Uzbekistan’s journey of reforms

Major reforms in Uzbekistan since 2017.

What does this transformation mean for business environment?

September, 2018
Uzbekistan is the largest market in Central Asia; stable and fast growing

Comparative information:
- **Area**: 448,978 sq. km
- **Population**: 33M (72% under 40)
- **GDP**: USD 47.8 billion
- **PPP GDP**: USD 222.6 billion
- **Urbanization**: ~50%
- **Official currency**: "Sum" – UZS (UZS/USD = 7900)
- **Languages**: Uzbek (official), Russian (commonly used)
- **Political system**: Presidential multi-party democratic republic

Additional key points:
- **Size**:
  - Nukus: 258K
  - Khiva: 51K
  - Samarkand: 504K
  - Bukhara: 273K
  - Tashkent: 2.3M
  - Andijon: 333K
  - Shahrisabz: 100K
  - Asaka: 65K
  - Nukus: 258K
  - Zarafshan: 51K
  - Gazli: 12K
  - Bukhara: 100K

**Key Curiosities**:
- Comparable to Spain or California
- Largest in the region
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**NOTES**
- Uzbekistan map
- Tashkent (2.3M – official data)
- Uzbekistan map
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**XX** size of population
Over the last twenty months, a large-scale transformation and liberalization of the economy has been underway in Uzbekistan.

- **December 2016**: Election of Shavkat Mirziyoyev as President

  In September 2016, the parliament elected Mr. Mirziyoyev as the interim president. On 4 December 2016, he won a presidential election, receiving 88.6% of the vote.

- **February 2017**: Uzbekistan Development Strategy for 2017–2021

  The strategy outlines the government's political, economic, and social priorities, including measures to liberalize the economy.

- **April 2017**: Creation of a State Committee for Investments

  The Committee was created to unlock the country's investment potential, through the creation of favorable conditions for investors and the implementation of major reforms.

- **September 2017**: Currency exchange liberalization

  The authorities linked the official exchange rate to the curb market rate and implemented a floating exchange rate, with free market exchange.

- **2018 and beyond**: Further implementation of numerous reforms

  Green channel in airports
  Simplification of the tax system, including the implementation of tax monitoring
  Two-year moratorium on business inspections
  Many others…

**Key to reforms**
The Development Strategy for 2017–2021 (adopted in Feb '17) gave start of 5 priority reforms, including one for investors.

It is envisaged that a separate state program for the implementation of initiatives in 5 reform areas will be approved yearly.

- Development of state governance
- Rule of law & legal reforms
- Development and liberalization of economy
- Development of social sphere
- Security, religious tolerance and interethnic harmony, foreign policy

The area, in which priority is given to attracting investments.
In 2017–2018, the country managed to make notable progress in the chosen areas

29 laws were adopted

- Development of state governance: 3
- Rule of law & legal reforms: 14
- Liberalization of economy: 5
- Social sector: 2
- Security: 5

420 decrees and resolutions of the President of the Republic of Uzbekistan were adopted

- 120 decrees
  - 9 in the state society development
  - 22 in judicial and legal system reforms
  - 54 in development and liberalization of the economy
  - 27 in social development
  - 4 in security, religious tolerance and the implementation of constructive foreign policy

Source: EBRD, State Investment Committee
Uzbekistan is moving ahead with reforms focusing on the first priority issues identified by the business community.

### Key directions for reforms

<table>
<thead>
<tr>
<th>Category</th>
<th>Reforms</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Currency regulation</strong></td>
<td>• Liberalization of the foreign exchange market&lt;br&gt;• Further steps to liberalize monetary policy</td>
<td></td>
</tr>
<tr>
<td><strong>Legal environment</strong></td>
<td>• Improvement of legal framework in various areas of law: e.g. land allocation; stock exchange transformation; systematization of control procedures; enforcement of property rights; strengthening of fair competition; etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Customs regulation</strong></td>
<td>• Unification and decrease of customs tariffs&lt;br&gt;• Simplification of customs administration processes</td>
<td></td>
</tr>
<tr>
<td><strong>Tax system</strong></td>
<td>• Reduction of tax burden&lt;br&gt;• Elimination of complex and unfair procedures</td>
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<tr>
<td><strong>Reform of State governance</strong></td>
<td>• Efficiency improvement for state bodies to eliminate inconsistencies; bureaucracy&lt;br&gt;• Implementation of eGov system</td>
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</tbody>
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#### Implementation progress

- **Currency regulation**: 100% (gray circle)
- **Legal environment**: 84% (gray circle)
- **Customs regulation**: 45% (gray circle)
- **Tax system**: 35% (gray circle)

**Source**: investor interviews

- **Share of investors citing the barrier as critical** (based on interviews with internal and external investors)
  - 45% (gray circle)
  - 35% (gray circle)
One of the main milestones of economic reforms was the liberalization of the currency exchange regulations.

