from which \$28.9 million worth of cement, \$19 million worth of aluminum and PVC profiles, \$14.2 million worth of ceramic tiles, \$12.8 million worth of dry mixes, \$7.7 million worth of quicklime, \$7.1 million worth of drywall, \$3.5 million worth of construction materials such as wallpaper.

Traditional markets for Uzbekistan exports are Kazakhstan (ceramic tiles, quicklime, drywall, heat-insulating glass wool (fiberglass)), Kyrgyzstan (ceramic tiles, decorative glass, quicklime and other products), Turkmenistan (drywall, gypsum, linoleum, varnish), Afghanistan (drywall, plaster, cans and bottles, paper products).

Imports in construction materials sector shows decreasing trend, which is expected to contribute in improving trade balance of the country's economy. In 2020, 45 types of construction materials worth \$467.6 million were imported, which is a decrease of 14.2% compared to 2019. In accordance with the decision of the President of the Republic of Uzbekistan (dated December 22, 2016 No PP-2692 "On additional measures to accelerate the renewal of obsolete and obsolete equipment of industrial enterprises, as well as reduce production costs"), in 2020 it was planned to replace 27 obsolete equipment worth \$208.5 million with modern energy-saving equipment. According to preliminary data, in January-December 2020, 20 pieces of equipment worth \$221.8 million were upgraded and replaced at the enterprises of the association.

Positive results are being achieved in the field of diversification of products and expansion of production volumes, processing of local raw materials. In 2021, the adoption of general technical regulations on the safety of stone, gypsum and ceramic products, safety requirements for reinforced concrete, concrete structures, safety requirements for ceramic sanitary ware and special technical regulations on the safety of polymers and their products planned to be done. At the same time, 340 international standards for the production of building materials in 2019 and 626 in 2020 were adopted in order to introduce a new type of quality and safe construction materials. Thus, the construction materials industry will remain one of the "drivers" of the economy in the next decade.

Positive results are being achieved in the field of diversification of products and expansion of production volumes, processing of local raw materials. If we look at the latest figures, in 2020, enterprises in the field of construction materials produced products worth a total of 22 trillion soums.

Investments in the sector is firmly growing, even under the pandemic period. From 2016 to 2021, \$7,386 million was spent on 7,385 investment projects. According to the approved Investment Program for 2021, it is planned to disburse \$1,701.1 million for 790 large promising projects in the field of construction materials worth \$2,130.0 million. In addition, investment projects are being implemented in the framework of socio-economic development programs of the regions.

Construction is one of the industries that has continued to grow during the COVID-19 pandemic – in 2020 the industry grew by 9.1%. Uzbekistan is experiencing a construction boom, which will drive the growth of the construction materials industry for years to come.

Presence of SOEs

- **JSC Kizilkumcement** is the second largest cement and cement products producer in Uzbekistan. The company has 3 cement production lines with a total capacity of 3.5 million tons of cement and cement products, which in total is 29% of the cement market of Uzbekistan.
- **JSC Almalyk MMC** cement production line is carried out by the two cement plants: Jizzakh Cement Plant (Launched back in 2014, the capacity of the Jizzakh Cement Plant is more than 1 million ton per year, 760 thousand tons of Portland cement and 350 thousand tons a year for white cement) and Sherabad Cement Plant (Built in 2018, the total production capacity of the plant is 1.5 million tons of cement per year).

- **Quartz JSC** is one of the leading enterprises in Central Asia producing sheet colored, tinted and tempered glass, glass jars and bottles, operating since 1975.

Major foreign investors in the sector

- **KNAUF (Germany)** – a leading gypsum products manufacturer in Uzbekistan, accounting for 70% of the local gypsum wallboard market.
- **Lamanka Enterprises Limited (Cyprus)** - is the largest cement producer in Uzbekistan with the total design capacity of 2 180 000 tons of cement per year. Established on the basis of JSC Akhangarancement, however in June, 2021 Eurocement sold its 84.19 percent of its shares in Ahangarancement to Cyprus company Lamanka Enterprises Limited for \$52.5 million.
- **Anhui Conch Cement (China)** - established an LLC Qarshi Conch Cement in Kashkadarya region, with an annual production capacity of 1.2 million tons of portland cement.

Investment opportunities

- Sanitary ware production
- Production of paper based on limestone
- Manufacture of electrodes
- Linoleum production
- Production of roofing materials
- Foam sealants manufacturing
- Manufacturing of aerated concrete and gas blocks
- Production of sandwich panels based on ballast
- Extraction and processing of marble and granite

MANUFACTURING (CHEMICALS, TEXTILE, PHARMACEUTICALS, FOOD PROCESSING AND CONSTRUCTION MATERIALS) OPERATING ENVIRONMENT

Key takeaways

General takeaways.

- The entities engaging in the manufacturing field may choose to register in specialized SEZs and enjoy certain incentives.
- The majority of manufacturing products intended for consumer use are subject to conformity and/or sanitary certificates.
- There are different forms of state support for the entities with high export volume (subsidies, incentives, benefits etc.).
- Premises of manufacturing entities shall comply with state sanitary and hygiene requirements.

Chemical industry.

- Chemical sector is heavily regulated.
- Chemical production and processing works must comply with national technical norms and standards.

Textile industry.

- Textile sector has demonstrated high growth rates in recent years, but the potential for growth is even larger.

Pharmaceutical industry.

- The government stipulates the maximum resale markups thresholds for medicines and medical products, imported or produced in Uzbekistan at 15% for the whole sale and 20% for the retail sale.
- In addition to conformity certificates, the medicines and medical products are eligible for prescription and sale only after receiving medical registration certificates from the Ministry of Health.

Food processing industry.

- Food processing industry is subject to strict hygiene and sanitary rules, as well as labelling requirements. Most of the food products are subject to obtaining the conformity certificates..

Key regulators, laws and regulations

Key regulators

In general, there is a range of state authorities responsible for the general supervision of the manufacturing sector. These include a State Committee on Industrial Safety, Uzbek Agency for Technical Regulation, Sanitary-Epidemiological Welfare and Public Health Service.

Other sector specific regulators and industry associations

Textile sector. The Association of Entities of Textile and Clothing-Knitwear Industry of Uzbekistan serves as a bridge between industry players and the government, supports the business entities and protects their interest.

Pharmaceuticals. The Pharmaceutical Industry Development Agency is a crucial regulatory authority for the pharmacy sector. It is responsible for state regulation of the pharmaceutical industry, issuing licenses for pharmaceutical organizations, developing national standards and conformity certificates, etc.

Construction sector. The Ministry of Construction of Uzbekistan, along with other functions, is responsible for development of the state policy, development and approval of construction regulations and standards, and issuance of licenses.

Key laws and regulations

The list of key laws and regulations include:

General:

- [Law](#) of the Republic of Uzbekistan “On the Sanitary and Epidemiological Well-Being of the Population”,
- [Law](#) of the Republic of Uzbekistan “On Certification of Products and Services”,
- [Law](#) of the Republic of Uzbekistan “On Standardization”,
- [Law](#) of the Republic of Uzbekistan “On Metrology”,
- [Law](#) of the Republic of Uzbekistan “On Industrial Safety of Hazardous Production Facilities”,
- [Law](#) of the Republic of Uzbekistan “On Ecological Expertise”,
- [Law](#) of the Republic of Uzbekistan “On Ecological Audit”
- [Law](#) of the Republic of Uzbekistan “On Public-Private Partnership”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Ensuring a Stable Supply of In-Demand Products and Raw Materials to Sectors of the National Economy”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Additional Measures for Simplification of Product Certification Procedures”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Additional Measures for the Improvement of Certification Procedures and Implementation of Quality Management Systems”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Lists of Conformity Assessment Objects Subject to Conformity Confirmation in the Republic of Uzbekistan”,

Chemical sector:

- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for the Accelerated Development of the Chemical Industry of the Republic of Uzbekistan”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Further Reforming and Improvement of the Investment Attractiveness of the Chemical Industry”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Further Reforming and Financial Recovery of the Chemical Industry and the Development of High Value-Added Chemical Production”,

- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for Creation of an Innovative Chemical Research, Production and Education Cluster”,

Textile sector:

- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for the Further Development of the Light Industry and the Stimulation of Finished Goods Production”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Urgent Measures for the Support of the Textile and Garment Industry”,

Pharmaceutical sector:

- [Law](#) of the Republic of Uzbekistan “On Medicines and Pharmaceutical Activity”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Regulation on the Procedure for State Registration of Medicines, Medical Devices and Medical Equipment and the Issuance of Registration Certificates”,

Food processing sector:

- [Law](#) of the Republic of Uzbekistan “On Food Quality and Safety”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for Deep Processing of Agricultural Products and Further Development of the Food Industry”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for the Further Development of the Oil-and-Fat Industry and the Introduction of Market-Based Mechanisms for Industry Management”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Improving the Management System for the Production and Regulation of Alcohol and Tobacco Products Circulation”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Measures for Improvement of the State Regulation of the Production and Circulation of Alcohol and Tobacco Products and the Development of Viticulture and Winemaking”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Rules of Retail Trade in the Republic of Uzbekistan and Rules of the Production and Sale of Products (Services) of Public Catering in the Republic of Uzbekistan”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of General Technical Regulations of Food Safety in Terms of Labelling”,

Construction materials sector:

- [Urban Planning Code](#) of the Republic of Uzbekistan,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for Accelerated Development of the Construction Materials Industry”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for Stimulation of Increased Production and Improvement of the Quality of Wall Materials”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Fundamental Improvement and Comprehensive Development of the Construction Materials Industry”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for Fundamental Reforming of the Customer Service in the Field of Capital Construction”.

Licenses required for establishing a company

Establishing a company

There is no single mandatory type of business form for organizations in the manufacturing sector. LLCs and JSC are the most common business forms.

Licensing and permit requirements

Certain manufacturing activities require respective licenses or other permissive documents.

Licenses

The following activities are subject to licensing:

- Development, production, transportation, storage and sale of explosives and toxic substances, materials, and products with their use, as well as blasting agents
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - unlimited.
- Pharmaceutical activity (production, wholesale, and retail sale of medicine)
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - for 5 years.
- Production of food ethyl rectified alcohol, including grape, fruit, berry alcohol, and wine alcohol, raw grape, and fruit and berry alcohol.
 - State fee - from 25 BCU (around USD 630) to 250 BCU (around USD 6,280),
 - Validity period - unlimited.

Other permissive documents

In addition, the following permit documents might be required in the course of engaging in manufacturing activities:

- Permit for importation and production of specially introduced biologically active substances, new chemicals, food additives, biological agents and materials, polymeric and plastic masses, perfumes, and cosmetics,
- Notification on production, use, storage of substances (medicines, salts, reagents, chemical compounds, etc.) containing precious metals in their composition,
- Certificate of conformity for most manufacturing products (food, chemical, textile, pharmaceutical, construction goods and materials, etc.). The producers shall obtain a certificate of conformity from national standards agencies to sell on the market.
- Registration certificate for medicinal products.

Additional regulatory and administrative procedures

The following regulatory and administrative procedures represent a set of local mandatory guidelines and requirements which must be followed by the local entities. Moreover, it should be noted that in most of the cases the local applicable legislation is aimed to comply with international standards and requirements.

Environmental clearance

State ecological expertise

Certain types of entrepreneurship activities, which can cause harm or risk of harm to environment, are subject to environmental clearance. The list of such activities is broad and contains many activities related to the manufacturing industry. The activities are categorized as high-risk, medium-risk, low-risk, and local-risk. Currently, there are 143 objects / activities subject to the state ecological expertise, which can be found at the following [link](#).

Ecological audit

The [Law](#) “On Ecological Audit” was enacted on 15 March 2021 and shall enter into force from 17 March 2022. According to the legislation, the entities, which conduct high-risk and medium-risk [activities](#), shall be subject to annual ecological audit. The ecological audit organizations shall conduct the audit in accordance with national or international ecological standards and issue their conclusion upon the completion of the audit.

Certification of conformity

As stated above, in many cases the entities shall be subject to mandatory certification for their locally produced and / or imported products. The certification requirements can be related to ecological, sanitary, pharmaceutical, chemistry and other matters. Full list of the goods subject to mandatory certification is provided in the following [link](#).

Labelling

The requirements for the labelling of goods imported to Uzbekistan are mainly related to the inclusion of minimum required information in Uzbek language in the original label of the products, as well as the appropriate form of such labels. The list of products subject to having the minimum required information in Uzbek language in the original label is provided in the following [link](#). In addition, the list of products subject to labeling in Uzbek language with the information to be included therein, as well as possible ways of labeling are provided in the following [link](#).

Sector incentives

Table 9. Incentives in manufacturing
Pharmaceutical SEZ incentives
General SEZ incentives for the entities engaged in the pharmaceutical activity within respective special pharmaceutical SEZs (creation of plantations for cultivation of medicinal herbs, infrastructure facilities, special taxation and customs regimes, visa support, right for land, decreased payment of the fee for removal of wild plants etc.).
Tax incentives

As noted above, special tax regime providing exemptions from property, land and water use tax for enterprises attracting FDI in accordance with the Tax Code and Decree #UP-3594 may be applied by the enterprises of the following sectors producing finished goods as a specific list approved by the Government:

1. Chemicals;
2. Light industries including manufacturing of various textile products;
3. Medical industry (pharmaceutical);
4. Food processing;
5. Production of construction materials as per the approved list.

As noted in the overview of the tax incentives, specific incentives on property tax, land tax and water usage tax are available to SEZ participants, whose business activities need to be in alignment with the functional and industrial specialization of SEZ.

Below we list the free zones whose specialization covers the above industries:

1. Chemicals: SEZ “Navoi”, SEZ “Angren”, SEZ “Urgut”, SEZ “Gijduvan”, SEZ “Khazarasp”, SEZ “Sirdaryo”.
2. Light industries including manufacturing of various textile products: SEZ “Jizzakh”, SEZ “Urgut”, SEZ “Gijduvan”, SEZ “Kokand”, SEZ “Namangan”, SEZ “Khazarasp”, SEZ “Sirdaryo”.
3. Medical industry (pharmaceutical): SEZ “Nukus-pharm”, SEZ “Zomin-pharm”, SEZ “Kosonsoy-pharm”, SEZ “Sirdaryo-pharm”, SEZ “Boysun-pharm”, SEZ “Bustonlik-pharm”, SEZ “Parkent-pharm”, SEZ “Andijon-pharm”.
4. Food processing: SEZ “Angren”, SEZ “Urgut”, SEZ “Gijduvan”, SEZ “Kokand”, SEZ “Namangan”, SEZ “Khazarasp”, SEZ “Sirdaryo”.
5. Production of construction materials as per the approved list: SEZ “Angren”, SEZ “Jizzakh”, SEZ “Urgut”, SEZ “Gijduvan”, SEZ “Kokand”, SEZ “Namangan”.

Please also note that there are a few pharmaceutical SEZ, residents of which may apply the tax and customs incentives, identical to those provided for residents of regular SEZ (i.e. exemption from payment of property tax, land tax and water usage tax with duration depending on the investment amount).

According to Presidential Decree #5239 dated rate of CIT for cements (clinker) producers has been reduced from 20% to 15%. Besides, the rate of subsurface usage tax on extraction of limestone will be halved starting from 1 January 2022 and should comprise UZS 22,500 per ton extracted.

7. Oil and Gas

- **Uzbekistan possesses large proven reserves of oil and gas**
- **Oil and gas remains a leading sector in Uzbekistan’s economy, providing high-quality employment, significant budget revenues, and export earnings**
- **There is an increasing demand for oil and gas products both domestically and regionally**
- **The sector is being transformed**

Sector overview

The country’s hydrocarbon reserves are significant: according to the National data. The proven reserves of natural gas in Uzbekistan as of January 1, 2021 was estimated at 1 trillion 866.9 billion cubic meters, more than half of these reserves are held by Uzbekneftegaz enterprises, almost a quarter of reserves - by Lukoil.

While the reserves of oil as of 2021, according to BP, accounted to 600 mln barrels. Uzbekistan is the 3rd largest natural gas producer in CIS and 16th globally. The country possesses vast gas fields with the majority concentrated in Ustyurt, Bukhara-Khiva, Gissar, Surkhandarya and Fergana regions (Figure 18). The Bukhara-Khiva region contributes to the bulk of the country's current oil production, while the Ustyurt region has contributed to most of the increase in gas reserves in recent years.

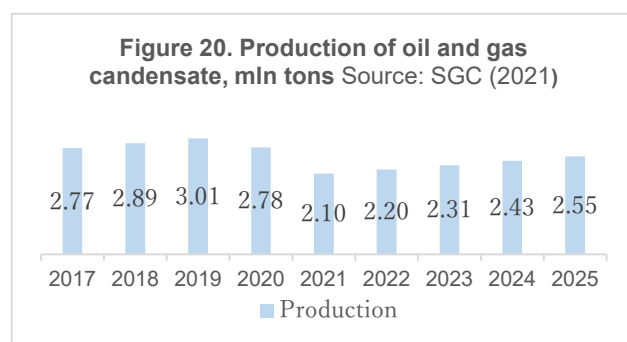
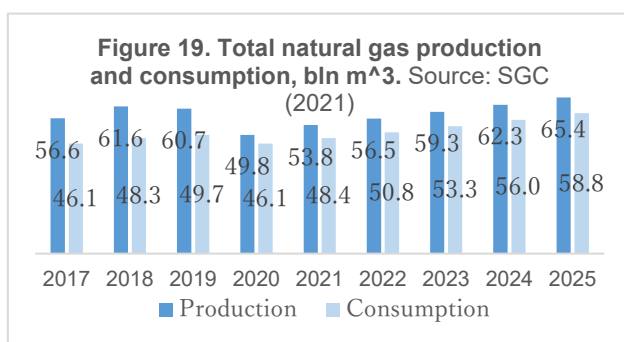
The share of Oil and Gas sector in total GDP constituted around 3 %, according to SCS. Moreover, it is further expected to grow due to the accepted reforms by the Government of Uzbekistan (which will be explained in later in report).



Gas and Oil sector remains one of the leading industries of Uzbekistan’s economy. It provides high quality employment, significant budget revenues and exports earnings. It also fuels other sectors and plays a significant role in the structure of industrial production.

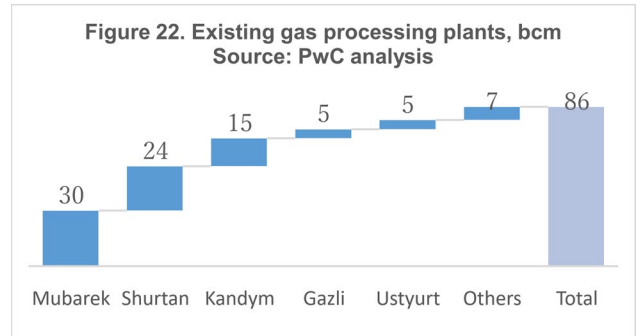
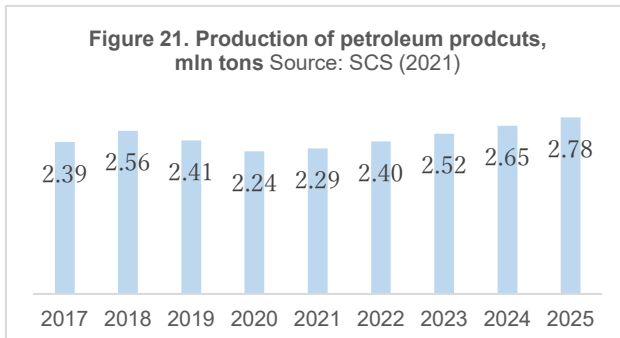
Natural Gas. The production and consumption of natural gas declined in 2020 due to the negative effect of COVID-19. However, starting from 2021, it started bouncing back and it is forecasted that due to constantly increasing population the production and consumption of natural gas will further be growing till 2025 (Figure 19). According to Ministry of Energy, it is expected that by 2030 the domestic need for the natural gas is going decrease due to planned expansion of power sector. Currently, Uzbekistan is working on diversification of its power mix and building more Renewable energy sources. Therethrough, it is planned that the basic consumption of natural gas for Thermo Power Plants will decrease and the natural gas will be used for the production of high added value products. Moreover, it was further confirmed by the Prime Minister of the government of Uzbekistan. According to the words of Prime Minister by 2025, measures will be taken to stop the export of natural gas and its complete processing within the country, as well as expansion of the production of value-added products from gas.

