



INVESTMENT GUIDE TO UZBEKISTAN 2009



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Leges Advokat

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ABBREVIATIONS

ADB	Asian Development Bank
CBU	Central Bank of Uzbekistan
CER	Center for Economic Research
CJSC	Closed joint stock company
CCI	Chamber of Commerce and Industry
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EurAsEC	Eurasian Economic Community
FDI	Foreign direct investment
GDP	Gross domestic product
IDB	Islamic Development Bank
IFC	International Finance Corporation
IFI	International financial institutions
IMF	International Monetary Fund
JSC	Joint stock company
JV	Joint venture
MFERIT	Ministry of Foreign Economic Relations, Investments and Trade
NAC	National Airline Company
NBU	National Bank for Foreign Economic Activity of Uzbekistan
NHC	National holding company
OIBDA	Operating income before depreciation and amortization
OJSC	Open joint stock company
PSA	Production sharing agreement
S&P	Standard & Poor's rating agency
SCO	Shanghai Cooperation Organization
SPC	State Property Committee
SSC	State Statistics Committee
SME	Small and medium-sized enterprise
TOE	Ton of oil equivalent
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	US dollar
UzACI	Uzbek Agency for Communication and Information
UZS	Uzbek soum (national currency)
WB	The World Bank

Definitions of foreign investment and foreign direct investment

The universally accepted definition of foreign direct investment is the IMF/OECD benchmark definition. The IMF/OECD definition requires that the investment gives the investor management control over the enterprise for it to be considered foreign direct investment. The components of such investment are equity, re-invested earnings and intra-company loans.

The official foreign investment statistics in Uzbekistan contain guaranteed foreign credits and partial figures for FDI. The FDI figures do not usually capture intra-company loans. In addition official statistics include only investments made within the annual investment program adopted by the Government.

Legislation, including international treaties, defines “foreign investment” as any asset invested by foreign entities into entrepreneurial or other activity in Uzbekistan. FDI can take any form that does not conflict with the general legislation including incorporation of a wholly-owned or joint venture, acquisition of property, concession, equity or other securities, and investment in IPRs. There is also the concept of an “enterprise with foreign investments” in the national legislation which is used for granting special treatment. Uzbekistan defines an enterprise with foreign investment as an entity incorporated in Uzbekistan meeting the following criteria:

- foreign investor’s share in the statutory capital is not less than 30%,
- the statutory capital is not less than USD 150,000, and
- at least one of the foreign investors must be a legal entity.

All other enterprises with foreign investments, not meeting the above criteria, are considered by Uzbek legislation as “enterprises with foreign participation” and receive general treatment.

Exchange rate conversions

The following exchange rates of the Central Bank of Uzbekistan were used in converting figures from UZS to USD:

- 31.12.2005 - UZS 1,180.00
- 30.06.2006 – UZS 1,224.60
- 30.09.2006 - UZS 1,229.79
- 31.12.2006 - UZS 1,240.00
- 30.06.2007 - UZS 1,265.02
- 30.09.2007 - UZS 1,275.03
- 01.01.2008 - UZS 1,291.23
- 01.07.2008 - UZS 1,310.91
- 30.09.2008 - UZS 1,330.00
- 30.12.2008 - UZS 1,393.00

Preface

The advantages of foreign direct investment (FDI) are well known. For transitional economies FDI has a special significance as it can accelerate the modernization of their economies not only through capital inflows but also through the transfer of technology and business and management skills. However, inflows of FDI are unevenly distributed over regions and among countries. Global inflows of FDI in 2007 were substantial and reached USD 1.8 trillion, considerably exceeding the all-time high set in 2000. The upsurge compared to 2006 reflects a greater level of cross-border mergers and acquisitions, especially among developed countries. In 2007 sixty eight percent of inflows ended up in developed countries, twenty seven percent in developing countries, and five percent in South-East Europe and the CIS. The Russian Federation, Kazakhstan and Ukraine, in that order, accounted for more than three quarters of that 4 percent. Thus, Uzbekistan faces stiff competition in accessing a larger share of the of FDI inflows.

