



Uzbekistan Legislation Update

Relaunch of privatization and transformation of state assets

One of the priority aspects of the development of the Republic of Uzbekistan (hereinafter, "Uzbekistan") is creating a favorable investment climate and attracting investments. Uzbekistan is actively working on the implementation of systemic reforms for the improvement and further development of this area. Having studied the activities of about three thousand enterprises with state participation, special working groups headed by the Prime Minister of Uzbekistan developed the following measures aimed at radically reducing the share of State-owned enterprises in the economy and improving the efficiency of their activities. They were subsequently approved by Presidential Decree "On measures for Accelerated Reform of Enterprises with State Participation and Privatization of State Assets" No. PD-6096 dated October 27, 2020 (hereinafter, the "Decree").

The following lists of enterprises and real estate have been approved:

- The list of large State-owned enterprises and business holdings subject to transformation (hereinafter, "List No. 1");
- The list of State-owned enterprises where corporate governance and a financial audit should be implemented, and their operational efficiency should be improved (hereinafter, "List No. 2");
- The list of State-owned assets put up for public auctions through targeted pre-privatization preparation programs and increasing their investment attractiveness (hereinafter, "List No. 3");
- The list of companies whose State-owned shares are subject to complete sale to private investors through public auctions (hereinafter, "List No. 4");
- The list of State-owned real estate to be sold to private investors (hereinafter, "List No. 5").

The following lists shall be drawn up within two weeks (the lists have not been approved yet):

- The list of State-owned enterprises to be reorganized into State Establishments;

- The list of State-owned enterprises to be reorganized into branches of state enterprises;
- The list of enterprises in which the State will continue to be a shareholder;
- The list of unpromising, inactive, unprofitable and low-profit enterprises with State participation, in respect of which liquidation or bankruptcy proceedings are to be initiated.

The following tasks have been assigned to the relevant government authorities:

1. The Department for Transformation of Large Enterprises with State Participation (hereinafter, the "Department") established within the central office of the Ministry of Finance has been assigned to complete the following tasks in respect of the enterprises on List No. 1:

By April 1, 2021:

- To prepare IFRS-based financial reports for enterprises on List No.1 for FY 2019-2020;
- To develop strategies for financial recovery, improvement of operational efficiency, as well as medium- and long-term development with the involvement of reputable international consulting organizations subject to competitive selection.

By July 1, 2021:

- To implement a modern corporate governance system that provides for an audit of the procurement and management systems, as well as the creation of compliance and anti-corruption departments;
- To recruit qualified international experts (including compatriots living abroad) for at least 30% of the positions on the Supervisory Boards and at least three management positions on the Management Board.

2. The RUz Ministry of Finance and the RUz State Asset Management Agency (hereinafter, the "AUGA") have been assigned the following:

By January 1, 2021:

- In cooperation with the State Committee of Uzbekistan of Geology and Mineral Resources, to approve the list and "road maps" of deposits (State reserves) that are subject to revaluation in accordance with international standards.

By July 1, 2021:

- To ensure the development of three-year business plans (including current activities, future investment projects and specific sources of their financing, including from international financial markets, and a financial model);
- To conduct an inventory of all investment projects of enterprises, and to take measures to suspend projects that have not started and projects for which sources of funding have not yet been identified.

3. The Ministry of Economic Development and Poverty Reduction, the Ministry of Finance, the Antimonopoly Committee, the Anti-Corruption Agency and the AUGA are expected by December 1, 2020 to conduct an inventory of benefits and preferences that affect the competitive environment, and submit a draft resolution to the administration of the President of Uzbekistan on their cancellation.

4. The Ministry of Investments and Foreign Trade of Uzbekistan in cooperation with the AUGA have been assigned the following:

- To implement a set of measures to attract both domestic and international investors for blocks of shares (interests) of enterprises and real estate before putting them up for public auction;
- To submit to the Cabinet of Ministers:
 - a) By February 1, 2021, their proposals on the introduction of external management of the activities of special economic zones, as well as their gradual privatization.