The government plans to gradually cease natural gas exports and instead increase the processing of gas into higher-value-added products. Uzbekistan launched its first gas-to-liquids (GTL) plant in 2021 to process domestically-extracted gas into liquid-based products and hence reduce its dependency on imports of the latter. The cost of building the GTL plant was USD 3.6 billion. It aims to produce 1.5 million tons annually of synthetic liquid fuels such as kerosene, diesel, liquefied petroleum gas, and naphtha.

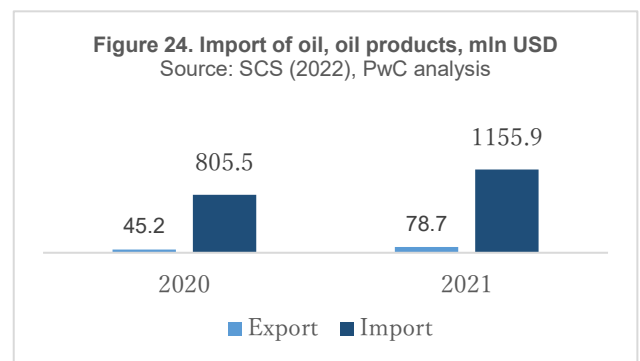
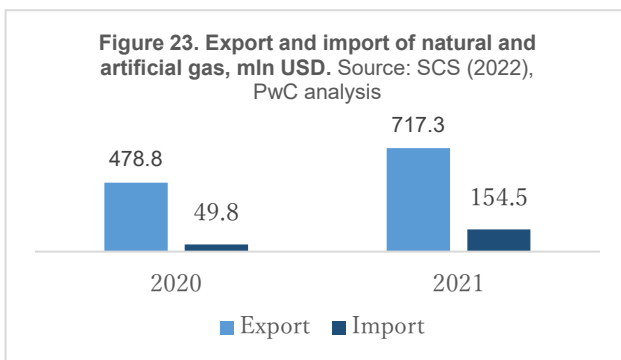


Petroleum Products. The production of petroleum started falling from 2018 to 2020 and starting from 2021 it started growing and it is expected that by 2025 the production of petroleum products will constitute around 2.78 mln tons per annum, according to the national data. (Figure 21)

Refineries. According to BP, the refinery throughput of oil in 2020 was 57 thsd barrels per day which was almost 5% less compared to 2019 while the refining capacity of oil remains constant and stays around 232 barrels per day. The biggest oil refinery facilities are Bukhara and Fergana oil refineries. While the biggest gas processing plants are located in Mubarek and Shurtan, together they constitute almost 63% of all gas refinery capacity. (Figure 22) The backward state of the existing refineries and a lack of investment saw the country's refining utilization rate drop to less than 30% in recent years. Moreover, due to the negative impact of the pandemic the overall production of crude oil decreased which consequently lowered the utilization rate. However, it is expected that in the coming years the production of refined products will increase. The addition of the new 110,000b/d facility in the Jizzakh region - currently expected in 2025 - should further boost the oil production. By 2025, the overhaul of Ferghana and Bukhara refinery facilities are expected to be modernized which will increase the utilization capacity by 100 b/d.



Gas and Oil sector remains one of the leading industries of Uzbekistan’s economy providing high quality employment, significant budget revenues and exports earnings. The trade balance of gas and oil products is opposite. According to SCS, Uzbekistan in 2021 imported oil and oil products for the amount of 1.15 bln USD while the export is negligible. At the meantime, the export of gas increased by almost 50 %.



In order to further develop the sector by making attracting foreign investors, the government of Uzbekistan is reforming the sector. According to the PP-4388 “On measures for stable provision of the economy and population with energy resources, financial improvement of the oil and gas industry management system”, the Concept for the development of the oil and gas industry of the Republic of Uzbekistan until 2030 was accepted. The goals of the concepts are approval of "road maps" for the implementation of the Concept, including an increase in hydrocarbon production and modernization of the gas transmission system; taking measures to involve international financial institutions, foreign government financial organizations and consulting companies in the practical implementation of the Concept.

Management reforms. Furthermore, PP-4388 introduced a number of changes to the structure and management system of Uzbekneftegaz JSC. Uzbekneftegaz was unbundled into 3 organizations - Uzbekneftegaz is still responsible for production, Uztransgaz is responsible for transmission and Khududgaztaminot JSC is responsible for the domestic distribution network. Also, the decree prescribed Uzbekneftegaz JSC and Uztransgaz JS to ensure compulsory preparation of financial statements in accordance with international financial reporting standards and the conduct of an independent external audit with the involvement of international audit companies.

Major foreign investors in the sector

- **Lukoil (Russia)** entered the Uzbekistan market in 2004 by signing production sharing agreements (PSA) with Uzbekneftegaz for fields in Kashkadarya and Bukhara regions. LUKOIL is the country's largest foreign investor, having already invested USD 8 billion in PSA implementation. The company is engaged in the exploration, production, and processing of natural gas and gas products in Uzbekistan.
- **Epsilon Development Company (USA)** awarded licenses in 2019 in the prospecting, exploration and production of five investment blocks of gas and oil fields in Uzbekistan (Kultak-Kamashi, Mubarek, Surkhan, Koskudyk-Ashibulak, and West Fergana). The total volume of investments of the company in Uzbekistan in 2019-2023 will amount to USD 5.2 billion.
- **Gazprom (Russia)** Implementation of the projects of Gazprom in Uzbekistan began in 2004, when Gazprom and Uzbekneftegaz signed the PSA on reconstruction and additional development of the gas and condensate field Shakhpakhty for 15 years. In accordance with the terms of the PSA, the investor received a license for the right to use subsoil and for the right to extract and sell gas. According to the Lex.uz, as part of the implementation of the Agreement in 2004-2017, USD 24.8 million of foreign direct investment was attracted, 3.8 billion cubic meters of natural gas were produced, and the income of the Republic of Uzbekistan amounted to 378.8 million USD.
- **CNPC (CHINA)** On June 8, 2006, the China National Oil and Gas Corporation for Exploration and Development (CNODC), a subsidiary of CNPC, entered into an agreement with the Uzbekneftegaz NHC to conduct exploration work in the oil and gas regions of Uzbekistan. Since then, CNPC SRG has been actively working on the investment blocks of Karazhid - Gumkhan, Romitan, Karakul, Aralomorsk and Sams-Kosbulak, applying advanced technologies at every stage of work.
- **Sasol (South Africa) and Petronas (Malaysia)** In April 2009, Uzbekneftegaz signed a heads of agreement for the GTL project with Sasol and Petronas. Uzbekneftegaz raised \$ 2.3 billion from a consortium of international financial institutions to implement the project. The total cost of the facility was then estimated at \$ 3.6 billion. On December 25 2021, the Uzbekistan GTL complex for the production of synthetic liquid fuel in the Guzar district of the Kashkadarya region was opened. The plant is expected to start operating in full operation from March 1, 2022, and it is planned to annually produce import-substituting products of petroleum products and hydrocarbon raw materials for a total amount of more than \$ 1 billion.

Investment Opportunities

- Consulting, engineering, construction, management in the field of Oil and Gas
- Supply of licensed technologies for oil refining and gas extraction and processing
- Privatization of stocks of Uzbekneftegaz JSC

Key takeaways

- The subsoil resources are the property of the Republic of Uzbekistan. Nevertheless, foreign investors can acquire the status of subsoil users and own fossil fuel extracted in accordance with the law.

- A new annual license fee for the use of subsoil for geological exploration shall be introduced starting January 01, 2022. The fee is calculated based on the allotted area and types of minerals.
- The sale of petroleum products can be carried out only by legal entities.

Presence of SOE

- **JSC “Uzbekneftegaz”** – The activities of the oil and gas industry cover the entire chain of oil and gas operations, from geological exploration, development of oil and gas fields, drilling, production, to hydrocarbon processing, production of petroleum products, oil and gas and chemical equipment and providing consumers with petroleum products
- **JSC “Uztransgaz”**
 - purchase of natural gas from gas production and processing organizations, including joint ventures and foreign companies operating on the basis of production sharing agreements, for its further transportation, including export and import of natural gas, as a single operator
 - sales of natural gas under direct contracts of Khududgaztaminot JSC and consumers connected to the main gas transmission system
 - elimination of "bottlenecks" in critical sections of the gas transmission system and development of its transit potential, through the construction, reconstruction of gas pipelines and compressor stations, including by attracting funds from International Financial Institutions, increasing the storage of natural gas in underground gas storage facilities, introducing a monitoring and flow management system natural gas (SCADA) and automated control systems at high pressure gas distribution points
- **“Khududgaztaminot” JSC**
 - operation of gas distribution networks and associated equipment in accordance with the requirements for safe operation
 - purchase, supply, storage and sale of liquefied gas to the population and social facilities

Key regulators, laws and regulations

Key regulators

The main sector regulators include the following state authorities:

- The Ministry of Energy of Uzbekistan is the central regulatory authority in the oil & gas field. It is responsible for developing a state policy in the fuel and energy sectors, increasing their investment attractiveness, and coordinating investment projects in the field.
- The Inspectorate for the Control of Use of Oil and Gas is responsible for state supervision, monitoring, and regulation in the oil & gas sector.
- The State Committee on Geology and Mineral Resources is responsible for developing state policy in mining, managing the state subsoil reserves, and establishing procedures for the use of subsurface sites.

Key laws and regulations

The list of key laws and regulations include:

- [Land Code](#) of the Republic of Uzbekistan,
- [Law](#) of the Republic of Uzbekistan “On Subsoil”,
- [Law](#) of the Republic of Uzbekistan “On Product Share Agreements”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for the Improvement of the Mining and Metallurgical Industry and Related Industries”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for Further Improvement of the Procedure for Issuing Licenses for the Use of Subsoil Areas Containing Non-Metallic Mineral Resources”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for Further Improvement of the Procedure for Issuing Licenses for the Rights to Use Subsoil Sites”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for Reducing and Simplifying Licensing Procedures and Improving Business in the Oil and Gas Sector”.

Government’s sector development plan

On July 9, 2019, a Decree (<https://lex.uz/docs/4410281>) of the President of the Republic of Uzbekistan was signed, providing for measures to improve the country's oil and gas industry (PP-4388, On Measures for the Stable Supply of the Economy and the Population with Energy Resources, Financial Restoration and Improvement of the Oil and Gas industry, Management System.) PP-4388 indicates that, together with international consulting companies and financial institutions, a Concept for the development of the oil and gas industry of the Republic of Uzbekistan until 2030 (Concept) was developed.

The goals of the concepts are:

- approval of road maps for the implementation of the Concept, including an increase in hydrocarbon production and modernization of the gas transmission system
- taking measures to attract international financial institutions, foreign government financial organizations and consulting companies to the practical implementation of the Concept
- creation of a project office in the Ministry of Energy to coordinate the reform of the oil and gas industry

Licenses required for establishing a company

Establishing a company

No single mandatory type of business form is stipulated for oil and gas activity. The majority of operating entities are state-owned enterprises. Foreign legal entities may participate by entering into Subsurface Use Contracts (e. g. Product Sharing Agreement, Risk Based Service Agreement, etc.) or by establishing Uzbek subsidiaries and obtaining relevant subsurface use licenses.

Licensing and permit requirements

The activities related to oil & gas are subject to a number of licenses and other permissive

documents.

Licenses

The following activities shall be conducted only based on duly issued license:

- Production, processing and sale of oil, gas (including compressed natural gas and liquefied hydrocarbon gas) and gas condensate
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - 5 years.
- Design, construction, operation and repair of main gas, oil, and petroleum product pipelines
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - unlimited.

Other permissive documents

Other types of activities in the oil and gas sector can be conducted based on permit or permit-nature documents obtained from respective state authorities. They include:

- Established technological processes and specialized equipment must comply with technical regulations.
- Gas stations must comply with the requirements for the reception, storage, accounting, and distribution of petroleum products.
- Newly built, reconstructed, or technically re-equipped gas-using equipment, gas pipelines, and equipment on them, used at enterprises and technological oil and gas facilities (installations) consuming 100,000 cubic meters of natural gas and more per year must comply with requirements for energy efficiency indicators and use of alternative fuels
- The transfer of mines from one category to another, as well as the transfer of oil and gas wells to operation, liquidation, and conservation, must obtain authorization.
- Permits are required for the right to use subsurface sites.
- Permits are required to conduct mining operations.

The following activity can be conducted only after going through the notification procedure:

- Commencement or cessation of sales of petroleum products (motor gasoline, aviation gasoline, extra gasoline, diesel fuel, jet fuel, fuel oil, heating oil, oil bitumen, as well as technical oils and lubricants), except for those packaged in the factory.

Sector incentives

Table 10. Incentives for Oil and Gas sector
General applicable incentives
<ul style="list-style-type: none">• Individual investor incentives provided in line with public-private partnership agreements and product sharing agreements
Tax incentives
Foreign investors, engaged in exploration and extraction of natural resources and working

under PSA may operate under a specific taxation regime determined by PSA.

In accordance with Decree of the President #UP-6319, the rate of excise tax on export of natural gas comprises 0%.

Starting from 1 October 2021, sale of natural gas imported to Uzbekistan by legal entities is subject to a zero-rate excise tax. Starting from 1 January 2022, sale of liquified gas by manufacturers is not subject to excise tax.

In addition, legal entities are exempt from customs duties on import of natural gas to Uzbekistan.

Legal entities engaged in exploration works, as well as their contractors and subcontractors, are exempt from:

- payment of periodical customs payments on temporary importation of special equipment required for carrying on exploration activities during exploration and development stages;
- customs duties on importation of equipment not produced in Uzbekistan, material, and technical resources (as per the approved list) required for carrying out exploration and development activities.

In addition to the above exemptions, the duration of VAT refund procedure for legal entities engaged in exploration activities has been reduced to a maximum of 30 days (generally 60 days).

Starting from 1 January 2022, land plots allotted for exploration and development works are not subject to land tax. In addition, based on the above Decree, the following, inter alia, amendments to legislation are expected starting from 1 January 2022:

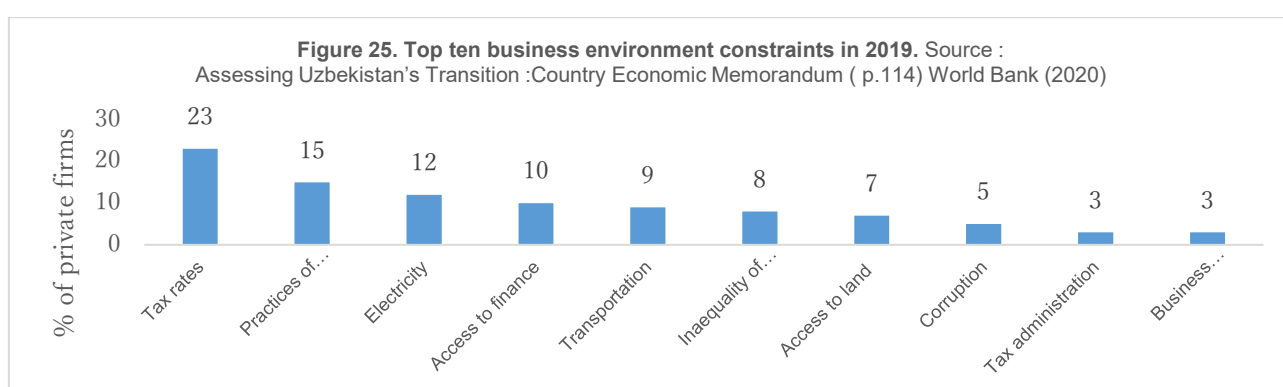
- the rate of mineral extraction tax for oil and gas is expected to be reduced to 10% (current rates comprise 20% for oil and 30% for natural gas);
- introduction of the rental tax for subsurface users engaged in extraction of oil, natural gas, and gas condensate from new fields;
- exemption of the new oil and gas wells from property tax for the first two years after their commissioning, and 50% reduction of the rate for the consequent 3 years;
- enterprises - payers of rental tax will be allowed to maintain tax accounting in USD.

8. Power

- **Power sector plays an important role in Uzbek economy**
- **The sector is expected to grow rapidly**
- **Over the past years sector is being reformed**

Sector overview

Power sector is still one of the major bottlenecks for business activities in Uzbekistan. An enterprise survey shows that power sector is one of the most influential constraints for businesspersons in Uzbekistan.



Looking at the sector's demand & supply status, significant gap can be found due to difficult causes as insufficient production capacity and large losses in the transmission and distribution grids. Concept Note for ensuring electricity supply in Uzbekistan in 2020-2030, issued by the Ministry of Energy of the Republic of Uzbekistan in 2020, estimates that up to 10% of the demand is not satisfied due to insufficient production capacity and large losses in the transmission and distribution grids. The Concept Note also estimates that fueled by large demand for power, power production will increase from 66.5 bln kWh in 2020 to 91.8 bln kWh by 2025.

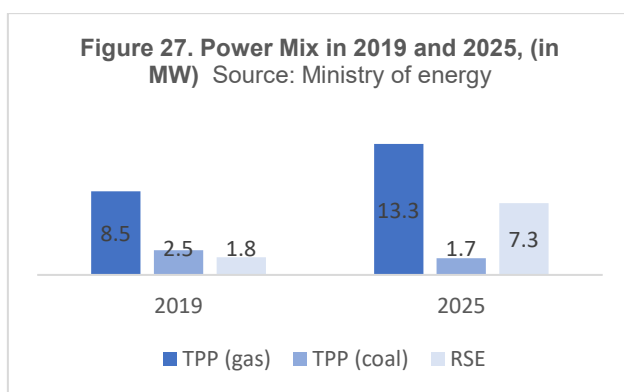
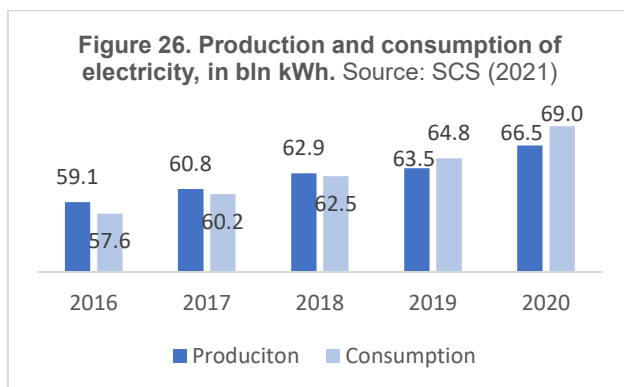
There is persistent gap between power production and its consumption. This gap is even larger if the technical losses in the transmission and distributions grids are taken into account. According to estimates by ADB, these losses vary from 10% to 18% of total power production. As a result, population and businesses experience frequent power cuts and temporary blackouts.

It is expected that the consumption of power will double between 2020 and 2030. The increase in demand will be driven by the following factors: a) increased demand from businesses in line with economic growth; b) additional demand from more affluent households; c) demand from more urbanized population; and d) fulfilment of unmet demand for electricity.

The Government has ambitious plans to change the power mix in the next 5-10 years. The changes in the power mix will be achieved by accelerated development of the renewables – solar and wind power plants. It is expected that most of the new generating capacity will come from commissioning of new solar photovoltaic (PVP) and wind (WPP) power plants. (Figure 27).

Ensuring diversification in the power industry and thermal power industry by increasing the share of RES will be created on PPP terms. Today, it has become the basis for almost all power plants that are under construction and planned.

As a result of the Concept of provision of the Republic of Uzbekistan with electric energy for 2020-2030, the power generation (a combination of the various fuels used to generate electricity) is expected to change significantly by 2025. The role of natural gas and coal is expected to decrease from combined 86% in the power mix to 67%. The rest will be taken by the renewable sources of electricity such as hydro, solar and wind. Solar and wind power plants are expected to produce 20% of electricity by 2025, an impressive increase from virtually 0%.



In 2017, the Government of Uzbekistan and Rosatom company signed a memorandum of understanding to build and operate the first nuclear power plant with 2,4 GW generation capacity. In 2019, the Uzbek government announced that site of the nuclear power plant was chosen. However, construction of the nuclear power plant should overcome significant technical issues, and chief among them is scarcity of water.

Over the years, the major consumers of electricity remained Industry and agriculture sectors. However, in 2020 the share of agriculture dropped by 10%. The share of population in energy consumption remained at around 20%. Meanwhile, it is expected that in following years the consumption of power by public will be growing (Table 11).