Key elements of the reform:
1. Free purchase and sale of foreign currency by individuals and legal entities
2. Removal of requirements for compulsory sale of foreign currency for exporters
3. Commercial banks are granted the right to determine commissions on currency exchange for export revenues

The impact of reforms:
1. Equal competitive conditions for all players by reduction of administrative interference in the economy
2. Strengthening of regional and international economic cooperation
3. Improvement of business activity and investment climate
4. Attraction of foreign direct investments (FDIs)

Decree of the President dated 2 September 2017
A new system of land allocation & construction regulations is among the key elements of the legal & rule of law reform.

### Key elements of the reform

1. **The implementation of a new simplified & quicker process for construction approvals**
2. **Creation of a new system of land allocation via electronic auctions**
3. **Updating construction regulations via adoption of Construction Codes and Regulations based on Eurocodes (following example of Kazakhstan)**

### The impact of reforms

1. Reducing the time taken by the process for land allotment and construction approvals by 30–40%.
2. Providing investors with the information about the list of available land lots, their full effective cost and relevant documentation.
3. Ensuring the fair compensation to the state budget for use of land.
4. Solving the issues related to obsolete construction regulations, which hinder the use of modern construction technologies.

In the course of discussion with the government bodies and agencies.
Customs reform reduces the tariff burden while simplifying and accelerating administrative procedures.

### Key elements of the reform
- **I** Reviewing the rates of customs duties with the aim to reduce them
- **II** Creating a unified approach to the setting the rates of and levying customs charges
- **III** Introduction of a risk management systems at customs bodies
- **IV** Simplifying and accelerating customs processes (e.g. customs valuation, border crossing, etc.)
- **V** Reduction of the frequency of and time spent on the issuance of the requested authorization documents

### The impact of reforms
- **I** Improvement of customs tariff regulation, incl. reducing the likelihood of corruption
- **II** Intensification of negotiations with the WTO standards and best practices
- **III** Reduction of time taken by paperwork and procedural formalities by 3–5 times
- **IV** Decreasing the costs of customs procedures by 30–70%
State governance reform improves the coherence of the work of state bodies and reduces pressures on business

Key elements of the reform

1. Improvement of institutional, organizational and legal framework for government bodies and authorities
2. Clear specification of tasks and responsibilities of executive bodies
3. Reduction of administrative influence on the economy & investors
4. Improvement of overall governance and interaction of executive authorities
5. Introduction of modern forms of strategic planning, innovative ideas, developments and technologies
6. Formation of an effective system of professional civil services (e.g. eGov)

The impact of reforms

I. In total, 46 government bodies were reshaped or merged; 6 abolished

II. Structures, tasks and functions revised for Office of the President, the Cabinet of Ministers, 20+ Ministries

III. Better coordination between state bodies and local administrations
<table>
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<tr>
<th>Decree point</th>
<th>Details</th>
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<tbody>
<tr>
<td>Relaxation of visa requirements for foreign investors and their employees</td>
<td>Foreign investors can also be granted the status of an Honored Citizen</td>
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<td>Expansion of regional authorities to provide land for foreign investors</td>
<td>Regional authorities can now effect a contract for investments up to $10M and provide land of up to 5000 sq m</td>
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<tr>
<td>Loosening of legal requirements for enterprises with foreign shareholders</td>
<td>Minimum shareholders equity lowered from 600M som to 400M som (~$51k) Minimum level of foreign share for foreign investment company status is lowered to 15%</td>
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</table>
State Committee of Uzbekistan for Investments ensures "front to end" support for current and potential investors

- Finding investors for specific strategic projects
- Working with projects initiated by investors
- Engaging international financial organizations
- Promoting investment activity
- Assisting and supporting investors until the completion of their projects
- Collecting feedback and responding to it ("Voice of investors")
- Improving the investment climate in the relevant areas according to the "Voice of investors"

Preparation of investment proposals & business cases

- Search for, study and evaluation of the project business cases
- Identification of funding sources for projects
- Preparation of investment proposals for investors

Attracting foreign investors

Supporting foreign investors
Our target vision is to ensure **seamless customer journey** for investors while they do business in Uzbekistan

Let’s get familiar with the country…
- If you have seen an “**Invest in Uzbekistan**” advertisement in the Financial Times. Googled it!
- Read some information on Uzbekistan and got interested in new opportunities
- Found contacts of the State Committee for Investments in Uzbekistan

... & examine the facts, evaluate the potential of industries...
- Filled out the application form on the portal of the State Committee for Investments
- Examined the detailed information on different industry sectors and their benefits on the website of the Committee
- Reviewed success stories

...and finally obtain necessary approvals and kick-off a project!
- Hired a project team
- Quickly completed required documents jointly with the State Committee for Investments
- Started construction, received support services

... then get acquainted with investment proposals...
- Received additional information from the State Committee for Investments
- Chose the most attractive projects or suggest yours
- Examined the available support and co-financing opportunities

... fly to Uzbekistan to explore everything on the spot, and to sign off an agreement.
- Bought tickets to Tashkent
- Met with a personal manager from the State Committee for Investments
- Visited potential sites
- Held negotiations and signed a memorandum of cooperation