It is acknowledged that Uzbekistan has many ingredients needed to become a regional economic force: a young, dynamic, and literate population, a central location at the crossroads of Central Asia, relatively good infrastructure, rich mineral resources, and a large potential consumer market. All these attributes should have attracted much larger amounts of FDI. In order to realize the FDI potential of Uzbekistan to its fullest extent, it is important to describe in a transparent and objective manner both its comparative locational advantages and the recent improvements in its business environment as well as the current constraints on investment. Alerting policy makers and potential investors to the remaining obstacles may allow them to take appropriate action to overcome them and thus enable Uzbekistan to realize its full potential in attracting FDI.

With these objectives in mind, the UNDP, together with the Ministry for Foreign Economic Relations, Investments and Trade, has undertaken a project on "Support to External Economic Policy" that in 2007 introduced the first edition of the Investment Guide. The Guide provides the basic information to first-time investors on the locational advantages of Uzbekistan as well as the rules for FDI entry and operations. This updated edition of the Guide was prepared, taking into account the latest changes occurred in the economic and political arena of the country and the world.

The Guide was reviewed by the UN Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC) and been disseminated within the framework of UNCTAD's and ICC's global reach to the investment community. This Guide is complemented by a Catalog of Investment Opportunities in specific companies in the various sectors and regions so that investors have easy access to the information they need to make their preliminary investment decisions.



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The initial edition of the Guide was prepared under the direction of Bakhodir Sharipov who coordinated a team comprising Kodir Norov, Rano Kholmuradova, Yuriy Naumov, Komil Ruzaev – all from the Avesta Investment Group, Nizomiddin Shakhabutdinov, Azamat Fayzullaev – founding partners of the law firm “Leges Advokat”, Sardor Koshnazarov and Nodir Khakimov. It was revised by Lorraine Ruffing, former Head of Enterprise Development, UNCTAD and former UNDP Deputy Resident Representative in Uzbekistan. The revised edition of the Guide was prepared by Diyora Kabulova, Husan Hasanov, Vladimir Stanovov, Umid Yakubov, Kamola Ahmedova and Fazliddin Ibragimov. It was edited by Anders Jonsson, Investment Consultant for Oxford Investment Research and former Global Leadership Fellow for the World Economic Forum. The cover page and the layout of the Guide were designed by Grigoriy Kim.

Note to the reader

This Guide is intended for first-time investors who need basic information on Uzbek society, government, economic performance, locational advantages and most importantly on the legal and regulatory framework governing FDI. The Guide is the second output in a series intended to facilitate FDI. The Guide should be read in conjunction with the Catalogue of specific investment opportunities.

WHY INVEST IN UZBEKISTAN?

Uzbekistan as an investment destination

Although Uzbekistan is landlocked, it has a large internal market of 27 million, and it offers easy access to the entire Silk Road market of over 142 million people. Lying at the heart of Central Asia, Uzbekistan forms the hub of the region. Its transport and communications networks connect it with the other Central Asian countries and a number of transnational corporations have already chosen it as their regional headquarters. A relatively developed infrastructure is a competitive advantage that many countries in transition possess compared to developing countries where the infrastructure is non-existent or has been allowed to deteriorate.

In addition, the labor force of Uzbekistan possesses a number of important characteristics; it is ample, literate (almost 100 percent literacy), young and highly trainable. The younger labor force entrants are often fluent in foreign languages and have acquired basic business skills. And this pool of skilled workers is available to investors at a low cost.

Lastly, the business environment is being improved by the recent efforts of the Government backed by private sector and business associations. The Uzbek Chamber of Commerce and Industry holds business forums and regularly dialogues with the Government about changes that need to be made. It has won the right to participate in the formulation of all laws affecting entrepreneurship. For example, the Government, reacting to suggestions, has streamlined the business registration process into a "single window". It has also drafted a new tax code which is simple and less burdensome. Moreover, a growing public-private sector dialogue is helping the Government move in the right direction.