- b) In collaboration with the Ministry of Foreign Affairs, by December 1, 2020, proposals for the effective operation of State property located abroad, including its sale, lease or trust management.
5. Within three months of carrying out a complete inventory of non-core assets of enterprises and commercial banks with a predominant share of the State, the AUGA, in collaboration with the Ministry of Finance and the Ministry of Economic Development and Poverty Reduction, and with the relevant ministries, departments and economic management bodies, is expected to submit proposals to the Cabinet of Ministers for their sale through public auctions.
6. The State Commission for Conducting Tenders for the Sale of State Property has been assigned:
- To take necessary measures to familiarize both domestic and foreign investors with State-owned assets offered for sale in the regions, as well as other measures necessary to attract investors;
 - By February 1, 2021, to attract consultants for privatization and increasing the investment attractiveness of the State-owned assets included in List No. 3;
 - By July 1, 2021, to develop targeted programs for pre-privatization preparation and increasing the investment attractiveness of enterprises;
 - To determine the conditions and forms of transfer of the State assets subject to sale based on resolutions of the President and Cabinet of Ministers of Uzbekistan;
 - To issue decisions on the privatization of real estate and subsequently created State blocks of shares (interests) and State-owned enterprises, and to determine the conditions for their sale, the form of bidding and the starting price at public auctions.

The Decree has indicated certain features of how State-owned blocks of shares (interests) of enterprises would be put up for public auction:

1. Blocks of shares (interests) whose value (proportionate to their participation in the net assets) of enterprises listed in List No. 4 does not exceed UZS 100 million will be put up for public auction at a value equal to the value of the State's share in the net assets (or *at par value*, if the net assets are less than the declared charter capital), by way of an exception.
2. Blocks of shares (interests) of enterprises and real estate specified in List No. 4 and List No. 5 will be put up for auction starting November 1, 2020. At the same time, blocks of shares (interests) of enterprises listed in List No. 4:
 - Will be put up for auction as a single lot;
 - With a value not exceeding UZS 100 million that are put up for public auction at a value equal to the State's share in their net assets (if the amount of net assets is less than the charter capital, then at par value), which were not sold within three months of the date of announcement of the initial auction, will be put up for a second auction at the following starting prices: participation interests - at the starting price of "UZS 1", and blocks of shares - subject to the principle "1 share = one lot for UZS 1".

The following aspects are also provided for by the Decree:

1. Cancellation of the practice of selling State-owned property at a "zero" purchase price. Now such property will be put up for public auction at a starting price of "UZS 1" with an undertaking by the buyer of investment and social obligations;
2. Reorganization of State unitary enterprises into commercial companies together with the sale of their State-owned shares;
3. Providing buyers of State-owned assets with the opportunity to pay in installments. Meanwhile, buyers who have partially made payments according to schedule under a sale and purchase agreement for the State share are issued a certificate of ownership "without the right of disposal" with the right to participate in the management of the company and receive dividends in proportion to the part of the purchased shares paid until full payment is made. In case of purchase of State-

owned real estate, a State order for the right of ownership “without the right of disposal” is issued until full payment is made under the agreement.

4. The Ministry of Finance has been vested with additional powers with respect to the activities of the Department and the AUGA, including the authority to engage leading international consulting, audit, recruiting and other companies and experts subject to competitive selection.

In connection with the above-mentioned changes, the AUGA, through collaboration with the relevant ministries and agencies, is instructed to submit proposals to the Cabinet of Ministers on amendments to legislation within the context of this Decree within a three-month period from the date of its entry into force. In its turn, by December 1, 2020, the Cabinet of Ministers is expected to draft brand new laws “On State Property Management” and “On Privatization”, and, upon conducting an inventory of legislative acts, within a three-month period from the date of the Decree’s entry into force, approve other relevant amendments to legislation concerning privatization.

The respective changes to the legislation of Uzbekistan will be covered in our further legal alerts.

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