Table 11. Energy consumption by sectors, in bln kWh and share of each sector in % from total consumption. Source: SCS (2021)

	Industry	Building	Agriculture	Transport	Commercial enterprises	Population	Others	Total
2017	22.30	0.32	9.68	1.22	4.04	12.78	0.0	50.35
	44.3%	0.6%	19.2%	2.4%	8.0%	25.4%	0%	
2018	15.01	0.41	18.05	1.47	4.97	13.59	0.0	53.52
	28.0%	0.8%	33.7%	2.8%	9.3%	25.4%	0%	
2019	16.97	0.41	15.06	2.12	4.97	13.48	1.17	54.17
	31.3%	0.8%	27.8%	3.9%	9.2%	24.9%	2.2%	
2020	18.28	1.45	9.20	1.06	5.24	15.55	1.17	51.95
	35.2%	2.8%	17.7%	2.0%	10.1%	29.9%	2.3%	

Note: the total consumption is not equal to the production value due to that energy used by power plants and losses during the transmissions are not considered

The electricity is transmitted and distributed by 14 regional distribution companies through power transmission lines with voltage ranging within 0.4-500 kV and with total length exceeding 243 thousand km. The transmission of electricity from generating sources to distribution enterprises is carried out through the main grid networks with a voltage of 220-500 kV, with a total length of more than 8.8 thousand km. The most branched, length of more than 196 thousand km, are electrical networks with a voltage of 0.4-6-10 kV, through which, for the most part, electricity is delivered to the consumers. The high-voltage grid has interconnection with Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan. It also has a 220-kV connection with Afghanistan. Similar to generating assets, the transmission system is aging and needs upgrade. As demand increases, transmission bottlenecks are becoming a serious problem impeding reliable power supply to domestic and regional customers. Some 70% of power generation is located in the northern region of Uzbekistan, which supplies electricity to the southern region, while over 90% of gas production is located in the south.

Electricity trade turnover. The high-voltage overhead lines of the Republic of Uzbekistan are connected and actively interact with the main electric networks of neighboring countries. Dispatch services of neighboring countries ensure the energy security of the region on the basis of mutual coordination. The reason for this is that the power grid projects were developed when the CIS countries were still in the former Soviet Union, and the construction of the power system was not divided into separate supply and coordination points.

Export of electricity. Uzbekistan has been exporting electricity to Afghanistan since the early 2000s. According to the Uncomtrade, during 2017-2020, around 9.5 bln kWh was exported. Currently, Afghanistan is implementing a project with Uzbekistan to build a 200 km long power transmission line "Surkhan-Puli-Khumri" at a cost of \$110 million, which will increase the export of electricity from Uzbekistan to Afghanistan by 70% to 6 billion kWh. annually. The Uzbek side allocates \$45 million for this project. Moreover, in 2022, Uzbekistan's National Electricity Grids have signed an agreement with Afghan energy company Da Afghanistan Breshna Sherkat to supply electricity for 2022. According to the contract, the Uzbek side will supply 2 billion kWh of electricity to Afghanistan in 2022.

Import of electricity. Uzbekistan imports electricity from all neighboring countries at around 1.9

– 2.4 cents per kWh. Exports are mainly in the winter months while imports are mainly in the summer, reflecting the seasonal demand/supply balances.

Major foreign investors in the sector

- **Masdar (UAE)** – a global leader in renewable energy, invested around 1,270 mln USD to Uzbekistan’s RES development, in August of 2021 launched first Solar Power plant, currently working on building 4 more Solar Power Plants with total capacity of power generation 887 MW and 600 MW Wind Power Plant.
- **ACWA Power (Saudi Arabia)** is implementing 3 projects, including 2 renewables (wind power) with the total capacity of 1,100 MW and 1 thermal power plant with the total capacity of 1,500 MW projects in Uzbekistan. The total cost of all projects is estimated to be \$2.6 billion.
- **Total Eren (France)** is implementing 100 MW solar power plant project in Samarkand region. The company also secured debt financing from EIB, EBRD and Proparco for this project totaling around EUR 90 million.
- **Stone Energy (Netherlands)** – has agreed to construct a thermal power plant with a capacity of 1,560 MW in Surkhandarya region. The estimated project cost is US\$1.2 billion which will be attracted through foreign direct investment.

Investment opportunities

- PPP in renewables, rehabilitation of CCGT thermal plants.
- Transmission line

Key takeaways

- The state power development program has been recently enacted to improve and modernize the sector. In particular, the program provides for the construction of several power plants, expansion of the use of renewable energy sources, and improving the capacities of currently operating power plants.
- There are several ongoing PPP projects in the power sector, including the construction of solar and wind power plants in Navoi, Samarkand, Jizzakh, and other regions.
- Incentives are available to renewable energy producers
-

Presence of SOE

- **JSC Thermal Power Plants**
 - manages thermal power plants generating electric and thermal energy
- **JSC National Electric Grids**
 - manages country's electric grids' operation and development
 - regulates export, import, transportation, and interstate transit of electric power
 - transports energy via main power lines and international energy transit

- serves as a single dispatch control operator for power producers and main power lines
- **JSC Regional Electric Networks**
 - regulates regional electric grid entities which distribute and sell electricity to end users
- **JSC Uzbegidroenergo**
 - controls the hydropower sector in Uzbekistan
 - formulates development strategies
 - implements investment projects for the construction and modernization projects

Key regulators, laws and regulations

Key regulators

The main sector regulators include the following state authorities:

- The Ministry of Energy of Uzbekistan is the central regulatory authority in the oil & gas field. It is responsible for developing a state policy in the fuel and energy sectors, increasing their investment attractiveness, and coordinating investment projects in the field.
- The Inspectorate for the Control of Use of Oil and Gas is responsible for state supervision, monitoring, and regulation in the oil & gas sector.
- The State Committee on Geology and Mineral Resources is responsible for developing state policy in mining, managing the state subsoil reserves, and establishing procedures for the use of subsurface sites.

Key laws and regulations

The list of key laws and regulations include:

- Law “On the Rational Use of Energy”,
- [Law](#) of the Republic of Uzbekistan “On Product Share Agreements”,
- [Law](#) of the Republic of Uzbekistan “On Subsoil”,
- [Law](#) “On Peaceful Uses of Nuclear Energy”,
- [Law](#) “On the Use of Renewable Energy”

Government’s sector development plan

On March 27, 2019, a Decree of the President of the Republic of Uzbekistan was signed, providing for measures to improve the country's Power industry (PP-4249, On the Strategy for Further Development and Reforming of the Power Industry of the Republic of Uzbekistan.(<https://lex.uz/docs/4257085>)) PP-4249 indicates that, together with the Ministry of Economy and Industry, the Ministry of Finance, the Ministry of Housing and Communal Services, a Concept for the development of the Power industry of the Republic of Uzbekistan until 2030 was developed.

The main goal of the Concept for ensuring the Republic of Uzbekistan electricity for 2020-2030 is to meet the growing electricity needs at competitive prices and dynamic development of the electric power industry of the Republic Uzbekistan through the modernization and reconstruction of existing power stations, construction of new generating capacities based on

highly efficient energy production technologies, improving electricity metering systems, diversification of fuel and energy resources with the development of the use of renewable energy

The main tasks in the framework of improving the provision Republic of the electric energy are:

- meeting the needs of the republic in electric energy in full due to own generation without binding to the import of energy resources and thus to energy security
- increasing the energy efficiency of the economy with a parallel reducing its energy intensity, including through the creation of economic mechanisms to stimulate the rational use of electrical energy consumers
- increasing the energy efficiency of production, transportation and distribution of electrical energy to satisfy its growing demand
- reducing the level of wear and tear of electrical equipment by its gradual renewal, increase in the capacity reserve of the generating equipment and electrical networks
- development and expansion of the use of RES and their integration into a unified power system

Licenses required for establishing a company

Establishing a company

No single mandatory type of business form is stipulated for organizations in the power sector, and LLCs and JSC are the most common business forms.

Licensing and permit requirements

The activities in the power field are conducted based on licenses and other permissive documents obtained from respective state authorities.

Licenses

The following activities are conducted based on duly issued licenses:

- Design of energy and communication facilities and complexes, including design of their engineering networks and systems
 - State fee - from 20 BCU (around USD 540) to 40 BCU (around USD 1,080),
 - Validity period - unlimited.
- Activities in the field of nuclear energy use
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - unlimited.

Other permissive documents

The legal entities shall obtain a permit for the following activity:

- Construction and installation works provided by the power supply project for consumer facilities with a capacity exceeding 20 kilowatts.

Sector incentives

Table 12. Incentives for power sector
General applicable incentives

- State, industry and territorial programs and projects in the field of rational use of energy are financed at the expense of the state subsidized loans,
- Government financing of interdisciplinary research and development work, production of pilot batches of energy-efficient and energy-saving equipment,
- Guaranteed connection of renewable energy installations to the unified power system,
- The territorial power grid companies have a right to sign direct contracts with the renewable energy producers for the purchase of electricity with the approval of respective state authorities,

Individual investor incentives provided in line with public-private partnership agreements and product sharing agreements.

Tax incentives

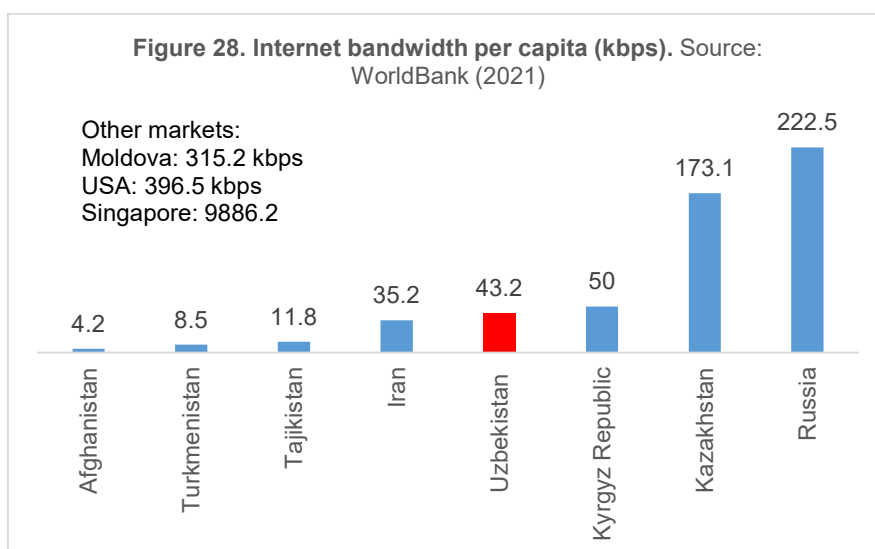
Enterprises generating power from renewable energy sources (“RES”) with nominal capacity of at least 0,1 MW are exempt from property tax on RES installations and land tax on the land plots occupied by those installations for a period of 10 years starting from their commissioning.

9. ICT

- **Uzbekistan, like its neighboring Central Asian countries, is suffering from poor quality and expensive internet connectivity**
- **Wholesale transit pricing also greatly exceeds international levels, impacting socio-economic development, as well as business development**
- **Over the last decade there is positive trend with increased investment in infrastructure in the country's ICT sector, despite of today's situation**
- **Expanding subscriber base and rising revenues is another good trend in Uzbekistan's ICT sector**
- **Over the past four years, a revolution in the development of information technology has been made in Uzbekistan**
- **Comprehensive measures are being implemented in Uzbekistan to actively develop the digital economy, as well as to widely introduce modern information and communication technologies in all sectors and spheres of the economy**

Sector overview

Uzbekistan, like its neighboring Central Asian countries, is suffering from poor quality and expensive internet connectivity. Central Asian countries are amongst the least digitally developed sub-regions of the world. There is a myriad of reasons for this—from incomplete regulatory environments, limited regional digital, integration and low private sector investment.



Due to the absence of regional integration, global Internet traffic bypasses Central Asia, rendering it landlocked digitally as well as physically. Bandwidth per capita (kbps), a measure of digital connectivity, varies greatly within the region. Uzbekistan's situation is, although slightly better than some of the neighbors such as Turkmenistan and Tajikistan, and showing remarkable improvement as described below, still at a poor level.

Wholesale transit pricing also greatly exceeds international levels, impacting socio-economic development, as well as business development. These costs are driven up by their dependence on other countries for access to undersea fiber optic cables. High internet costs impact various aspects of socio-economic development of the country. For example, efficiency in the health and education sector applications through telemedicine, distance learning, and scientific

and research networks. In agriculture, there is potential for farmers to adopt precision farming technologies and use apps with agro-climatic weather information.

Over the last decade there is positive trend with increased investment in infrastructure in the country's ICT sector. Since 2017, Uzbekistan has seen a steady growth in number of mobile and internet users as well as internet speed. Mobile and broadband Internet speeds in Uzbekistan in 2020 were 13.89 and 36.85 Mbps respectively with Uzbekistan ranking 94th in the overall rating in terms of fixed broadband speed.

As a result of the modernization of existing production facilities, the total throughput of the international internet bandwidth (Gbps) was increased 10 times compared to 2018 and was brought to 1,200 Gbps. Over the next two years, the task was set to bring this figure to 2,200 Gbps.

Expanding subscriber base and rising revenues is another good trend in Uzbekistan's ICT sector.

In 2020, the market for ICT services reached 13.85 trillion soums, or \$1.3 bln. Since 2016, the overall ICT industry has been growing at 17% CAGR, while the growth of the computer programming services has been 50.6%, programming and broadcasting services - 29%, information services - 50.3% and telecommunications services - 14%. For the same period, the exports of the ICT sector has grown from \$147.5 mln to \$179.4 mln.

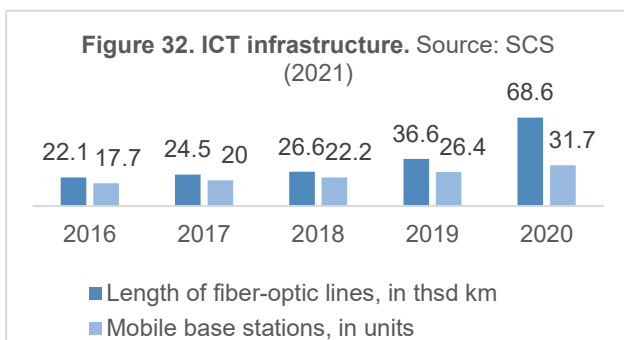
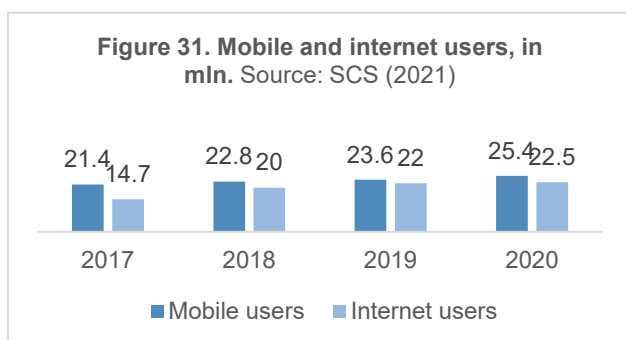
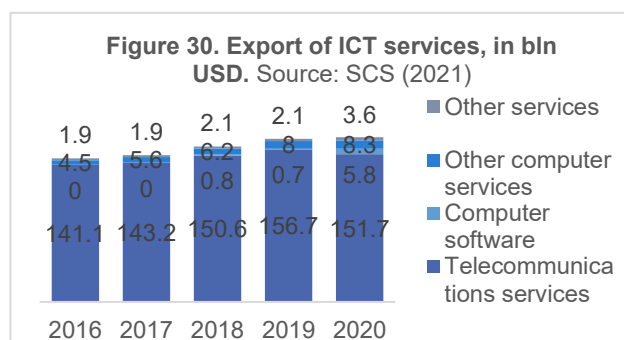
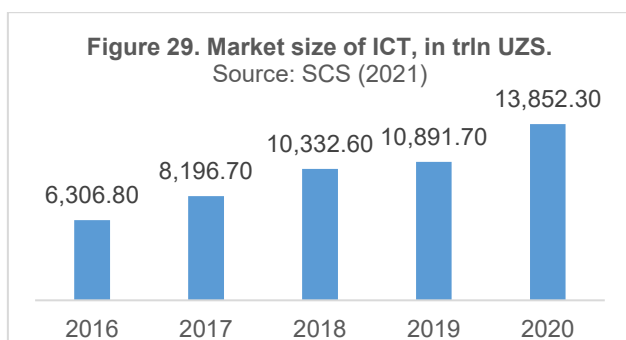
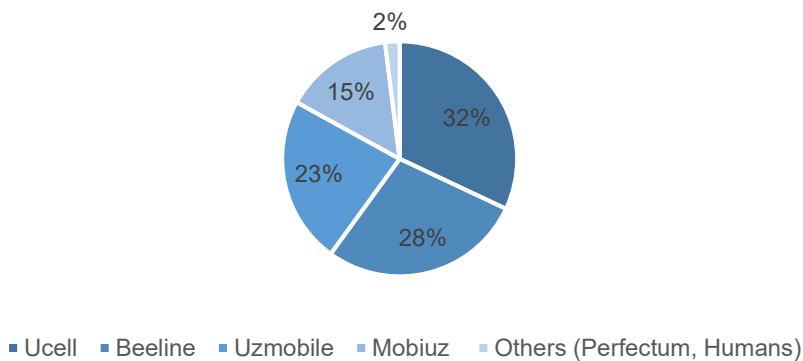


Figure 33. Market share of mobile service providers. Source: Mobile service providers official websites (2020)



Over the past 5 years, IT sector has developed very fast, but this development has occurred from the very low base. IT sector has positively contributed to the digitalization processes in many areas of the economy. In 2021, 31% of public services are provided through the portal of interactive public services. In accordance with the Strategy Digital Uzbekistan – 2030 it is planned to introduce more than 400 information systems, electronic services and other software products within the framework of the socio-economic development of regions.

Today there is a great demand for qualified IT specialists in the country. Thus, one of the oldest IT universities in Central Asia, Tashkent University of Information Technologies, carries out the training of the personnel in the field of ICT. The main activity of the university is the organization of advanced training courses for students and employees of state and economic management bodies, large companies, banks and other organizations. To date, about 32.8 thousand people have improved their skills here, including 5.1 thousand university students and 27.7 thousand employees of the public and private sector.

It is worth noting the success Uzbekistan has had in international ratings for assessing the development of information technologies in the country: one of such indices is the Telecommunication Infrastructure Index, where Uzbekistan has improved its performance from 0.246 to 0.472. Another key index is **the ICT Development Index (IDI)**, where Uzbekistan rose by 8 positions and took 95th place (index - 4.9) among 176 countries of the world. In the Global Cybersecurity Index, Uzbekistan has improved its indicators in this rating from 0.1471 to 0.666 and rose from 93rd to 52nd place among 175 countries.

In addition, a comprehensive program "Digital Tashkent" is being implemented, which provides for the launch of a geoportal integrated with more than 40 information systems, the creation of an information management system for public transport and communal infrastructure, the digitalization of the social sphere with the subsequent dissemination of this experience to other regions.

There are six mobile network operators in Uzbekistan’s telecommunication market, including two foreign operators: Beeline (Unitel LLC owned by VEON Group), Ucell (Digital holding), Uzmobility (Uztelecom), Mobiuz (Universal Mobile Systems), and smaller operators Perfectum Mobile (Rubicon Wireless Communication), and Humans (Humans). According to SCS (2021), the number of mobile users is 25.4 million subscribers.

IT Park is a complex of facilities, buildings and structures designed to ensure the startup and market access, a free economic zone for IT companies. Currently, 523 residents are registered in IT Park, of which 18 companies were created with the participation of foreign capital. Out of 523 residents, 104 companies are export-oriented. According to IT Park, in 2021, the revenue of exporters of IT Park residents amounted to \$46 million, or 2.8 times higher than the

level of the previous year (\$16.3 million). Exports are expected to reach \$80 million in 2022, and \$500 million in 2025. Business Process Outsourcing (BPO) accounts for 62% of total exports, followed by software product development (34%), data processing (3%), and other services (1%). The main export markets are the United States (83.2%), United Kingdom (5.2%), Russia (3.2%) and South Korea (2.1%).

Major foreign investors in the sector

The Republic of Uzbekistan actively cooperates with the following companies in the sphere of information technologies: Veon (Netherlands), Telia company (Sweden), Atlas International (Germany), Kurt Mitterfellner GMBH (Germany), Kurt Mitterfellner Asia Ltd (Singapore), Fingascom AG (Switzerland), LG CNS (Korea). Major local companies include: Uzbektelecom, UMS, Beeline.