Opportunities for investors

Unlike other CIS countries, Uzbekistan chose a gradual approach to creating a market economy. The privatization process started with small-scale enterprises and agriculture. Now it is time to auction off the crown jewels among the remaining state assets. The current privatization programme concentrates on large enterprises needing heavy capital investments. The Government is selling between 49-51% of its equity in Uzbekneftegas (oil & gas), Uzbektelecom, Navoiazot (fertilizers), Asaka Bank, Uzagrosugurta (insurance), GM Uzbekistan and Samavto (automobile).

Some markets are severely underserved, such as banking and telecommunications, opening huge opportunities for the entrants in the areas of business loans and mobile phones. There is much potential in agribusiness and Uzbekistan could enter niche export markets, for example, for fruits and flowers as well as go up the value chain by increased processing of agroproducts. On average, state assets are undervalued. But where significant investment is needed to make the enterprises competitive, the Government has been selling these enterprises at zero cost. The Government is extending the list of enterprises offered at zero cost in return for investment commitments. For those investors bringing in significant funds in FDI outside the major cities, there is tax holiday from three to seven years from major taxes. Besides the usual investor protection, investors are guaranteed that no changes will be made in the investment regime under which they entered the country for a ten year period.

Some investors negotiate special investment agreements with the Government which fix mutual rights and obligations. It is widely held that it would be far more efficient and transparent to target the entire economy or an entire sector, rather than creating exceptions

for individual companies. Investment agreements should be used mainly to stipulate what an investor is being given (in accordance with the law) in exchange for what and for how long. The Government moves in the right direction by first decreasing the number of special incentives and second, where they are given, limiting their duration. The transparency of the special incentives themselves is another subject ripe for public-private sector dialogue.

Prospects and challenges

The task of transition to the market economy, often in the face of conflicting and incomprehensible advice, was taken on gradually and is largely finished. Prices have been liberalized, subsidies reduced, enterprises and housing privatized and many necessary institutions created. Agricultural land can be leased for 99 years and according to the law adopted in 2007 the privatization of non-agricultural land is now allowed. The challenge for Uzbekistan is to implement the reforms transparently and equitably and to continue to improve the business climate for the benefit of foreign and domestic investors alike.

There are, of course, a number of other areas where further improvement is needed. National policy experts point to the fact that as with other transition economies there is an inconsistency between the business legislation and its implementation. Arbitrary application of the rules sometimes results in an un-level playing field favoring some investors at the expense of the others. However, the Government is consistently reforming the legislation and implementing agencies in order to meet the needs of fast-changing business environment. For example, newly adopted legislation requires a “unified audit” where all inspectors undertake their audit simultaneously. These business-friendly initiatives are expected to improve the business environment.

The competition among developing countries, many of which set up efficient investment frameworks and investment promotion agencies, to attract and retain foreign direct investments is intensifying, and Uzbekistan has to more vigorously to reform its economy and create friendly business environment to fully use its investment potential in the near future. We hope that this Guide will provide the necessary information for serious, first-time investors who need to know how to do business in Uzbekistan and for policy makers who need to make continuous improvements in the business climate to ensure the success of the country in the competitive arena of investment promotion.

Uzbekistan has great economic potential that remains to be fully exploited
IMF, 2007

Box 1. Investors' survey

The investors interviewed were overwhelmingly enthusiastic about the potential of Uzbekistan and despite some limitations they face, they are in Uzbekistan "for the long haul". As one investor said, "This is the El Dorado of Central Asia". They considered that Uzbekistan has the best labor force which is intelligent, hardworking and relatively low cost. The size of the internal and regional market is extremely attractive and there is a pent-up hunger for consumer goods. The central location was seen as enabling the country to become the main transport hub of the region.

All appreciated the stable political and economic climate given that nearby regions are in turmoil, and many wished that this stability extended to the investment climate. Most of the business and investment legislation is deemed adequate but rarely implemented in a way which creates an enabling environment.

*Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007**

**The consultations were started in November of 2006 and completed in March of 2007 through group and individual meetings. Some 30 business people participated in these consultations, about ninety percent representing companies with foreign investment. The consultations were conducted using a questionnaire on the investment climate which usually took one hour to complete. The questionnaire supplemented the information in the Guide about how things are supposed to work with assessments by business of how they actually work.*

Uzbekistan at a glance

Name	Republic of Uzbekistan
Population	27.3 million (1 July 2008)
Total Area	447,400 sq. km
Neighboring countries	Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan
Major cities	Tashkent (2.4 million), Samarkand (392 thousand), Namangan (378 thousand)
Languages	Uzbek (official), Russian (lingua franca)
Currency	Uzbek Soum (UZS)

GDP growth									
	2001	2002	2003	2004	2005	2006	2007	2007 1st half	2008 1st half
GDP real growth, %	4.2	4.0	4.2	7.7	7.0	7.3	9.5	9.7	9.3
GDP, USD billion *	11.3	9.7	9.9	12.0	13.7	17.0	22.3	8.0	10.4

Source: State Statistics Committee, ADB
*average exchange rates

Figure 1. Composition of GDP by sectors, 2001-2008

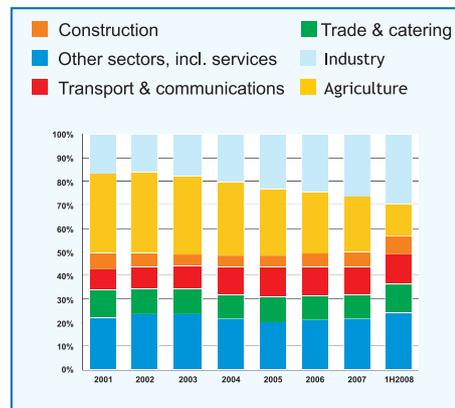
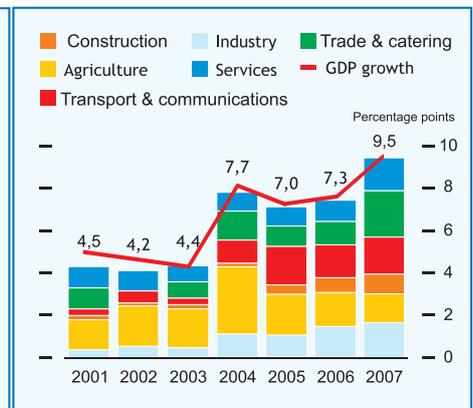
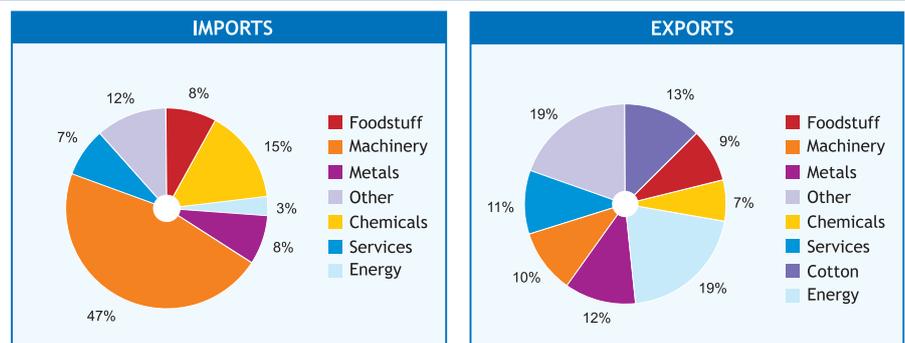