- **VEON Ltd. (Netherlands)** - provides mobile communication services under the Beeline brand since 2006. VEON has invested more than \$1.2 billion in the telecom industry since its entry.
- **LG CNS (South Korea)** - Uzbek-Korean joint venture specializing in software development, installation and implementation of software and hardware since 2015.
- **HUAWEI (China)** - provided equipment and service solutions to national operators Uztelecom, Unitel, Ucell, Perfectum Mobile, East Telecom and government companies. Major projects in Uzbekistan include: Launch of the first LTE network in Commonwealth of Independent States (CIS) in 2011; Creation of the data processing and storage center of JSC Uztelecom; First full-fledged testing of 5G together with Beeline Uzbekistan, Uzmobile and Ucell.
- **ZTE Uzbekistan (China)** - produces DSLAM equipment and ADSL modems in Navoi FEZ in partnership with Uzbektelecom since 2011.
- **ATLAS International (Germany)** - started a Modern Road Safety System project aimed at developing the automated photo/video system for monitoring and reporting incidences of traffic violations in Uzbekistan.
- **HUMANS (USA)** - began its operations to provide mobile communication, mobile banking and online shopping services in Uzbekistan in August, 2020.

Investment opportunities

- Launching three large new data centers in the cities of Tashkent
- Strengthening the material and technical base
- Modernization of fixed assets, technical and technological renewal of the postal network
- Creation of a ground station for receiving data from remote sensing satellites

Key takeaways

- Development of IT is one of the top priorities on the Government's economic reform agenda.

- Entities engaged in the eligible IT activities may register as residents of IT Park, which provides a variety of incentives (including tax) and other support from the Directorate of the IT Park.
- Mobile telecom activity is subject to significant licensing fees.

Presence of SOEs

Uztelecom JSC - the largest telecommunications operator and provider of telecommunications services to government agencies and departments in Uzbekistan, with a network that spans the entire country. In 2011, Uzbektelecom was rebranded as Uztelecom, with sub-brands Uzmobile and Uzonline:

- Uzonline sub-brand will promote telecommunication service of new generation for retail sector – services based on IP-technologies such as IP-telephony, IPTV, universal payment cards, and others.
- Uzmobile sub-brand is designed for complex of mobile and stationary telecommunication serviced on the base of CDMA-450 standard.

Universal Mobile Systems LLC - a telecommunications company that has been operating in Uzbekistan since December 1, 2014.

Initially, it operated as a joint venture between the Russian MTS (50.01%) and the Center for Radio Communication, Radio Broadcasting and Television (49.99%). On July 19, 2021, in accordance with the presidential decree, 100% of the state's share in the authorized capital of Universal Mobile Systems LLC (operator Mobiuz) was transferred to the Ministry for the Development of Information Technologies and Communications

VimpelCom LLC (“Beeline”) - entered the Uzbek market in 2006 under the trademark of Beeline and has been one of the largest mobile phone operators ever since. Since 2006 VimpelCom has invested more than 1.2 billion USD in Uzbekistan economy. Beeline provides telecom services in 2G,3G,4G/LTE formats and other digital services to 9.9 million subscribers.

USM Telecom and MegaFon (Russia) - In February 2021 MegaFon and USM Telecom agreed the purchase of a controlling stake in Ucell (registered as Coscom). The Russian side will contribute \$100 million investments into Digital Holding, as well USM Uzbek subsidiaries CRPT Turon and ICS Holding Uzbekistan. On 30 September 2021, Russian mobile operator MegaFon and its parent USM Telecom declared the completion of their previously announced acquisition of a majority stake of Ucell via the formation of a joint venture Digital Holding.

Key regulators, laws and regulations

Key regulators

The Ministry for Development of Information Technologies and Communications of Uzbekistan (“Ministry of Information”) is the primary state regulatory authority in the ICT field. Its responsibilities include development of state policy in the ICT field, attracting investments to develop domestic production of competitive and export-oriented software products and digital services by organizing the activities of technology parks and co-working centers, including based on public-private partnerships.

Key laws and regulations

The list of key laws and regulations include:

- [Law](#) of the Republic of Uzbekistan “On Informatization”,
- [Law](#) of the Republic of Uzbekistan “On Communication”,
- [Law](#) of the Republic of Uzbekistan “On Postal Communication”,
- [Law](#) of the Republic of Uzbekistan “On E-Commerce”,
- [Law](#) of the Republic of Uzbekistan “On E-Government”,
- [Law](#) of the Republic of Uzbekistan “On Telecommunications”,
- [Law](#) of the Republic of Uzbekistan “On Electronic Digital Signature”,
- [Law](#) of the Republic of Uzbekistan “On Electronic Document Exchange”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Accelerated Development of E-Commerce”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Organization of the Cryptographic Protection of Information in the Republic of Uzbekistan”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for the Development of the Digital Economy in the Republic of Uzbekistan”
- [Decree](#) of the President of the Republic of Uzbekistan “On Approval of the “Digital Uzbekistan-2030” Strategy and Measures for its Effective Implementation”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for the Further Development of the Telecommunications Infrastructure of the Republic of Uzbekistan”.

Government’s sector development plan

On October 5, 2020, the presidential decree of “Digital Uzbekistan-2030” Strategy was approved, which provides for the implementation of over 280 projects for digital transformation of regions and sectors in the next two years. To double the share of digital services in country’s GDP was highlighted as an emergency task in coming two years. For example, in order to further develop the software market on June 30, 2017, the Resolution of the President No. RP-5099 “On measures of fundamentally improving the conditions for development of information technology industry in the republic”, which includes benefits and preferences for software developers until January 1, 2028 and IT Park in Tashkent, complex of facilities, buildings and structures, with the goal of further development of the ICT-sphere of Uzbekistan, creating the necessary infrastructure, reforming training systems for IT-specialties, conducting of competitive ICT projects within the local and international markets, the launch of promising start-up projects as well as supporting gifted young people in its implementation, was established to support the development and implementation of information technologies.

[Decree](#) of the President of the Republic of Uzbekistan “On Approval of the “Digital Uzbekistan-2030” Strategy and Measures for its Effective Implementation”

Licenses required for establishing a company

Establishing a company

There is no single mandatory corporate form for organizations operating in the ICT sector, while

LLC is the most common legal form.

Licensing and permit requirements

Licenses

The following activities are subject to licensing:

- Design, construction, operation, and services of telecommunications networks (including mobile)
 - State fee - depending on the type of activity from 2 BCU (around USD 54) to 140,000 BCU (around USD 3,500,000),
 - Validity period - up to 15 years.
- Development, production, and implementation of cryptographic protection of information
 - State fee - up to 5 BCU (around USD 130),
 - Validity period - at least 5 years.

Other permissive documents

The following types of activities are conducted based on permits:

- Distribution of TV and radio products of foreign mass media in the territory of the Republic of Uzbekistan,
- Mass media activity.

Sector incentives

Table 13. Incentives for ICT sector
General applicable incentives
<ul style="list-style-type: none"> ● Individual investor incentives provided in line with PPP projects, investment agreements, bilateral investment treaties etc. ● General incentives provided for the residents of special techno parks in Uzbekistan, i. e. support, marketing, financial aid, and other services rendered by the director' office.
SEZ incentives
<ul style="list-style-type: none"> ● General SEZ incentives for the participants of SEZs specified in the development and production of modern IT products and services (infrastructure facilities, special taxation and customs regimes, visa support, right for land etc.).
Tax incentives
<p>Enterprises engaged in ICT activities may apply for residency in IT-Park, which provides a special tax regime. Thus, residents of IT-Park are exempt from payment of all taxes and dues (including CIT and VAT), as well as customs payments (except for customs processing fees) on import of equipment, components, technological documentation etc. for their own needs till 1 January 2028.</p> <p>Starting from 1 January 2022, the rate of excise tax on provision mobile network service is expected to be reduced to from 15% to 10%, while starting from 1 January 2023 the excise</p>

tax on mobile network services is expected to be abolished. Import of new medical equipment, components, and spare parts as per the approved list of eligible HS codes, as well as import of new ambulances is exempt from customs dues till 1 January 2024.

10. Finance

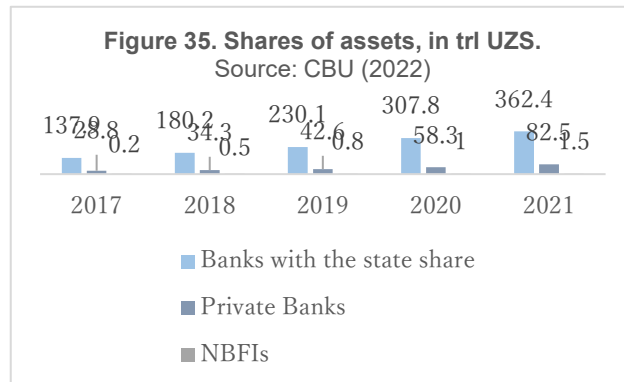
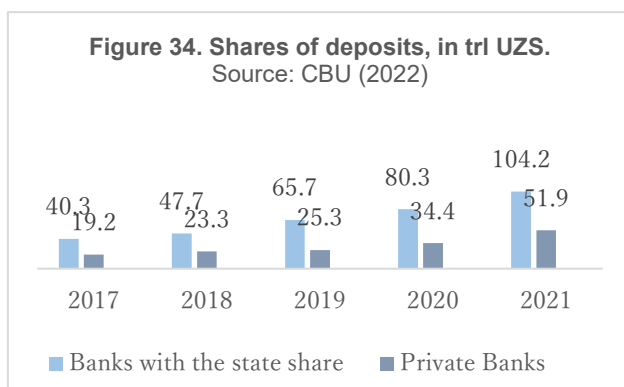
- **Financial system in Uzbekistan is a bank-centric**
- **Uzbekistan’s financial system is undergoing through rapid development phase**
- **Further reforms, including privatization of largest SOB, are underway**
- **Financial Institutions are consisting of dominate commercial banks, microcredit organizations and relatively small and fragmented insurance companies**

Sector overview

Uzbekistan’s financial sector is composed of financial institutions (banks, microcredit organizations and pawnshops) and non-bank financial institutions (Insurance and leasing companies). Financial institutions are regulated by the Central bank of Uzbekistan (CBU). Non-bank financial institutions are regulated by the Ministry of Finance.

Regulator	Central bank
Main responsibilities	Monitoring monetary policy Regulation of settlements between enterprises and organizations Currency resource management Data collection and analysis Gold stock management Financial services sector regulation Licensing or banking and lending operations
Controlled institutions	32 banks 57 MCOs 44 Leasing companies 62 Pawnshops 36 Insurance companies

Uzbekistan’s financial system is undergoing through rapid development phase. The unification of multiple exchange rates and other reforms have created a solid base for rapid development of the financial system. As of January 1, 2022, the total assets of financial institutions (commercial banks, insurance companies, leasing companies, microcredit organizations and pawnshops) amounted to 446.4 trillion soums (around \$41 bln), increasing by 2 times compared to 2018. Since 2018, financial system (bank and non-banks) deposits have also increased at double-digit rates.



Financial system in Uzbekistan is a bank-centric. Among all financial services providers, commercial banks account for nearly 99% of all loans and, 97% of all assets. Overall, as of October 1, 2021, the banking sector assets account for 63.1% of GDP. Until 2019, the state-owned banks pursued government-directed lending programs, providing lending at below-market rates to state-owned enterprises (SOEs). Out of 35 banks, 13 banks are either fully or partially owned by the state. Largest state-owned banks (SoBs) in Uzbekistan – National bank of Uzbekistan, Uz sanoatqurilishbank (SQB), Asakabank, Aloqabank, Qishloq Qurilish Bank and Turonbank are going through the transformation for privatization. SOBs hold 86% of all assets, but only 67% of all deposits.

Private banks account for approximately 14% of total assets but attract 33% of all deposits in the banking system. The Development Strategy of New Uzbekistan envisages 60% of banking assets will be in the hands private banks by 2026, Microfinance Institutions (MFIs) and pawnshops are generally small and hold less than 1% of market assets.

The Uzbekistan insurance market remains relatively small and fragmented. Gross written premium totals 2,142 billion soms (US\$ 200 million). At present, 40 insurance companies operate in the insurance services market, including 32 in general insurance, 8 in the life insurance sector. Of all insurance companies, 22 are surveyor adjusters, 5 are insurance brokers, and 5 offer actuary services. Over 8,900 insurance agents operate in the sector. The largest insurance companies are State Joint Stock Insurance Company “Uzagrosugurta”, National Company for Export/Import Insurance “Uzbekinvest”, “Kafolat” Insurance Company and other joint stock or limited liability insurance companies such as “Gross insurance”, “Euroasia Insurance”, “Asia Insurance”.

To stimulate the market of microcredit organizations, the government eased licensing procedure and reduced the required minimum capital for opening microcredit organizations. Microcredit organizations offer microcredit and micro leasing services. The biggest provider of microcredit and micro leasing services in the county is the joint-stock commercial “Mikrokreditbank” established by the Decree of the President of Uzbekistan dated May 5, 2006. Today “Mikrokreditbank” has extensive financial infrastructure in all regions of Uzbekistan, consisting of 82 branches and mini-banks.

As of October 1, 2021, there are 44 leasing service companies in Uzbekistan. Out of 44, 15 leasing companies are banks’ subsidiaries. The lessors are primarily commercial banks and major commercial institutions involved in importing machinery and technological equipment. Most leased items in the sector are agricultural machinery (40% of total transactions) and freight vehicles (18% of total transactions). Prior to 2019, banks were restricted to provide leasing services directly.

Tashkent Republican Stock Exchange

- is a basic trading platform in the stock market of Uzbekistan, housing more than 100 brokerages and branches in all regions of the country, and equipped with the necessary equipment, communications infrastructure as well as the Single software-technical system for organizing trades from any branch.
- The total market capitalization of the market stands at around \$6bn or 11% of GDP, but the vast majority of listed companies are state-owned and they are only listed because they had to have shares as part of the reorganization of the economy following the collapse of the Soviet Union.
- There was a total of some 500 stocks traded on the Tashkent Republican Stock Exchange, all OTC, but after the rules were tightened that number has been reduced to 135. Also, Exchange traded funds (ETF), including ETFs for gold, will be launched in Uzbekistan.

JSC "Uzbek Republican Currency Exchange

- UZCE is the only multifunctional exchange in the republic - the organizer of exchange trading for the purchase and sale of foreign currency, government securities, financial derivatives and other exchange transactions related to them.
- It was established on May 12, 1992 in pursuance of the resolution of the Cabinet of Ministers under the President of the Republic of Uzbekistan dated November 22, 1991 No. 297 "On measures to organize free purchase and sale of foreign currency and expand trade for freely convertible currency in the Republic of Uzbekistan».
- The money market includes the interbank money market, covering the operations of banks to attract and place banks' short-term monetary resources. On the government securities market, placement and circulation of treasury bonds and bonds of the Republic of Uzbekistan, as well as bonds of the Central Bank, is carried out.

Direct Investment Fund of Uzbekistan

- Direct Investment Fund of Uzbekistan was established in 2019 in accordance with the Decree of the President of the Republic of Uzbekistan No. UP-420 dated May 18, 2019 with the main tasks of attracting FDI and innovative technologies to expand the production potential, as well as further increase the competitiveness of the republic's economy; evaluation of investment proposals, development and implementation of investment projects; assistance in improving the investment climate, as well as the broad promotion of the investment potential and opportunities of the republic abroad.
- The only founder of the Fund is the Fund for Reconstruction and Development of the Republic of Uzbekistan with the declared capital of the Fund is 1 billion US dollars, formed at the initial stage in the amount of 100 million US dollars.

Uzbekistan Reconstruction and Development Fund

- The Fund for Reconstruction and Development of the Republic of Uzbekistan, is a Sovereign Wealth Fund, established in 2006 in accordance with the Decree of the President of the Republic of Uzbekistan No. UP-3751 dated May 11, 2006.

- The Fund for Reconstruction and Development of the Republic of Uzbekistan finances the implementation of national socially significant state programs and projects on the formation of production and non-production infrastructure, primarily in promising, but underdeveloped regions, modernization and development of transport and telecommunications infrastructure, creating conditions for integration republics into the international communications network, providing the shortest access to international transport corridors and world markets.
- UFRD underpins the sovereign's external and fiscal financing flexibility, in addition to supporting strategic investment projects, state-owned enterprise (SOE) financing and funding for state-owned banks. Total assets of the UFRD were USD 18 billion in 2017, and a high share of international reserves (43% or USD11.5 billion) consist of UFRD cash holdings.
- The founder of the Fund is the Government of the Republic of Uzbekistan represented by the Ministry of Finance. The supreme governing body of the Fund is the Fund Management Council, headed by the Prime Minister of the Republic of Uzbekistan.

Development of Islamic Finance

President Shavkat Mirziyoyev annually addresses the issue of why Islamic financing has not been fully introduced in Uzbekistan to parliament and the government has been working on this for the past 5 years. The government officials stressed the importance of Islamic banking recently, stating that it is a complex system which requires the development of its own approach. It has already been mentioned that in addition to the complexity of the system, citizens' trust in commercial banks is necessary, which is already quite realistic, and this can be observed in the three times increasing amounts of deposits in private banks.

Fintech

Fintech ecosystem of Uzbekistan is represented by:

- 2 payment processing services, Humo & Uzcard;
- More than 10 payment companies (2 owned by telecom companies);
- More than 28 mobile banking applications;
- 1 digital bank (TBC Bank, a local branch of a large Georgian bank).

The key players are Uzcard and Humo as card providers, and CLICK, Payme and PAYNET among non-banking payment providers. Key sub – sectors include transfers, payments, micro – lending.

Coping with shadow banking and money banking

In 2019 shadow banking accounted for 52.11% in Uzbekistan. According to the Resolution of the Cabinet of Ministers №1 from January 7, 2021, the following tasks were identified: the tasks of introducing an automated system of inspections of enterprises; establishing procedures for types of inspections; analysis of "suspicious" enterprises. Also, the ministries and agencies are conducting analysis of sectors with a high share of the shadow economy, the abolition of existing benefits and preferences, the implementation of the program "Risk analysis". Together with

ministries and agencies, it is planned to develop a system of cashless settlements, simplify the tax system and ensure equal tax burden, improve the competitive environment and liberalize markets and ensure budget transparency and raise public awareness.

Uzbekistan, scoring 5.71 points, ranked 43rd in Basel Anti-Money-Laundering Index, overtaking Tajikistan and Kyrgyzstan. Among the Central Asian countries, Kazakhstan has the highest indicator (73rd).

Key takeaways

- Banks can be established only in the form of JSCs. Local banks are registered and receive licenses simultaneously, subject to the preliminary approval of the Central Bank of Uzbekistan (“CBU”).
- The number of shares of foreign natural persons and entities in a local bank cannot exceed 50 percent. However, this limitation does not apply to international financial institutions, foreign banks, and foreign credit organizations.
- Foreign microcredit organizations are restricted to establishing a subsidiary microcredit organization in Uzbekistan. Nevertheless, they have a right to acquire participation shares in existing local microcredit organizations.

Major foreign investors in the sector

- **JSC "KDB Bank" (South Korea)** – the largest foreign investor in the banking system. The principal shareholder is The Korean Development Bank with the share of 86.32%. The majority of clients are foreign subsidiaries and joint venture companies engaged in manufacturing, trading and servicing; diplomatic missions of foreign countries and representative offices of international companies.
- **JSCB "Tenge Bank"** is a fully owned subsidiary bank of the People’s Bank of Kazakhstan with initial capital in the amount of US\$15 million. It is a universal bank that provides financial services to all categories of corporate and retail clients using modern banking technologies. Tenge Bank started its operations in 2019.
- **TBC Bank (Georgia)**, which acquired Payme, one of the leading electronic payment service providers, for \$5.5 mln in April 2019, opened its Tashkent branch a year later as the first digital bank in Uzbekistan. TBC Bank targets retail customers in Uzbekistan with digital products such as current and savings accounts; cash loans and salary backed loans; cards, mobile banking, money transfers and transactional capabilities (eg. P2P transactions, utility payments); and point-of-sale consumer finance.
- **OTP bank (Hungary)** is committed to acquire 75% of the Government share in Ipoteka Bank in what will be the most significant deal in Uzbekistan’s financial sector.