Figure 2. Contribution to growth by sectors, 2001-2007



Source: State Statistics Committee

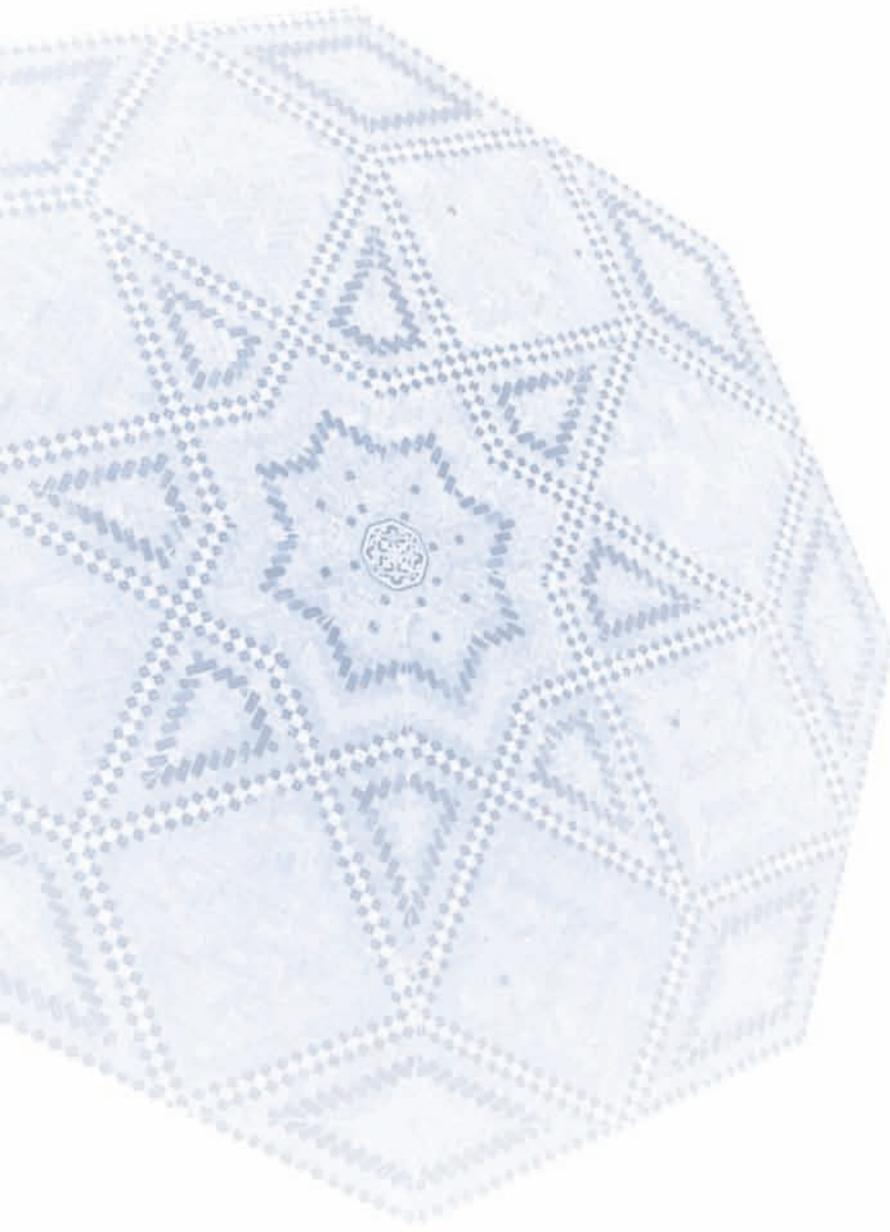
Figure 3. Composition of exports and imports (1st half, 2008)



Source: State Statistics Committee

CHAPTER 1

THE REPUBLIC OF UZBEKISTAN - AN OVERVIEW



CHAPTER 1

THE REPUBLIC OF UZBEKISTAN – AN OVERVIEW

1.1 History, geography, people and cultural monuments*



Bukhara
30 Economic Review Magazine

Uzbekistan is a very ancient land and, at the same time, a very young nation. It has been the crossroads of the most important trade route in history, the Great Silk Road, and the site of numerous invasions from the east (Huns, Turkic tribes, Mongols and Chinese), the west (Persians, Macedonians, Arabs) and the north (Russians). Over 100,000 years ago, primitive man was engraving caves in the region but the haze of pre-history begins to clear only with the archaeological discoveries of human occupation (tools and monuments) that push the date when man first began herding animals to 4000 BC. Between 4000 and 2000 BC Central Asia saw the development of mixed farming in which tribes hunted, herded and grew some crops. Earthen burial mounds from around 1700 BC point to the rise of a distinct nomadic culture based on horse breeding. Nomadic cultures such as the Sakas and the Scythians mixed with the oasis settlements in Khorezm, Bactria and Sogdiana.