Investment Opportunities

There are significant investment opportunities in the financial system of Uzbekistan through both greenfield and M&A modalities. M&A investments may be in the form of direct purchase of the private banks or purchase of the state-owned banks through the privatization process.

Banks

- According to the “Strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025” adopted on May 12, 2020, the following banks will be privatized after going through the transformation process:
- Ipoteka Bank (The Hungarian OTP Bank OTP Bank purchased 75% of the government's stake in Ipoteka Bank in September 29, 2021)
- JSCB Uzpromstroybank (SQB)
- JSC Asakabank
- Qishloq Qurilish Bank (QQB)
- Turon Bank
- JSCB "Alokabank"

Other Banks

- Asia Alliance Bank (The controlling stake in Asia Alliance Bank set to be sold to Japanese Sawada Holdings)
- Poytakht bank (Russian Expobank to purchase 100% government stake in Poytakht Bank)
- JSCB "Uzagroeksportbank"

The state will keep its stake in 3 large banks - JSC National Bank for Foreign Economic Affairs (hereinafter - National Bank), JSCB Agrobank and JSCB Microcreditbank ".

Insurance companies

- Kafolat Insurance company

Leasing companies

- «O`zmeliomashlizing»
- «O`zagrolizing»
- The republic is specialized leasing company “Qurilishmashlizing»

Presence of SOEs

Banks

Banks with state share participation

1. "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" JSC
2. UzPromstroybank
3. JSC Asakabank
4. Agrobank
5. JSC Xalq bank
6. Ipoteka bank
7. Qishloq qurilish Bank

8. Microcreditbank
9. JSCB "Alokabank"
10. JCB Turonbank
11. ASIA ALLIANCE BANK
12. Joint Stock "Poytaxt Bank"
13. JSCB "Uzagroeksportbank"

State share will be retained in 3 banks: "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" JSC, Agrobank and Microcreditbank. Other banks have either been already privatized or set to be privatized by 2023 – 2025.

Insurance companies

1. **Uzagrosugurta JSC** - established in accordance with Decree of the President of the Republic of Uzbekistan from February 25, 1997 No. 1713 “On the Establishment of the State Joint-Stock Insurance Company “Uzagrosugurta”. It is one of the universal companies in the insurance market of Uzbekistan, providing a full range of insurance services to all categories of businesses and individuals.
2. **Uzbekinvest National Export-Import Insurance Company** - operates in the field of “General Insurance” and provides services in all 17 insurance classes according to insurance business classification with the share capital of 282.2 billion soums.
3. **Kafolat JSC** - established in accordance with Decree of the President of the Republic of Uzbekistan from March 14, 1997 No. 144 “On the Establishment of the State Joint-Stock Insurance Company “Kafolat”. The authorized capital of the company is 108 955 938 720 sums (\$13.1 million, 2018). Kafolat is the sixth-largest insurer in Uzbekistan, with a 7% market share by gross written premiums (GWP) in 2018.

Key regulators, laws and regulations

Key regulators

Key regulatory authorities are the Ministry of Finance of Uzbekistan (“MoF”) and CBU.

- MoF is responsible for development of state policy, general supervision, issuance of licenses and permits for insurance organizations, securities market, betting, and lottery activities.
- CBU is responsible for issuing licenses and permits for financial organizations (banks, microfinance organizations, credit bureaus, payment operators and payment organizations), monetary and exchange policy, currency regulation and state registration of banks and credit bureaus.

Non-government institutions

Uzbekistan Banking Association unites all commercial banks in the country and represents their interests by working with the Central Bank, government bodies, participating in the development of draft laws and other activities. The Association offers specific services to its members.

Main objectives of the Association of banks of Uzbekistan are:

- expansion of the role of commercial banks in the realization of market-oriented reforms

- creation of integrated banking infrastructure as a solid basis of development of the banking system of Uzbekistan to the level of international standards
- promote self-reliance of commercial banks in the presence of economic levers of centralized control of the banking system

Key laws and regulations

The list of key laws and regulations include:

- [Law](#) of the Republic of Uzbekistan “On the Central Bank of the Republic of Uzbekistan”,
- [Law](#) of the Republic of Uzbekistan “On Banks and Banking Activity”,
- [Law](#) of the Republic of Uzbekistan “On Insurance Activity”,
- [Law](#) of the Republic of Uzbekistan “On the Securities Market”,
- [Law](#) of the Republic of Uzbekistan “On Stock Exchanges and Exchange Activities”,
- [Law](#) of the Republic of Uzbekistan “On Microfinancing”,
- [Law](#) of the Republic of Uzbekistan “On Payments and Payment Systems”,
- [Law](#) of the Republic of Uzbekistan “On Microcredit Organizations”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures to Reform and Provide Accelerated Development of the Insurance Market of The Republic of Uzbekistan”,
- [Decree](#) of the President of the Republic of Uzbekistan “On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020 – 2025”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures of Further Development of the Insurance Market”
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Regulation on Licensing of Professional Activities on the Securities Market”
- [Resolution](#) of the Board of the Central Bank of the Republic of Uzbekistan “On Approval of the Regulation on the Procedures and Requirements for Admission to Banking Activity”
- [Resolution](#) of the Board of the Central Bank of the Republic of Uzbekistan “On Approval of the Regulation on Noncash Settlements in the Republic of Uzbekistan”.

Government’s sector development plan

In 2020, the government adopted [“Strategy on reforming the banking system of the Republic of Uzbekistan for 2020-2025”](#).

The reforms aim to:

- increase the efficiency of the banking system by implementing equal competitive conditions in the financial market, lending exclusively on a market basis, reducing the dependence of banks on state resources, modernizing banking services, creating an efficient infrastructure and automating the activities of banks, as well as canceling functions that are not appropriate to the bank’s functions;
- reduce the state share in the banking sector through a comprehensive transformation of commercial banks with a state share, the introduction of modern banking standards,

information technologies and software products, the sale of the state shareholding in banks on a competitive basis to investors with appropriate experience and knowledge, as well as the parallel reform of commercial banks and enterprises with a share of the state.

Licenses required for establishing a company

Establishing a company

The registration of financial organizations is conducted either by the CBU or the Centre of State Services.

Some financial organizations shall comply with the requirement of the minimum charter capital. For example, the minimum charter capital for microcredit organizations shall be no less than UZS 2 billion (around USD 186,000). In comparison, the minimum charter capital requirement for a bank comprises UZS 100 billion (around USD 9,302,325). Crypto exchange organizations shall have a minimum charter capital of not less than 30,000 BCU (around USD 754,000).

Licensing and permit requirements

Licenses

The following financial activities are subject to licensing:

- Crypto-exchange activities
 - State fee – N/A,
 - Validity period – unlimited.
- Banking activities
 - State fee - up to UZS 100 mln (around USD 9,302),
 - Validity period - indefinite.
- Microfinancing activities
 - State fee - up to 2 BCU (around USD 54),
 - Validity period – indefinite.
- Credit bureaus
 - State fee - up to 1 BCU (around USD 27),
 - Validity period – indefinite.
- The activity of a payment system operator
 - State fee - up to 5 BCU (around USD 130),
 - Validity period – indefinite.
- The activity of payment organizations
 - State fee - up to 5 BCU (around USD 130),
 - Validity period - unlimited.
- Exchange activity
 - State fee - up to 4 BCU (around USD 100),
 - Validity period - indefinite.

- Professional activity on the securities market
 - State fee – up to UZS 822,000 (around USD 80) (local entities with foreign investments are exempt of any fees),
 - Validity period - unlimited.

Sector incentives

Table 15. Incentives for finance sector
Tax incentives
Most financial services including banking and insurance services are exempt from VAT.

11. Education

- **Uzbekistan's young and growing population provides the country with unique opportunity to reap a demographic dividend opportunity. But the necessary condition for this is that children and youth have access to quality education**
- **Uzbekistan has comprehensive education system**
- **Education sector has always been a priority for the government**
- **The enrollment rates into pre-school and higher education facilities have increased significantly**
- **The education sector is divided into 3 layers and regulated by separate ministries**
- **Education sector is undergoing important changes**
- **International investors are offered comprehensive incentives to invest into the education sector**

Sector overview

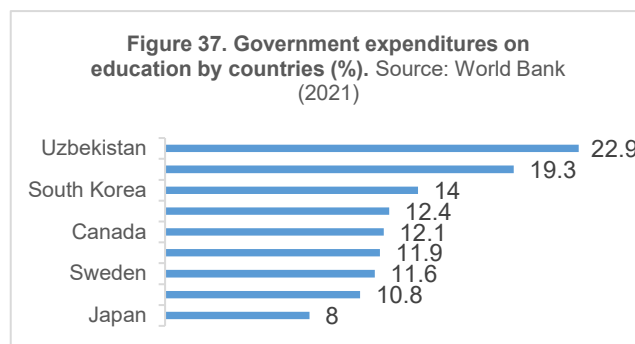
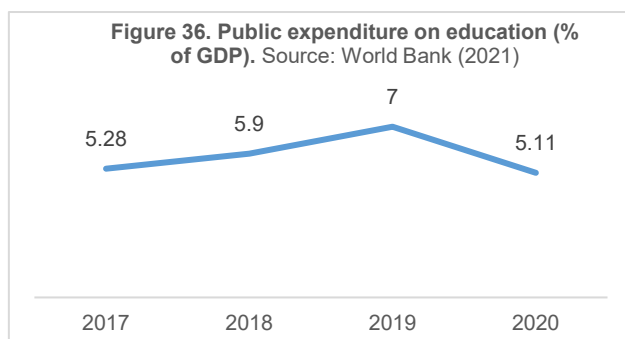
Uzbekistan has comprehensive education system. The education system is represented by preschool education (3-6 years old), secondary education (7-18 years old), secondary specialized and vocational education (aged 15-18 years) and higher education (age 18+). Preschool education is provided by 7753 public and private preschool kindergartens and preschool institutions, secondary education is provided by 10181 public and private schools, secondary special and vocational education is provided by 818 academic lyceums and check the number vocational colleges, and higher education is provided by 127 state higher educational institutions.

In Uzbekistan 11 years of education are compulsory and free, beginning with 4 years at primary school, and followed by 2 phases of secondary education taking 5 and 2 years respectively. Primary school begins at age 6 and there is no specific leaving examination after the 4 years are complete. The next 5 years are spent at general secondary school from ages 10 to 15. Following that, there is a choice of between 2 to 3 years of upper education at either general or technical vocational schools. The former provides a certificate of completed secondary education and the opportunity to enter university.

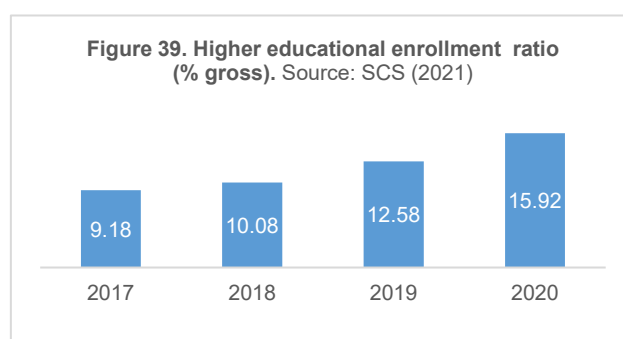
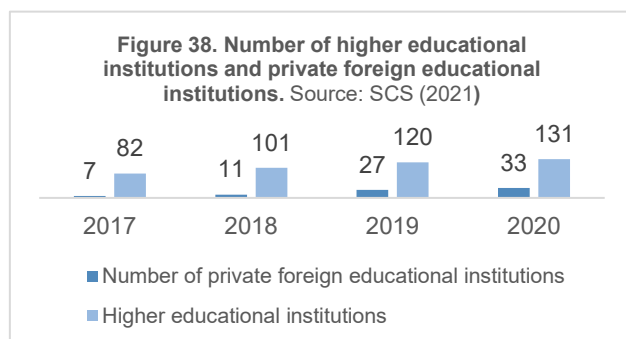
Education sector has always been a priority for the government. The government has paid special attention to the education sector since the 1990s, as evidenced by the largest share of the consolidated state budget allocated to date. The Government sees the education sector as a key driver of the long-term economic development. In the last 5 years the Government implemented a large array of important measures such as rapid development of the pre-school education, reforms in school and higher education, attraction of the private investment into the education sector etc.

The enrollment rates into pre-school and higher education facilities have increased significantly. Specifically, the coverage by preschool institutions increased from 26% in 2017 to nearly 60% in 2020, while the coverage by tertiary education increased from 9% in 2017 to 25% in 2020. The enrollment rate in primary and secondary education in Uzbekistan reached almost 100% and is comparable to the average for emerging economies. There has also been a positive

trend in number of students graduating from higher educational institutions which increased from 64,000 in 2017 to 84 thousand graduates in 2020.



Education sector is undergoing important changes. Since 2017 education at all levels in Uzbekistan is undergoing substantial change. Reforms aim to expand access to preschool education and restructure the general secondary and secondary specialized education. Uzbekistan’s education spending is one of the highest in the world. Government education spending amounted to 5.1 percent of GDP in 2020, more than in Kazakhstan and Russia, regional peers. Such high public spending on education can be explained by limited participation of private providers and previous policies on secondary specialized and higher education. The bulk of education spending – about three-fourths – is for general secondary and secondary specialized education.



The higher education system is undergoing deep changes. There is a two-tier system of higher education: Baccalaureate and Magistracy, institutes of doctoral students and senior researchers have been introduced. Spending on higher education is very low, partially explained by the also very low number of enrolled students. Despite the rapid increase in the number of students enrolling into the universities at all levels (Bachelor, Master and PhD). The Government plans to further increase the enrollment rate from 25% in 2020 to 50% by 2030. It is estimated that in addition to expanding the capacity of the existing universities, Uzbekistan will need additional 30 universities to achieve this ambitious goal. It is expected that majority of these 30 new universities will be foreign universities interested in investing and establishing branches in the country or creating dual degree programs with local universities. Recent examples include Yeosu Institute of Technology (South Korea) that became the first private university in Uzbekistan, and Webster University that was the first American university that opened its campus in Uzbekistan.

International investors are offered comprehensive incentives to invest into the education

sector. The government offers international investors tax exemptions, land and pre-existing facilities at low or no cost. Disciplines targeted for expansion include chemistry, energy, mechanical engineering, industrial technology, biotechnology, printing, construction and architecture, irrigation and water resources, medicine, and pharmacology.

Among all the levels, higher education is facing the economy's shortage of adequately skilled human resources, thus showing the highest average private rate of returns. Higher education displays the highest average private rates of return compared with other levels of education. Increased higher education enrollment is a strategic direction, as economic expansion has encountered a shortage of graduates. There is misalignment between supplied skills and market needs. Uzbekistan's education system has produced graduates with skills misaligned with the needs of the labor market and relevant economic sectors. Along with this, inadequate investment in human capital has left a portion of the workforce poorly equipped for rapid technological change. Analyses show that the quality and relevance of higher education remain growing concerns

Major foreign investors in the sector

International universities and other education companies have been present in Uzbekistan since 2002. Currently, a number of international universities present in the country has reached 33. Main international university branches in Uzbekistan are the following

- Westminster International University (UK)
 - Turin Polytechnic University (Italy)
 - Management Development Institute of Singapore (Singapore)
 - Moscow State University (Russia)
 - Russian Economic University (Russia)
 - Russian University of Oil and Gas (Russia)
 - Inha University (South Korea)
 - Webster University (USA)
 - Japan Digital University (Japan)
 - Bucheon University (South Korea)
 - Yeosu Technical Institute (South Korea)
 - Sharda University (India)
 - Amity University (India)
-
- **Japan Digital University (Japan)** was established in 2020 in cooperation with Digital Knowledge Co., Ltd. of Japan. It is considered a non-state higher educational institution whose main tasks are the preparation of personnel with higher education in the field of ICT, software development, management of information systems and computer networks. The volume of investments by the Digital Knowledge is estimated at \$5 million.
 - **Management Development Institute of Singapore (MDIS) (Singapore)** was officially opened in November 2008. There are 3 areas for undergraduate and 1 – graduate studies.

The US\$20 million joint venture is set up by MDIS and the Uzbekistan Banking Association.

- **Turin Polytechnic University in Tashkent (TPUT) (Italy)** was established on April 27, 2009 in accordance with the Decree of the President of the Republic of Uzbekistan № PP 1106 dated 27.04.2009. TPUT is responsible for implementation of activities aimed at training highly-qualified specialists for the automotive, mechanical engineering and electrical industry.

Investment opportunities

- Development of preschool educational institutions
- Building and maintaining new modern greenfield energy-efficient general secondary schools
- Equipping of all secondary schools with modern equipment
- Implementation of science, technology, engineering and mathematics (STEM) projects

Key takeaways

- The educational organizations in Uzbekistan can be governmental and non-governmental.
- Non-governmental higher education institutions are usually established in the form of LLC.
- Certain types of educational activities are subject to licensing.

The educational organization shall comply with national academic standards, requirements, and programs and undergo state attestation and accreditation once every five years

Key regulators, laws and regulations

Key regulators

The primary regulatory authorities include:

- Ministry of Pre-School Education of Uzbekistan,
- Ministry of Public Education of Uzbekistan,
- Ministry of Higher and Specialized Secondary Education of Uzbekistan (collectively “Regulatory Authorities”).

The Regulatory Authorities are responsible for developing the unified state policy in the field of education, general regulation, supervision of compliance, as well as developing educational programs, requirements, standards, etc.

Moreover, the State Inspectorate for Quality Supervision of Education under the Cabinet of Ministers is the primary licensing authority responsible for issuing licenses to non-governmental educational organizations, attestation, and accreditation of educational organizations and teaching staff rating the educational organizations, etc.

Key laws and regulations

The list of key laws and regulations include:

- [Law](#) of the Republic of Uzbekistan “On Education”,
- [Law](#) of the Republic of Uzbekistan “On Preschool Education and Upbringing”
- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for the Further Improvement of the Education and Nurturing System”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Additional Measures for Further Improvement of the Educational System”,

- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Improving the Procedure for the Attestation and State Accreditation of State Educational Institutions and Non-State Educational Organizations”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Improving the Procedure of Licensing the Activities in the Field of Non-State Educational Services”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the Regulation on General Secondary Education”,
- [Resolution](#) of the Cabinet of Ministers of the Republic of Uzbekistan “On Approval of the State Educational Standards for General Secondary, Secondary Specialized and Vocational Education”.
- for General Secondary, Secondary Specialized and Vocational Education”

Government’s sector development plan

- [Decree](#) of the President of the Republic of Uzbekistan “Concept on Development of the Higher Education System of the Republic of Uzbekistan Until 2030”:
- Development of public-private partnership in the field of higher education, increasing the level of enrollment in higher education by more than 50%;
- Inclusion of at least 10 higher educational institutions of the republic in the first 1,000 positions of the list of higher educational institutions in the ranking of internationally recognized organizations;
- Gradual transfer of the educational process of higher educational institutions to the credit-modular system.

Licenses required for establishing a company

Establishing a company

Non-governmental educational organizations are usually established as LLCs).

Licensing and permit requirements

The educational organizations operate in Uzbekistan based on the respective license or fulfilling a notification procedure where applicable.

Licenses

The following educational activities are subject to licensing:

- Pre-school education
 - State fee - up to 10 BCU (around USD 260),
 - Validity period – unlimited.
- General secondary and specialized secondary education
 - State fee - up to 10 BCU (around USD 260),
 - Validity period – indefinite.
- Vocational education
 - State fee - up to 10 BCU (around USD 260),
 - Validity period – indefinite.
- Higher education
 - State fee - up to 10 BCU (around USD 260),
 - Validity period – indefinite.
- Postgraduate education
 - State fee - up to 10 BCU (around USD 260),

- Validity period – indefinite.

Other permissive documents

Furthermore, if the company is engaged in the following activities, it shall notify the respective state authority before commencing such an activity:

- Non-state extracurricular educational activities, including foreign language classes;
- Professional development and staff retraining activities;
- Professional development for drivers of motor vehicles and means of urban electric transport.

Sector incentives

Table 16. Incentives for education sector
Incentives for foreign teachers
Foreign teachers/educational specialists and their family members are exempted from paying state fees for multi-entry visas and temporary residence registration.
Incentives for non-governmental educational organizations
<ul style="list-style-type: none"> ● State subsidy for non-governmental educational organizations, reimbursing partially the wages costs, paid to specialists, teaching computing literacy classes until 1 January 2024. ● A one-time subsidy for entrepreneurs organizing foreign languages classes of in rural areas. <p>State support, subsidies, compensations for the costs and lease of land premises free of charge for the investors organizing non-governmental preschool education in Uzbekistan.</p>
Tax incentives
<p>Legal entities engaged in provision of educational services are subject to 0% CIT, on a condition that income generated from such activity comprises at least 90% of such legal entities' total income.</p> <p>Provision of educational services is exempt from VAT.</p> <p>According to Presidential Decrees #3931 and #3276, non-governmental institutions of preschool and secondary education are exempt from payment of all taxes and dues including CIT and VAT (except for social tax) till 1 January 2025, on a condition that the tax saving resulting thereof are spent on tooling those institutions with modern teaching equipment, purchase of expendable materials & inventory, reconstruction and major overhaul of buildings and constructions etc.</p> <p>Import of educational and laboratory equipment, computers, educational and scientific literature, and material and technical resources not produced in Uzbekistan for non-governmental educational institutions is not subject to customs payments (except for customs processing fees).</p> <p>Please also note that objects of education (e. g. buildings of educational institutions) are not subject to property tax. Land plots occupied by the objects of education are not subject to land tax.</p>

12. Healthcare

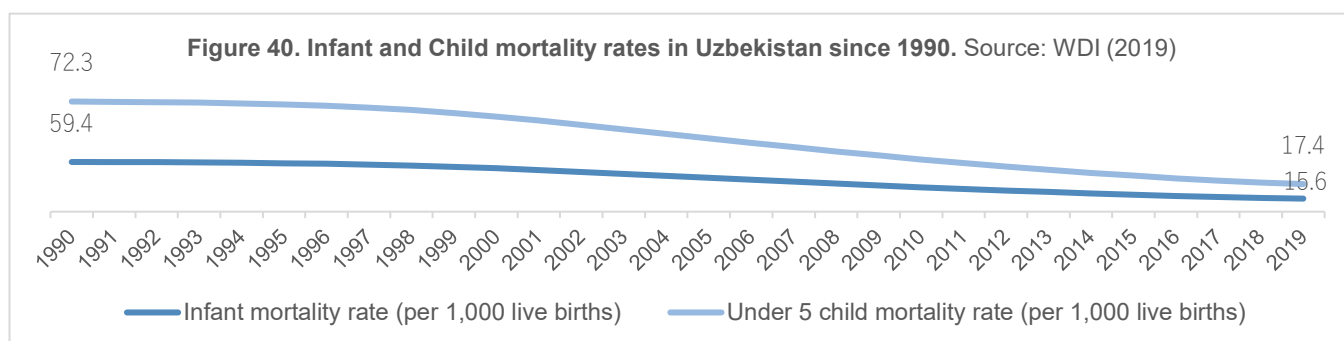
- **Opportunities for PPP and evolving demand for private healthcare services**
- **Strong government support and sector-related incentives**
- **Improving life expectancy and rising demand for quality diagnostics**

Sector overview

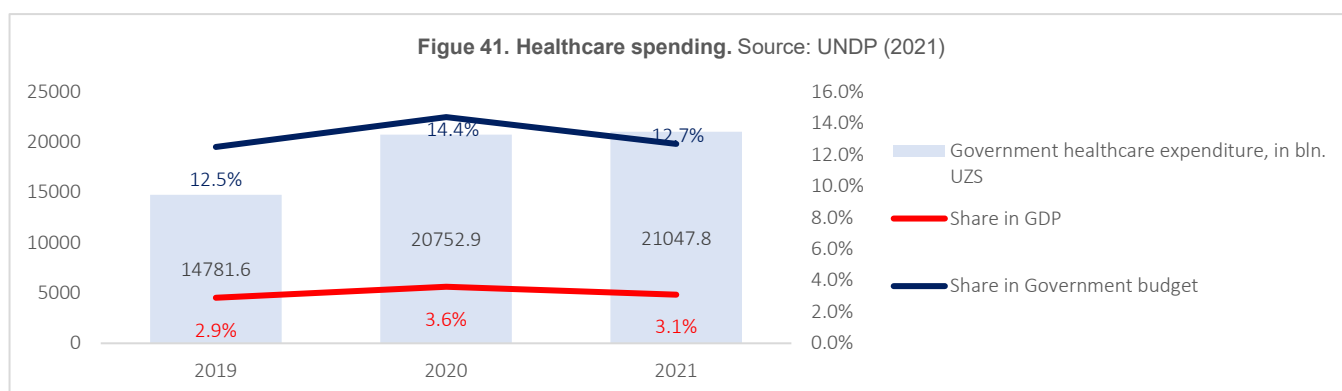
The government pays close attention to the long-term development of its healthcare system by gradually reforming for the last 5 years. Healthcare reforms in Uzbekistan are aimed to improve the quality of the system by moving away from a hospital-based healthcare to establishing primary health care and specialized health centers.

Rapid economic development along with structural reforms leading to higher rates of urbanization, increasing per capita incomes and overall regional development are expected to drive the demand for health services in the coming 5 years. Government expenditures on healthcare fluctuate around 3% of GDP. In 2020-2021, the Government further increased its health spending to fight the COVID-19 pandemic.

Uzbekistan scores well in the most important survival and development indicators. Infant and child mortality rates have significantly decreased. (Figure 40).



State funding for healthcare has reached 3% of GDP as the government continues its healthcare modernization and restructuring program. (Figure 41). More than 60% of all payments of total health expenditures by households constitute out-of-pocket expenditures and go to private healthcare providers.



Cardiovascular diseases, cancer and diabetes remain one of the most common causes of mortality in Uzbekistan. For the past years, the mortality rate from these diseases has been increasing in Uzbekistan. The health care sector in Uzbekistan is predominantly state-run and organised into three tiers: the national level, the regional level and the local level made up of districts. In contrast, the share of private healthcare services providers remains relatively minor, although the trend has been changing for the last couple of years. Private healthcare providers are more active in medical diagnostics and testing, as well as in pharmacy and outpatient healthcare.

Comprehensive healthcare system reforms are ongoing. Healthcare system reforms in Uzbekistan have concentrated in three areas: improving the quality of services, ensuring equity in access to quality health services, and increasing efficiency in health spending. . Since 2017, the government has implemented several structural changes to improve service quality, including the addition of several quality control departments to the Ministry of Health (MoH) structure. In terms of ensuring access to healthcare services, the government has expanded its vast network of health facilities, which includes over 1,200 hospitals and 6,000 outpatient facilities. From 2019 to 2025, the government is implementing a far-reaching and ambitious reform agenda with the overall objective of improving the health of the population through universal health coverage. In accordance with the healthcare reform plan, the government gradually started to introduce mandatory health insurance starting from January 1, 2021. The pilot project on mandatory health insurance was launched in Syrdarya region with support from the World Health Organization (WHO). The government intends to achieve 90 percent population coverage under the mandatory health insurance program by 2025. Rapid economic development along with structural reforms leading to higher rates of urbanization, increasing per capita incomes, and overall regional development are expected to drive the demand for health services in the coming 5 years.

Demand for private healthcare services has also been on the rise. Private healthcare providers hold a small share of the market vis-à-vis the government, although this proportion has been changing in recent years. The former tends to be more active in providing medical diagnostics, testing, pharmaceuticals, and outpatient care services.

Private-sector involvement is encouraged in early detection, diagnostics, and treatment of oncological diseases, building and managing multifunctional hospitals, including PPPs. According to the government's healthcare development plan 2019-2025, the government intends to attract foreign investments in the health sector through the widespread use of public-private partnership mechanisms. The government, in particular, encourages private sector participation in the development of outpatient and inpatient medical services, as well as the development

Major foreign investors in the sector

- **NephroPlus (India)** - the first major PPP agreement for the delivery of dialysis services in Uzbekistan was reached In 2019 with India's largest dialysis and kidney care company.
- **Himchan Hospital (South Korea)** - a well-known hospital for joint and spinal treatments, opened its local private medical institution in Bukhara in 2019.
- **Pratiksha Hospital Group (India)** - In April of 2021, Pratiksha Hospital Group of India in cooperation with Zarmed Clinic in Uzbekistan established a Joint Venture Zarmed Pratiksha Hospital Group. The amount of the investment was \$8.5 million, the size of Indian capital is 1.5 million dollars.

Investment opportunities

- Establishing laboratories
- Development of X-ray networks
- Establishing regional multifunctional medical centers
- Establishing oncological centers
- Development of medical insurance in Uzbekistan
- Provision of hemodialysis services
- Sterilization service
- Post-stroke rehabilitation center
- Carrying out oncological diagnostics
- Laboratory services in the Tashkent city branch of the Republican Specialized Scientific-Practical Medical Center of Oncology and Radiology
- Establishment of a dental center
- Establishment of a multidisciplinary hospital in Tashkent region
- Establishment of the Radiation Therapy Center in Ferghana region

Key takeaways

- The healthcare organizations in Uzbekistan can be governmental and non-governmental.
- Non-governmental healthcare organizations are established as legal entities only (LLCs, JSCs, etc.).
- Healthcare activities are subject to licensing.
- Healthcare organizations are usually established in the form of LLC
- Medicine, drugs, and medical equipment produced or imported to Uzbekistan shall comply with national standards.

Key regulators, laws and regulations

Key regulators

The Ministry of Health of Uzbekistan is the primary regulatory authority in healthcare. It is responsible for developing the state policy in the healthcare field, issuing licenses and conformity certificates, developing national standards and conformity criteria, etc.

The Sanitary-Epidemiological Welfare and Public Health Service is another key authority in the healthcare sector, that monitors the sanitary condition of the state, deals with the infectious diseases and conducts other supervisory functions.

Key laws and regulations

The list of key laws and regulations include:

- [Law](#) of the Republic of Uzbekistan “On the Protection of Citizens' Health”,

- [Resolution](#) of the President of the Republic of Uzbekistan “On Additional Measures for the Comprehensive Development of the Health Sector”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Effective Organization of Digitalization in the Health Sector”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Development of Public-Private Partnerships in the Health Sector”,
- [Resolution](#) of the President of the Republic of Uzbekistan “On Measures for Further Development of the Private Health Sector”,
- [Decree](#) of the President of the Republic of Uzbekistan “On Comprehensive Measures for the Radical Improvement of the Health System in the Republic of Uzbekistan”

Government’s sector development plan

The government is interested in greater private sector engagement in provision of health services. The private sector involvement is especially welcome in early detection, diagnostics and treatment of oncological diseases, building and managing multifunctional hospitals, including on public-private partnership (PPP) terms.

The public policy on further development of the healthcare sector of Uzbekistan follows the country’s 2019-2025 Health Sector Development Concept (<https://lex.uz/docs/4096199#4099858>) . The main goals of the Concept are increasing life expectancy through better prevention and treatment of diseases causing premature deaths and disabilities; to enhance inclusivity and coverage by medical care; and capacity enhancement of healthcare services providers. As a result of implemented reforms in healthcare sector, life expectancy at birth in Uzbekistan has improved and reached 75.5 years and 71.2 years for females and males in 2020, respectively. This is slightly lower than the official figures for 2019 when life expectancy was 77.4 years for females and 72.8 for males. The numbers dropped due to the negative impact of COVID-19.

Licenses required for establishing a company

Establishing a company

Healthcare organizations shall be registered as legal entities. The private healthcare system includes healthcare institutions (hospitals), pharmacies, enterprises producing medicines, medical devices, and medical equipment.

Only legal entities can engage in medical activities and provide medical services.

Licensing and permit requirements

The healthcare activity and production of healthcare equipment, devices etc., are subject to licensing.

Licenses

The following activities are subject to licensing:

- Medical activity (prevention, diagnosis, treatment, and rehabilitation)
 - State fee - up to 5 BCU (around USD 130),
 - Validity period - 5 years.

- Veterinary activity (prevention, diagnosis, treatment, and rehabilitation)
 - State fee - up to 10 BCU (around USD 260),
 - Validity period - unlimited.

Other permissive documents

In addition, the manufacturers of medical equipment must obtain the following permissive document:

- Registration certificate for medical equipment.

Sector incentives

Table 17. Incentives for healthcare sector
General applicable incentives
Individual investor incentives provided in line with PPP projects, investment agreements, bilateral investment treaties, etc.
SEZ incentives
General SEZ incentives for the entities engaged in producing medical equipment and devices etc. (infrastructure facilities, special taxation and customs regimes, visa support, right for land, etc.).
Tax incentives
Medical institutions are subject to 0% CIT, on a condition that income generated from provision of medical services, except for cosmetology and stomatology services, comprises at least 90% of the total income.
Provision of medical services as well as sale of medical and veterinary medicines is exempt from VAT.
Please also note that objects of healthcare (i. e. buildings of medical institutions) are not subject to property tax. Land plots occupied by the objects of healthcare are not subject to property tax.
Import of new medical equipment, components, and spare parts as per the approved list of eligible HS codes, as well as import of new ambulances is exempt from customs dues till 1 January 2024.

Appendix 3: Presentations of the Uzbekistan Business Seminar

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Investment climate of Uzbekistan

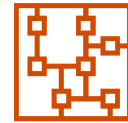
26.10.2021

Agenda



Recent changes in the economy

1



Overview of recent tax and current
currency developments

2



Political leaders

3

1

Recent changes in the economy



Uzbekistan at a Glance (as of 2020)



Population: 34.6 mln people



Geography: Double landlocked



GDP per capita: \$1,685



Nominal GDP: \$55.7 bln



Real GDP growth: 1.6%



Unemployment rate: 10.5%



Life expectancy rate in years:
75.1



Poverty rate: 11.4%



Literacy rate: 96.9%



CPI: 11.1%



GDP deflator: 11.9%



Government deficit (% of GDP):
40.4%

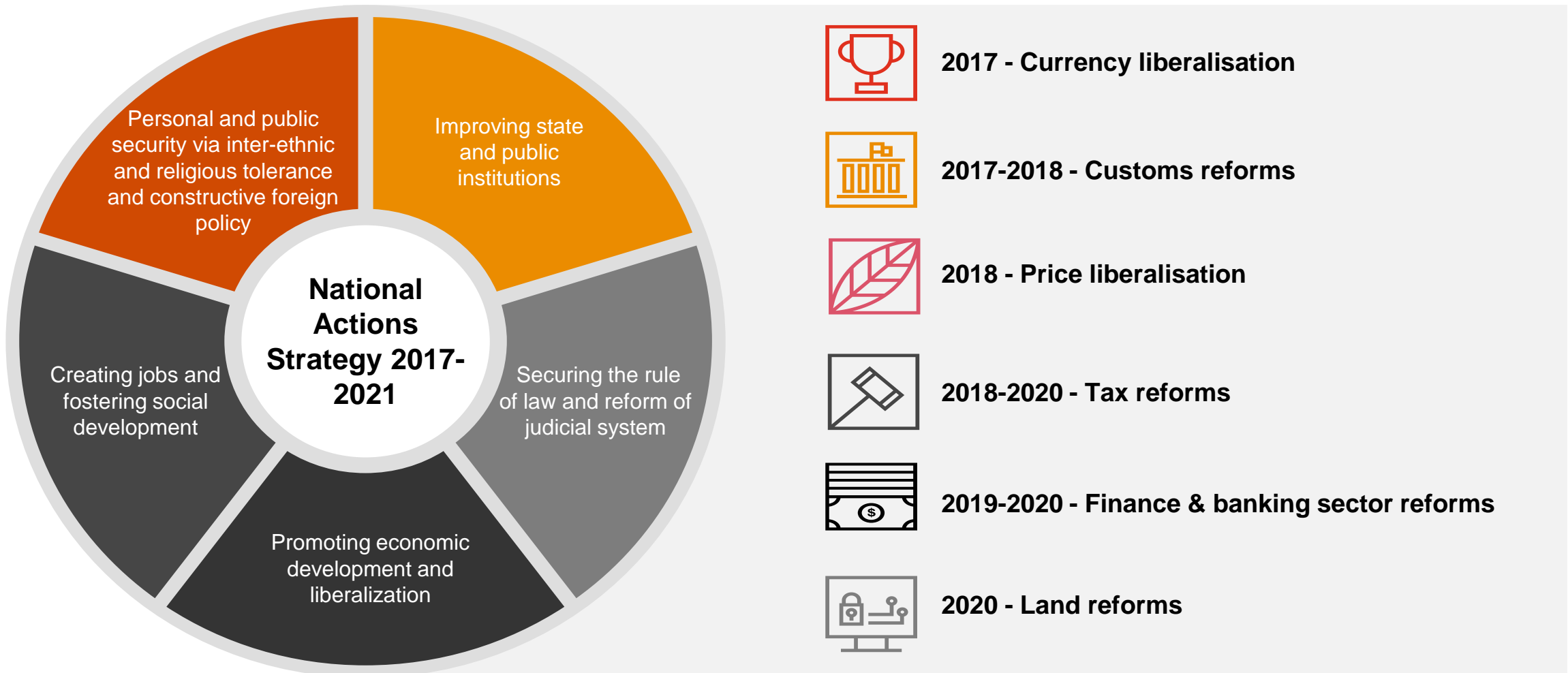


Trade deficit: \$6.4 bln



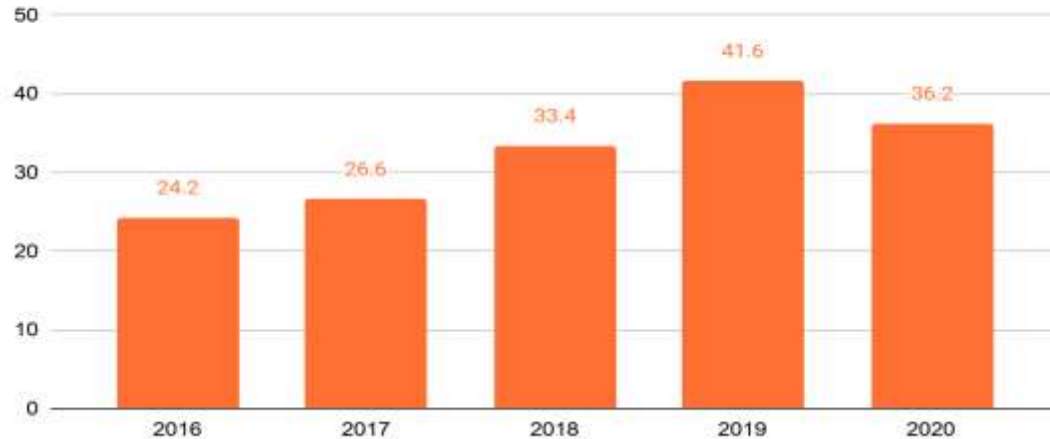
Energy intensity per \$1 of GDP produced: 10
MJ

In late 2016, newly-elected President Mirziyoyev embarked upon an ambitious economic modernization program to reinvigorate economic growth

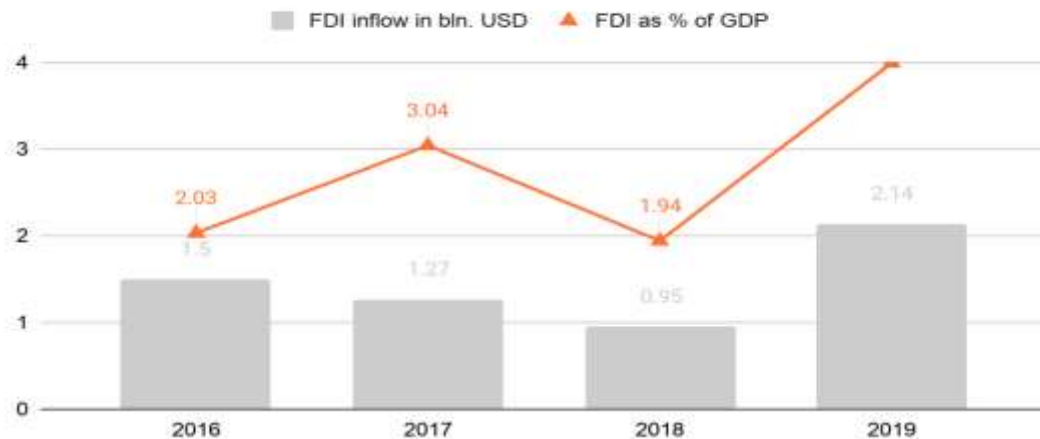


Within 2017-2021 a dynamic and ambitious reform process has continued in Uzbekistan

Foreign trade turnover, 2016-2020 (in bln.USD). Source: SCC (2021)



FDI as % of GDP and FDI in bln. USD. Source: WB (2021) and PwC analysis



In the economy, reforms are primarily aimed at further reduction of the government presence in the economy, improvements in the business climate and liberalizing foreign trade.