Among the notable invaders from the west during the 5-6 century BC were the rulers of the Achaemenid Empire (Persians). Darius I mentions Khorezm, Bactria and Sogdiana peoples and the conquests of Cyrus the Great allowed the Persians to divide the land into three satrapies: Khorezm, Bactria and Sogdiana. Alexander the Great invaded in the 4th century BC and married a daughter of a Sogdian leader, the beautiful Roxana, who bore him his only son. However, the invasion was of little enjoyment to Alexander as the local resistance caused Alexander's army to become bogged down in the region. Alexander left an indelible mark on Central Asia, founding cities and creating far greater uniformity within the region than it had known before. By the 1-2nd century BC the fledgling Silk Road was opened by the Chinese who actively sought to develop political relations with the states along the Silk Road. The Silk Road flourished and reached its zenith during the Chinese Tang dynasty (618-907 AD). The Sogdian city states along the Silk Road proved resilient to the repeated incursions from the nomadic tribes from the Mongolian steppes. The Sogdian merchants dominated the trade route and both goods and ideas flowed along it. Over time various religions flourished in the

territory of modern Uzbekistan including Zoroastrianism, Buddhism, Nestorian Christianity, Judaism and Manichaeism.

Box 1.1. The Golden Road to Samarkand

From the blue-tiled splendor of Tamerlane's Samarkand to the holy city of Bukhara, boasting a mosque for each day of the year, and beyond to the desert-girdled khanate of Khiva, Uzbekistan lays claim to a breathtaking architectural legacy. Bound by sand and snow, fed by melt-water from the Roof of the World, these fertile oases attracted the greatest travelers and conquerors in history along the fragile threads of the Silk Road.

Calum Macleod and Bradley Mayhew, Uzbekistan: the Golden Road to Samarkand, Odyssey, 2004

The invasion of the Arabs in the 8th century AD led by Qutaiba ibn-Muslim ended this diversity of religion and planted Islam firmly in the region. Ismail ibn-Ahmad, ruler of Bukhara, united Central Asia under the Samanid dynasty which promoted Persian

culture in the region. There followed a century of remarkable cultural growth and Bukhara attracted physicians such as Ibn-Sina (Avicenna), mathematicians such as Al Beruni and poets such as Firdausi. Al Bukhari (809-869 AD), the philosopher and commentator on the Koran, compiled the *Hadis*, the sayings of the Prophet, which is revered as one of the most important works in Islam. Bukhara was second only to Mecca in the Islamic world for its religiosity and learning.

Such prosperity caught the notice of Turkic nomads (Karakhanid and Ghaznavid dynasty and Seljuk Turks) who overran the region around the 10th century AD.

In the beginning of 13th century AD the region faced the cruel incursion of Genghis Khan, a



Registan, Samarkand
© Uzexpocenter

* This history draws heavily from Macleod (2004), Rashid (1996) and Manz (1989).

Mongol chief from north of the Gobi Desert. His campaigns left five million dead. By the 14th century AD the Mongol invaders had adapted to the local Turkic culture - modern Uzbeks are descendants both of the nomadic Turks and Mongols as well as the sedentary oasis peoples.

The last great explosion out of Central Asia was perhaps the most important and lasting cultural influence in the region. During this century Amir Temur, known as Tamerlane (1336-1405), the Conqueror of the World, who was born near Samarkand, founded a great empire encompassing Iran, Iraq, the Caucasus, Georgia, eastern Turkey and Syria, as well as Afghanistan and India. With his plunder and revived trade routes he raised his capital Samarkand to its greatest heights. His grandson and successor, Ulugbek, made Samarkand an intellectual centre in decorative arts, architecture, poetry, philosophy, painting and astronomy. Tamerlane was the last of the great nomadic conquerors and his Timurid dynasty gave way to the Shaybani Uzbeks (1451-1510). Mir Alisher Navoi created a written Turkic script and literature to replace Persian. Navoi has been adopted as the national poet and first Uzbek hero. Eventually, at the end of 17th century the Shaybani Uzbeks' kingdom broke up into three khanates of Khiva, Bukhara and Kokand.