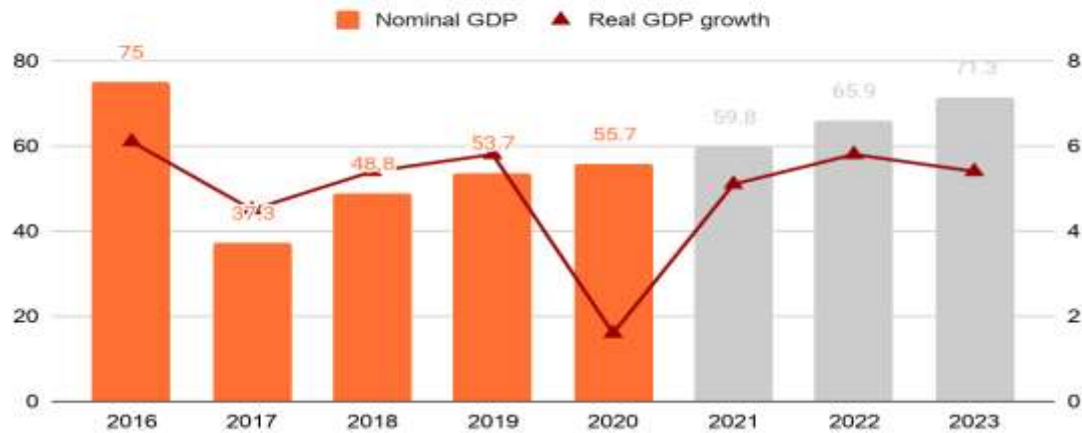
From the very beginning, these reforms have not only been very ambitious, but also successful. This is borne out by the following facts:

- Significant growth in foreign trade, which increased from \$24 billion in 2016 to nearly \$36.2 billion in 2020.
- Improvement of the country's position in the Doing Business ranking, where Uzbekistan rose from 87th position in 2016 to 69th in 2020
- Increase of foreign direct investment (FDI). According to the World Bank, FDI increased from 2% of GDP in 2016 to almost 4% of GDP in 2019.

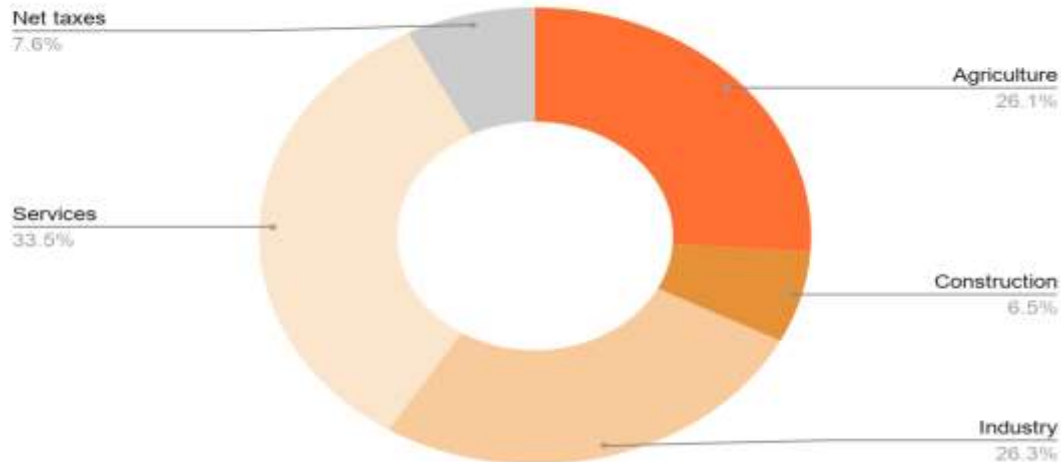
Overall, Uzbekistan's economy is transforming from a closed, state-dominated economic model to an open market economy.

COVID-19 crisis has substantially extinguished GDP growth in 2020, still the country was successful in mitigating its implications of national economy

Nominal GDP and Real GDP growth. Source: SCC (2021) and PwC analysis



GDP structure, in %. Source: SCC (2021)



To mitigate the economic, social, and health consequences of the pandemic, the Government of Uzbekistan has been taking bold anti-crisis policy measures.

In 2020, the country made substantial progress, with the GDP amounting 57.7 bln USD and real GDP growth increasing by 1.6%, being among the few countries with positive economic growth.

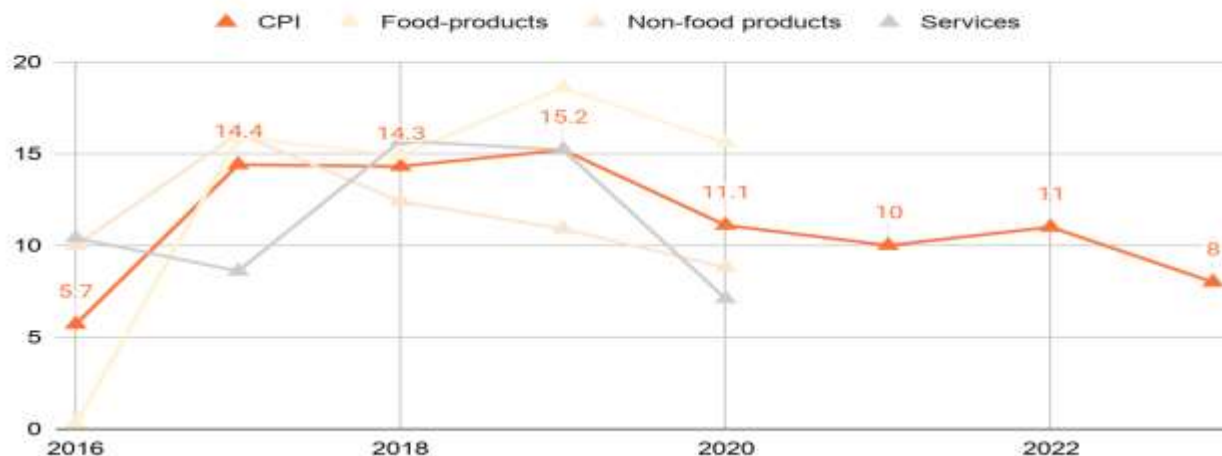
Within 2020, stable growth rates in agriculture (3% growth rate) and construction (9.1% growth rate) sectors were one of the key drivers of positive real GDP growth.

Uzbekistan's outlook for economic growth remains positive as reforms continue to shift the economy toward greater resource efficiency and private sector growth.

The GoU expects the industrial sector growth rate to pick up in 2021 from 5.8% and continue to grow at 7.6% and 6% in 2022 and 2023, respectively. The growth rate of agricultural is forecasted to be robust and grow from 3.5% in 2021 to 3.6% in 2023, respectively.

Expansionary measures led to an increase in inflation, still the country is determined to curb down inflation at 5% annually since 2023

Inflation rate, CPI. Source: SCC (2021)

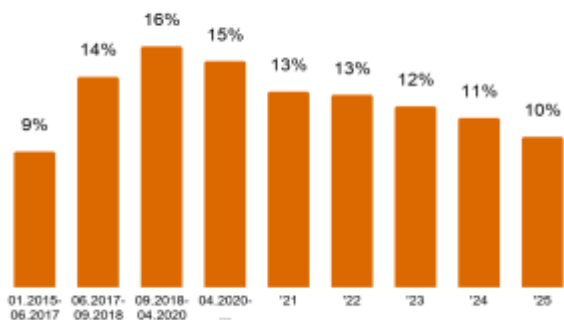


Inflation rate in 2020 declined to 11.1% down from 15.2% in 2019 thanks to strong anti-inflationary commitment of the GoU to curb down inflation and to establish a permanent inflation target of 5% from 2023.

Falling inflation rate is also the result of a stabilisation of the exchange rate since a rapid devaluation in April 2020 and slowdown in economic activity due to Covid-19 pandemic.

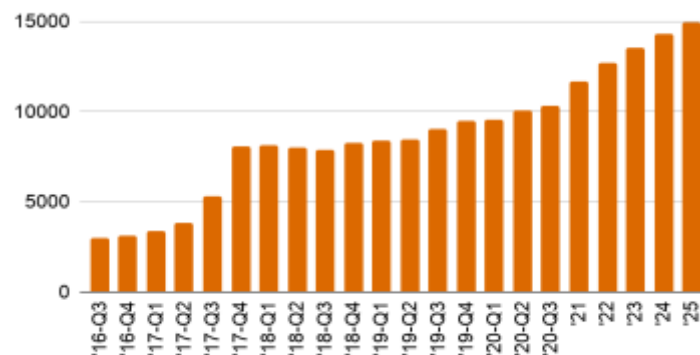
CBU's refinancing rate (%)

Source: CBU (2020) and IHS (2020)



Exchange rate of USD vs UZS (in UZS)

Source: CBU (2020) and IHS (2020)

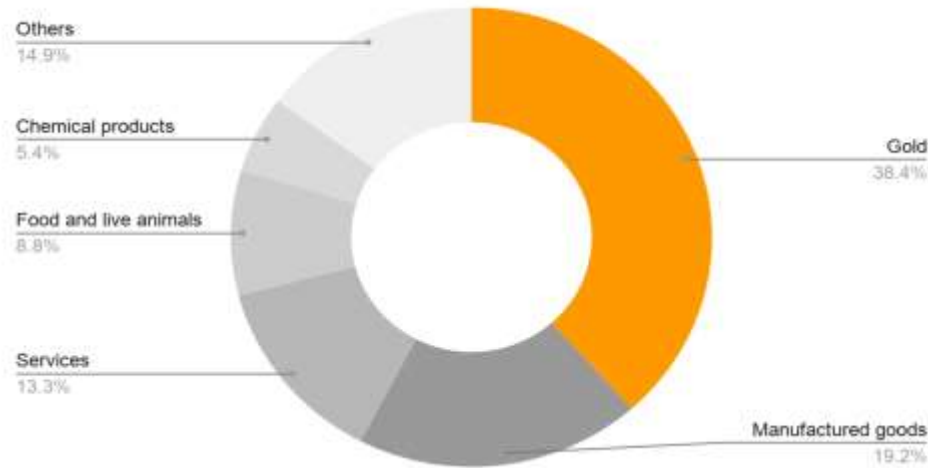


The GoU plans to continue its anti-inflationary policy, with the CBU aiming to achieve a consumer price inflation around 8% by 2023.

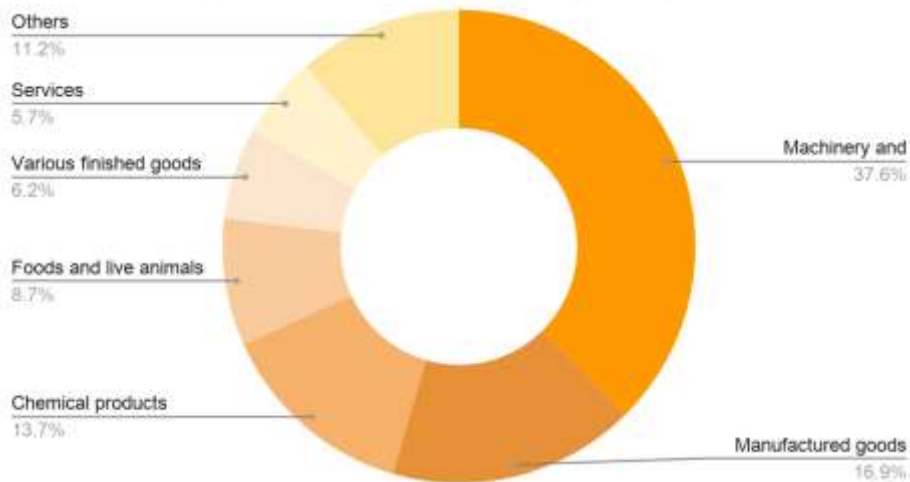
Based on IHS estimations, Uzbekistan's national currency will depreciate to the value of 15,000 soums per \$1 by 2025.

The economic growth and trade liberalization have reduced trade barriers and unleashed trade potential

Structure of exports, in %. Source: SCC (2021)



Structure of imports, in %. Source: SCC (2021)

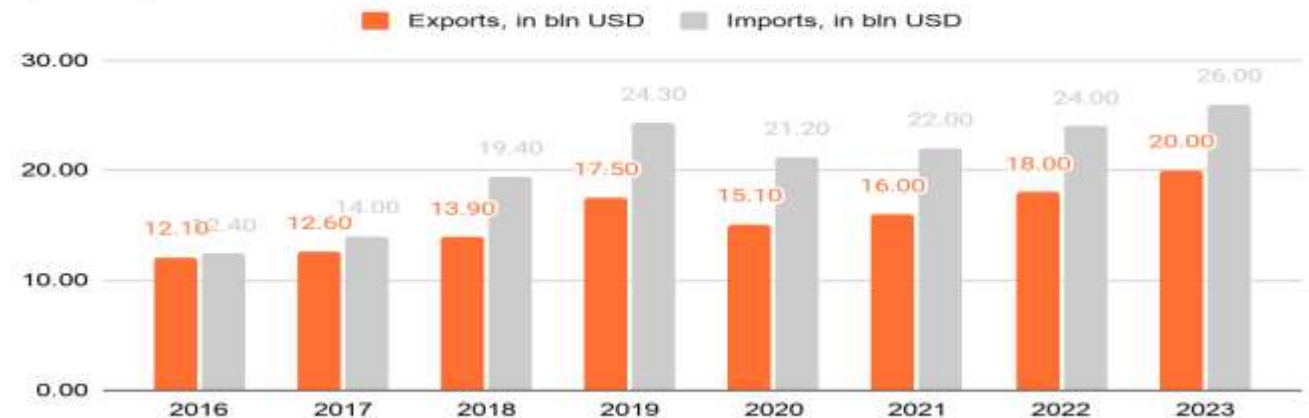


In 2020, the volume of exports and imports accounted to \$15.1 bln and \$21.2 bln, respectively, resulting in a trade deficit of \$6.04 bln.

In comparison to previous year, the volumes of both imports and exports declined due to global lockdown to mitigate Covid-19 virus spread.

Nonetheless, country's export volume is expected to stabilize in near future as the GoU has set a priority goal to support and stimulate exporters (MIFT, 2020).

Exports and imports, in bln USD. Source: SCC (2021) and IHS (2020)



While quick wins have mostly been achieved, now more structural and fundamental reforms are to be implemented by the GoU

SWOT of Uzbekistan

Strengths

- Cheap and abundant labour force
- Rich in resources and cheap energy and utilities
- Strong integration with neighbouring CIS countries
- Improving business climate
- Low rate of violent crime

Weaknesses

- Low labour force participation and a significant degree of underemployment/informal economy
- Rising shortages of electricity and fuel
- Corruption hinders the effective functioning of law enforcement bodies

Risks

- Lack of skilled workers in relevant industries
- Water scarcity
- Double-landlocked geography and poor infrastructure
- High degree of bureaucracy
- The rise of religious activities in neighbouring countries

Opportunities

- Fast pace of reforms to liberalise the economy and weed out corruption
- Rising demand for higher education
- Targeted investment in key infrastructure
- Continued interest of foreign businesses in hydrocarbons and other natural resources

Comments

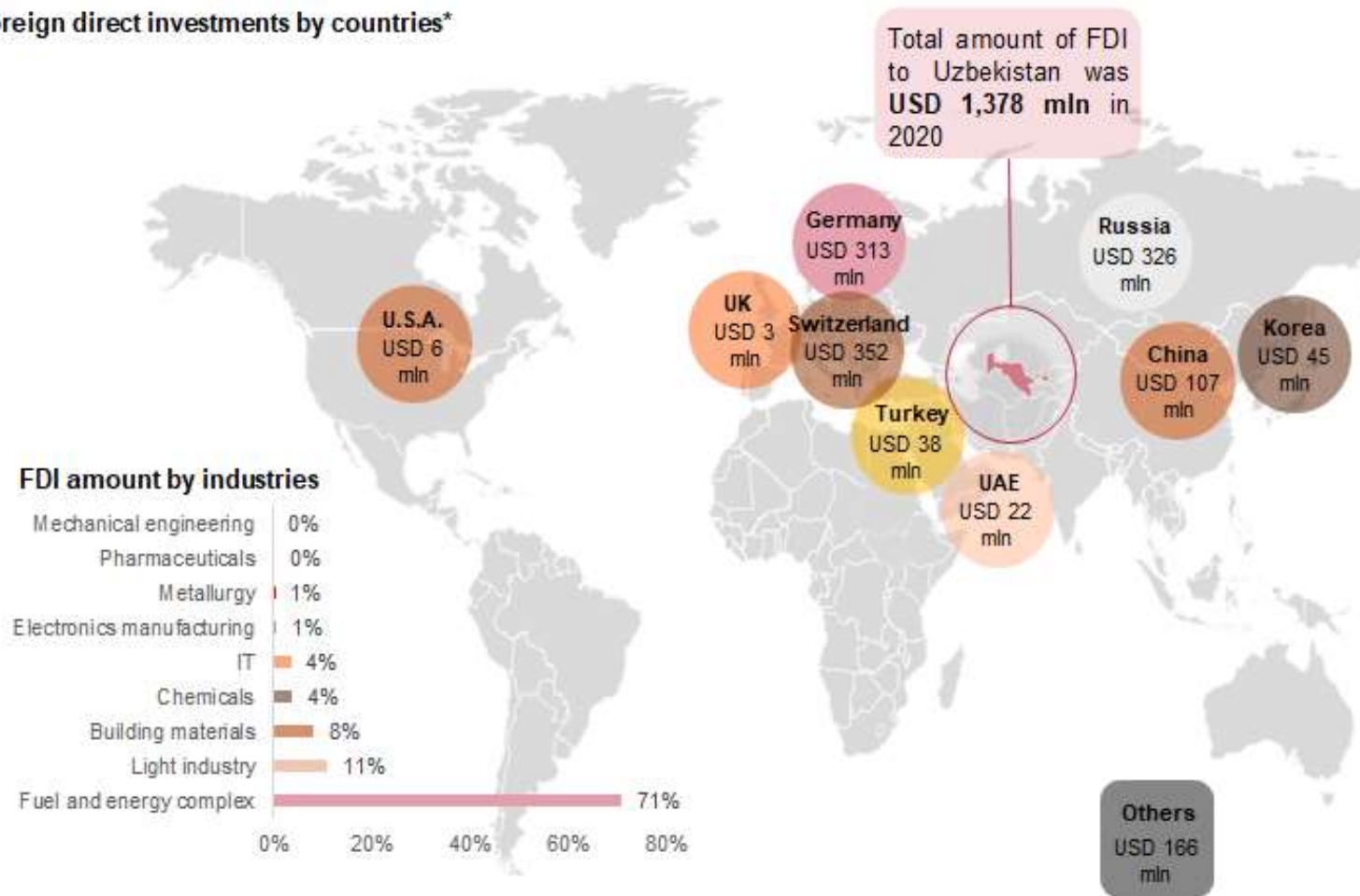
Presidential elections will take place in October 2021, with the current President remaining the favourite for consecutive re-election

Government is expected to continue reforming the economy to maintain the momentum and manage the expectations with more fundamental reforms taking place:

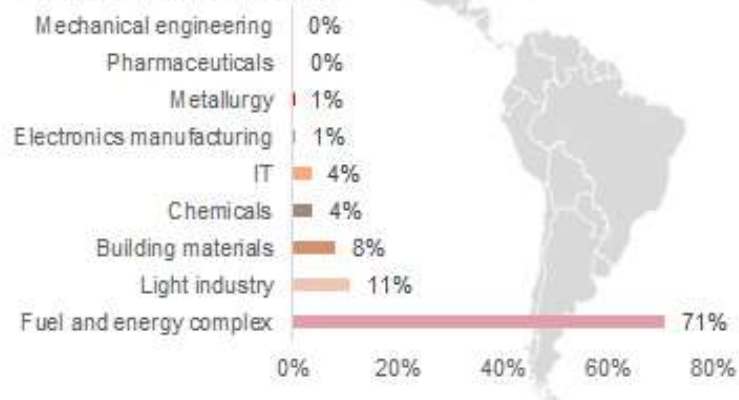
- Administrative reforms
- Agricultural reforms
- Reforms in the education and healthcare sectors
- More rapid measures to digitalise the economy
- Amendments in the trade regime and possible entrance to Regional Customs Unions
- Privatisation programmes and reforming of state owned enterprises
- Further land reforms

FDI to Uzbekistan: key investors

Foreign direct investments by countries*



FDI amount by industries



In 2020, the main directions of FDI were in the Fuel and Energy complex. The most significant ones were:

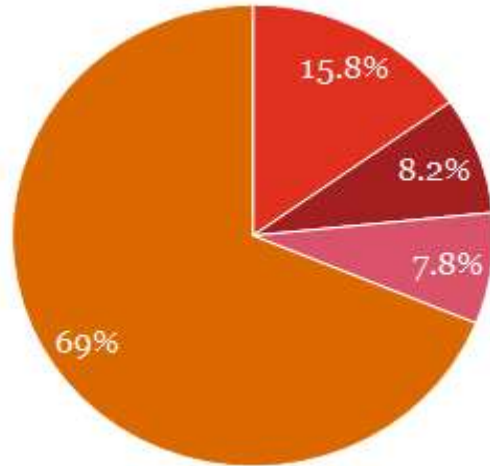
- \$352 mln were investment by Gas Project Development Central Asia AG (Switzerland) for exploration and development of the field with construction of gas chemical complex in the Surkhandarya region of Uzbekistan.
- IE Lukoil Uzbekistan Operating Company LLC invested \$184 mln for the development of fields of Kandym group with the construction of a modern gas processing plant, development of Khauzak and Shady fields, as well as carrying out exploration work in Kungrad area under PSA.

Also, in 2020, significant FDIs was to manufacturing and communications industry such as organization of cement production in the Tashkent region by AgANGARANSEMENT JSC (\$50 mln), expansion of the cellular communication system by FE Unitel LLC (\$48 mln) and organization of cotton and textile production in Tashkent region (\$44 mln).

Source: Ministry of Investments and Foreign Trade of the Republic of Uzbekistan, 2020

Between Uzbekistan and Japan, there is a strengthening of multifaceted cooperation, which meets the strategic interests of the two countries

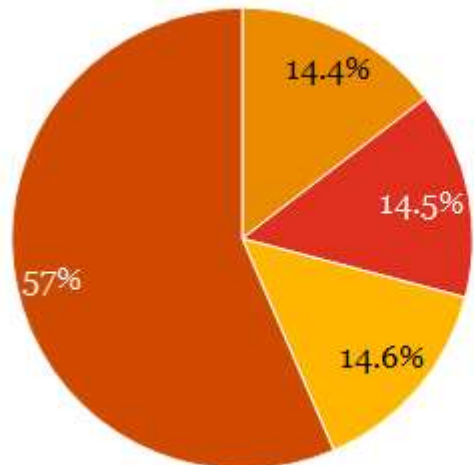
Imports from Japan 2019



In 2019, Japan exported \$308M to Uzbekistan. During the last 24 years the exports of Japan to Uzbekistan have increased at an annualized rate of 5.74%, from \$80.8M in 1995 to \$308M in 2019.

- Delivery Trucks
- Vehicle Parts
- Air Pumps
- Other

Exports to Japan, 2019



In 2019, Uzbekistan exported \$4.43M to Japan. During the last 24 years the exports of Uzbekistan to Japan have decreased at an annualized rate of 12.2%, from \$99.9M in 1995 to \$4.43M in 2019.

- Raw Aluminium
- Molybdenum
- Lifting Machinery
- Other

Key Partners



2

Overview of recent tax and current currency developments



Tax reform in a nutshell



New edition of the Tax Code (from January 1, 2020)

New concepts (anti-avoidance):

Transfer pricing (from 2022);

- Controlled Foreign Corporation (from 2022);
- Beneficial ownership of income (look through approach);
- Thin capitalization rules (D / E > 3: 1).
- Loss carry forward (10 years, 60%);
- VAT on electronic services (B2C);
- VAT refund (60 days, 7 days for large taxpayers);
- ICT in tax administration;
- Tax incentives;
- Risk analysis system.

Overview of tax system



Legal entities

- Income tax - 15%, VAT - 15%
- Property tax - 2% (exemption for renewable energy sources)
- Land tax - fixed. rates (incentive for renewable energy sources)

Individuals

- Personal income tax - 12%
- Social tax - 12%

Non-residents' withholding tax

- Interest, dividends, insurance - 10%
- Transport, telecommunications - 6%
- Royalty, services - 20%

Foreign exchange control



New Law on Currency Regulation from 2019

Significant changes (liberalization):

Unification of exchange rates;

- Floating market rate (devaluation - 30% from September 2017);
- Pegging prices to foreign currencies prohibited (except for the electricity tariffs);
- Mandatory sale of \$ export revenues abolished;
- Free access to conversion for both legal entities and individuals.

International trade



- Cancellation of 100% prepayment for export;
- Compensation of up to 50% of export transport costs;
- Concessional loans for pre-export financing:
 - Reimbursement of 50% of interest expenses (up to 10 percentage points for UZS loans and up to 5 percentage points for foreign currency loans)
- Reduction of the term for issuing a CCD (from 3 to 1 day);
- Risk based customs administration system;
- Implementation of the customs informational system on a "single window" principal at customs points.

Other issues



- International agreements prevail over domestic laws
- Investment protection treaty of 2009
- Double tax treaty of 2020
- Investment preferences
- Visa free regime with 86 countries
- **30-day visa free for Japanese citizens**
- 1-day registration of an LLC

3

Political leaders



Political leaders

Not an exhaustive list of decision influencers and not in descending order of influence



Abdulla Aripov

Prime Minister of the Republic of Uzbekistan



Achilbay Ramatov

First Deputy Prime Minister of the Republic of Uzbekistan



Sardor Umurzakov

Deputy Prime Minister of the Republic of Uzbekistan/Minister of Investment and Foreign Trade



Jamshid Kuchkarov

Deputy Prime Minister of the Republic of Uzbekistan/Minister of Economy and Industry



Behzod Musaev

Deputy Prime Minister of the Republic of Uzbekistan



Shukhrat Ganiyev

Deputy Prime Minister of the Republic of Uzbekistan on the development of the agrarian and food sectors



Aziz Abdukhakimov

Deputy Prime Minister of the Republic of Uzbekistan/Minister of Tourism and Sports



Abdulaziz Kamilov

Minister of Foreign Affairs of the Republic of Uzbekistan



Nizomiddinov Zaynilobiddin

Head of the Presidential Administration of the Republic of Uzbekistan



Timur Ishmetov

Minister of Finance of the Republic of Uzbekistan



Mamarizo Nurmuratov

Chairman of the Board of the Central Bank of the Republic of Uzbekistan



Jakhongir Artikkhodjaev

Tashkent City Mayor

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Appendix 4: Summary of Interviews with Japanese Companies

The comments below are from Japanese companies only, and reflect the relationship between Japan and Uzbekistan (including geological relation), Japanese companies' international business strategies, and the corporate culture of Japanese companies. Other foreign companies may have different opinions or views to Uzbekistan.

There may be differences or contradictions in the comments, due to differences in the industries or strategies of interviewee companies.

[General]

It seems to Japanese companies that Uzbekistan has no industries that are superior to other markets in the world, and that it is therefore difficult to find an economically rational reason to choose Uzbekistan over the other markets. If there is something that can be said to be superior in the world, a specific appeal should be made, using statistics or concrete information.

When considering logistics costs, the target markets for products manufactured in Uzbekistan might be Uzbekistan, neighboring countries, Russia, China and Turkey. It's not reasonable to do business in these markets (for large Japanese companies).

As the country is doubly landlocked, the development strategy is to focus on such industries that do not rely on logistics. For example, the IT industry is one of such potential industries. It is important to develop the IT industry and IT human resources, but we do not recognize that Uzbekistan recognises and takes such strategy or doing such things. Does the government make its strategy for its industrial development, taking into account the fact that the country is landlocked? If so, how do they reflect such fact in its strategy?

From the standpoint of Japanese manufacturers, when doing businesses in Uzbekistan, the market will be Uzbekistan and its neighboring countries, considering logistics costs. The population size of such market (less than 100 million, including Afghanistan) is not large enough to make massive investments. Attention should be paid to industries with low logistics costs (IT, software development, etc. Like the industrial structures in Singapore,) and to small- and medium-sized investments.

Gold is relatively inexpensive to transport because of its small volume, is of its high value and profitable. However, it is also produced in other countries, and it is more reasonable to procure it from countries other than the dual landlocked country, considering logistics costs (including the development of logistics infrastructure).

The potential of agriculture is very high, but salinization, water scarcity and low agricultural technology are recognized as challenges. Establishment of irrigation facilities to prevent the excessive use of water, proper water management and food sanitation management (which is important to export) should be thoroughly implemented. Given that the agricultural sector is shifting to horticultural crops, it is required to improve cultivation technology.

The bidding documents are unclear, and the evaluation criteria for the bidding proposals are not transparent, which means that it could take bidding costs (human resources and time) for nothing. It makes more sense to allocate human resources and time to other markets.

In an M&A, a seller may offer a target company for sale, after conducting DDs by itself, solving problems which DDs found, separating an unprofitable division, etc., in order to make the target company an attractive property to invest. The government should also take such steps when introducing investment targets to foreign companies.

Legislation and systems have been improved in various ways. However, improvements in soft initiatives are further necessary, for example changing the way of thinking and the mode of actions of officials.

Legislation and regulations have been in place. It should be highly recognized that Uzbekistan is actively hiring people with international experience and young people.

We are concerned about whether Uzbekistan treats investors fairly.

We have concerns about whether the government will stabilize or whether it will change its policy unexpectedly all of a sudden.

In some cases, MOU are concluded but not implemented, as policies are suddenly changed. It is impossible to conduct sustainable and stable business in such a country. We would request change in this respect. In addition, the instability in business has become a bottleneck in the decision-making at the head office and hinders business development.

For infrastructure and energy projects, there are long-term projects with repayment periods of 30 years. Considering the country's economic indicators, it is uncertain whether the government will be able to continue paying over the next 30 years. There is still no long-term trust in the country.

In infrastructure projects, the counterparties are mostly government or public agencies. We are concerned about the solvency of the government. If a financing scheme is required to set, it is burdensome to proceed with such project.

The economic reforms and openness policies are remarkable and have yielded results to some extent. However, Radical reforms and openness policies would lead to the collapse of domestic industries and the loss of domestic employment, therefore it should take time to reform so that domestic private companies might have time prepare for competition. For example, regarding import tariffs on domestic agriculture and industries built up during the former presidency, it is recommendable to gradually reduce them over the years, instead of dramatically lowering them in the short period of time.

Rapid policy changes will adversely affect foreign direct investment. A private company makes its business plan in the medium to long term and makes sure to secure the profitability based on such medium to long term plan, when deciding to enter a new market. The government should recognize that it is difficult to invest in or enter into an unsustainable country, where policies are changed in the short period of time.

[Information sharing]

The government should recognize that the way of sharing information with and presenting to foreign investors should be changed (we presume that responsible persons understand this, but their upper management do not.). For example, foreign companies would not get interested or feel any business potential, if a presentation of a certain special economic zone simply explains the preferential treatments and nothing more. The presentation should contain, for example, what kind of position this zone holds in the national market of Uzbekistan, where and what kind of market there is for products manufactured in this zone, and how this market will develop in the future (for example, in the case of consumer goods, how population will grow). In addition, Japanese companies are interested in examples of withdrawal from the market (examples of failure). (JETRO)

There are multiple sources of useful information about Uzbekistan (for example, statistics bureaus, the central bank, the economic research center, etc.), but it is impossible to find them, until we are somehow informed of the existence of such sources. We would request to make it easier for foreign companies to find them.

We would request to organize information necessary to consider business in the understandable manner. The public information of the statistics bureau is not organized and confusing. The statistics offices in Russia and Kazakhstan offer detailed and organized information on the similar topics, and update it monthly. The statistics bureau in Uzbekistan also updates monthly, which is not, however, satisfactory. English information is helpful to Japanese companies.

One of the government organizations did not at all reply to inquiries by email, and was not reachable by phone, either. Where should we contact, when thinking about investments or businesses in Uzbekistan? We would request improvement in this respect.

[Governance of organizations and companies, their human resources]

Government officials attend investment forums in Uzbekistan and other similar events and conclude MOUs with many foreign governments and companies, but what is agreed in MOUs are often not implemented. It is assumed that those persons who would be in a position of implementing such MOR are not involved in the process of drafting and concluding the MOU. It is meaningless to only conclude many MOUs, without conducting substantive projects.

We often encounter more than one person who call himself/herself a real decision maker in that governmental organization or company. We cannot do business with such an opaque organization or company. The authority of those with whom we are negotiating and discussing is often unclear.

There is no horizontal or vertical coordination within the organization, and thus we have difficulties in developing a project up from the persons at the site. There is no middle management staff who would pick up a project from the site and develop it to the top management. We discuss about a project with persons at the site but the project is not escalated to the top for consideration, and left with no progress. We have to talk directly to the top to proceed with the project, but the top are so busy that we cannot have chance to talk to them. The project is left undone.

In many cases of plant engineering projects, counterparties (customers) are state companies. They do not logically construct or advance the overall scheme of a project, from the request for quotation, the selection of a supplier to the conclusion of contracts. This would force us to take unnecessary or meaningless actions, or to take the initiative ourselves, and would cost us accordingly. We should give up from the cost efficiency. We experienced that our project was suddenly halted and left undone without reasonable explanation. Such will never happen in a global standard business.

We consider that fewer people are capable of discussing and negotiating on equal terms about large projects or concluding contacts with foreign companies. The current policy of opening the market to foreign companies should be appreciated, as it enables to involve foreign businessmen in the management of an Uzbek company and to provide local employees with the opportunities of discussing/negotiating with a foreign parent company/foreign business partners, and experiencing international businesses. We are afraid however that capable persons go abroad and do not work in Uzbekistan. The government should also appeal the development of the country to its own nation so that those with international business experience will remain in or return to Uzbekistan.

Many capable/skilled persons are not provided with a right opportunity of maximizing their capability/skill. Foreign investments should be able to provide them with such opportunities.

[Currency and financial sector]

The Sum is steadily falling without fluctuation in the floating exchange rate system. The value of investment will start decreasing at the moment of investment, in which situation it is hard to make

a decision to invest in Uzbekistan.

The decline of the Sum itself is not considered to be a major problem, but we are concerned about the risk of the sudden change of the system. Namely, we are concerned about the instability of the system that the floating system will suddenly, without any advance indication, be turned to the fixed exchange rate system or a stricter control system.

We often have to import products or materials in foreign currency, if doing local businesses. We are concerned about the foreign exchange risk.

The regulation allows overseas remittance of foreign currency, but it is often proposed to trade in the Uzbek Sum, instead of foreign currency. We are not sure whether it is the influence of foreign currency regulations or a request from the government. We would request that we can freely trade in US Dollars.

The unstable foreign exchange rate and the downtrend of the Uzbek Sum, and also the limited hedge measures make it difficult to decide investment.

While we appreciate the shift to the floating exchange rate system, which improves the transparency of the currency, we would request the government to consider controlling fluctuations in the foreign exchange rate. If the foreign exchange rate is stable or the dollar-peg system is adopted, a company does not have to deal with foreign exchange profits or losses in its business plan, which makes it simpler to make a business plan and enter into a new market. The complete liberalization may not always be the best. It is desirable to control the part which is liberalized.

There is no core bank in Uzbekistan, like SberBank in Russia, and local banks are weak. Russia granted the Central Bank the authorities to administer and supervise banks, and made these banks function. The Russian government injected the public funds in important banks to develop them into national banks (SberBank, etc.) and to increase the confidence of the nation in financial institutions. Such development may be an option.

We are seriously concerned about the system of Uzbekistan's banks. We are concerned about their capabilities of management, operations for individual trading and remittances. The management of state-owned banks is unsound and opaque in many aspects.

The upper limit on the public external debt set by the Ministry of Finance hinders Uzbek economic growth. It is assumed the ratio of external debt to GDP has been set in line with the IMF's guidelines, but judging from Uzbekistan's good financial situation, the current upper limit on the external debt is too tight. Due to such limitation Uzbekistan cannot borrow funds from other countries to carry out promising projects, and thus misses the development opportunities. Such overly rigid fiscal management should be avoided.

[Trading business without investment]

We hope that the government has interest not only in large-scale foreign investment projects but also in trading businesses and small and midsize businesses by foreign companies. It is necessary to test the market by trading, before making any investment decisions.

Some Japanese companies have such a business model as they do not make investment. Please do not consider that major companies are to make investment. For example, the business of plant engineering. This business depends on whether there is a project or not. It has nothing to do with the access to the sea (the dual landlocked country or not). We hope that the government pays attention to the businesses other than investment.

In some cases, the business scheme of a Uzbek counterparty remains unclear to us how many times the counterparty explains. We would request Uzbekistan to establish the clean and

transparent business practice. Japanese companies are concerned about the transparency of the business, and also the level of compliance of their partners.

We would hesitate to export our products to Uzbekistan, due to high costs of entry. As the standards for imported goods of Uzbekistan are not understandable and their regulations are provided only in Uzbek, it would cost us much to clarify whether we may export our products without any change to Uzbekistan, how we should change our products to meet the Uzbek standards. If Uzbekistan seeks uniqueness in its business environment, it increases costs of entry. For example, a company doing business in the European Union or the Eurasian Economic Union (EEU) may enter the Uzbek market without additional cost of entry, if it may rely on the standards used in such union. The cost of entry should be lower if the regulations on the standards are clear, or provided in English, or there is any official desk to contact to ask questions.

We have business bases (including agents/distributors) within the EEU (for example, Russia). We are concerned that there are differences in procedures and taxation between trading with other countries in the EEU (for example, export from Russia to Kazakhstan) and trading with Uzbekistan (for example export from Russia to Uzbekistan), which is a cost of entry into Uzbekistan (including the steps to confirm how different). If there is no big difference in fact, we would request Uzbekistan to so clarify.

We would like to easily access public information on Uzbek companies, as is provided in Russia, to find a good partner (distributor, etc.). Registry information of Russian companies are available on the Internet for free and without any burdensome procedures. Financial statements of private companies are also open to the public in Russia.

There should be local engineers who can maintain equipment which we supply. Otherwise, each time a trouble occurs to equipment, we should dispatch our engineers to Uzbekistan, which is costly. We provides training to local engineers, who leave for work in Russia once they obtain the certificate of our training, and no skill remains in Uzbekistan.

We have a manufacturing base in China. We wonder if we can do business with Uzbekistan from China. We are interested in transportation between China and Central Asia.

We may trade directly with Uzbek companies only by LC or advance payment. We are unable to extend credit to Uzbek companies at this moment.

Due to the contents of water, pump equipment deteriorates quickly and energy consumption is poor. It is recommendable to introduce pumps and technologies that can withstand such water quality, so that the energy efficiency will be improved.

For infrastructure and other projects which the government finances, the departments of the competent authorities provide consulting, but often they are not familiar with the technology utilized in such projects (especially the technology of foreign companies). There is a risk that the project will not proceed smoothly or that the introduced technology will not be utilized to the fullest. It is recommendable to update the technical knowledge of officials or to employ external consultants.

Transactions with Uzbek companies require careful consideration, in order to meet compliance standards as a Japanese company. In particular, we are concerned about bribery issues, when trading with state-owned companies.

We highly evaluate that the bidding procedures now apply to state-owned companies, which increases transparency in business.

[PPP]

Generally, the government of Uzbekistan is trying to implement energy projects through PPP, but we would request not to insist only the PPP scheme for unprofitable projects. We would also request to avoid announcing a non-PPP project with a foreign company as a PPP project with such foreign company. We reviewed a contract of a project which was announced as a PPP project and found that it was not a PPP project in fact. It is misleading.

Tariffs for public infrastructure such as electric power, electric heat, roads and bridges are kept low, and profitable business in this sector is difficult on a private basis. We understand that electricity tariff can now be charged with a certain profit on power generation fees, but it is doubtful whether the Uzbek people can actually pay such price.

In case of unprofitable projects through the PPP, we would request the Uzbek side to provide security (for example the government purchases electricity, makes availability payment or such payments based on the performance), or request the Uzbek or Japan side to set up a framework to provide financial support or yen loans

With regard to public infrastructure projects, it is difficult to find reliable partners from government agencies or private companies. As public infrastructure is under the competence of government agencies, no private company is familiar with business in public infrastructure. Government agencies may be able to continue operating the current infrastructure, but are not much capable of launching new projects.