The next major incursion was that of Russia when Peter the Great sent an expedition to Khiva in 1717 which ended in disaster. But Russia persisted because of its need for cotton, for land for the freed serfs and for a market for its manufactures. By 1868 Khiva, Samarkand and Bukhara had become Russian protectorates. Once Kokand was taken in 1876, Russian Turkestan was complete. Moscow quickly integrated Central Asia into the Russian Empire. Within a few years, Central Asia became a cotton growing colony and a market for Russian manufactured goods. After the Russian Revolution, Turkestan evolved into the Soviet Socialist Republic of Turkestan. However, the Soviets' strategy of "divide and rule" broke up Turkestan into four republics creating Uzbekistan in 1924. The collapse of the former Soviet Union opened the door for Uzbekistan to declare its independence in 1991.

Cultural monuments

Uzbekistan contains all the most famous historical cities of Central Asia. In terms of its cultural heritage Uzbekistan possesses rich architectural complexes in Samarkand, Bukhara and Khiva. They are virtual open-air museums and UNESCO World Heritage Sites. These have become major tourist destinations and are the objects of a number of cultural preservation projects.

Geography

The Republic of Uzbekistan is located in the heart of Central Asia between the Amu Darya (the Oxus) and Syr Darya (the Jaxartes) rivers which flow into the Aral Sea. It shares its border to the north with Kazakhstan, to the east and south-east with Kyrgyzstan and Tajikistan, to the south with Afghanistan and to the west with Turkmenistan. Uzbekistan is one of the only two double-land-locked states in the world (along with Lichtenstein). It has a land area of 447,000 square kilometers or 172,000 square miles.

Uzbekistan possesses some of the most favorable natural and geographic conditions in Central Asia. The territory of Uzbekistan is a mixture of plain and mountainous lands. Plains cover four-fifths of the landscape and mountains one-fifth. In the east and northeast are situated the Tian Shan and Pamir ranges. To the north and central part is situated one of the world's largest deserts, the Kyzyl Kum (the red sands desert, 300,000 sq. km).

The climate of Uzbekistan is sharply continental, characterized by high variations in temperature between day and night, summer and winter. The average temperature in January falls below -6 C (21.2 F), while the the average temperature in July may rise above +32 C (89.6 F). Rainfall varies from 120mm on the plains to 1000mm in the mountains. However, only 10 percent of the land is arable and this requires an irrigation system of 94,000 miles.

The largest rivers are Amudarya and Syrdarya. The total length of Amudarya is 1,437 km, that of Syrdarya – 2,137 km. Most of the rivers of Uzbekistan dry up in their stream beds, only the



Minaret Kalon, Bukhara
© Uzexpocenter

Samarkand, Bukhara and Khiva are virtual open-air museums and UNESCO World Heritage Sites



Monument of Buddha
© Uzexpocenter

The population of Uzbekistan is very young where the average age is below 24 years

Amudarya and the Syrdarya flow into the Aral Sea. There are several large artificial lakes such as the Chardarya water reservoir.

People

In the beginning of 2008 the population of Uzbekistan was over 27.1 million, the largest in Central Asia. The ratio of rural to urban population was 63.9% to 36.1%. Uzbekistan is a multinational state with more than 120 nationalities and ethnic groups including Uzbeks (80 percent), Russians (5.5 percent), Tadjiks (5 percent), Kazakhs (3 percent), Karakalpaks (2.5 percent) and others (1.5 percent).

The population of Uzbekistan is very young -- the average age is below 24 years. People aged 0-14 years comprise almost one third of the total population. The population growth rate was 1.5% in 2007. Life expectancy at birth was 71.8 years (2005).

Population density varies significantly from region to region and average density in the Republic is 58.2 persons per square kilometer.

1.2 Political system and the government

The Government is divided into three branches: executive, legislative, and judicial.

The President

The President is the head of state and insures coordinated operation and interaction between government entities. The President is elected for seven years and can serve up to two consecutive terms. The President nominates the Prime Minister who has to be approved by both chambers of the Oliy Majlis (Parliament). Other members of the Cabinet of Ministers are appointed by the President upon nomination by the Prime Minister (with exception of chairman of State Committee of Nature Protection who is elected by Senate upon nomination by the President).

Oliy Majlis

The legislative body of Uzbekistan is the Oliy Majlis (Parliament). The Oliy Majlis consists of two chambers (it was changed from unicameral as a result of a referendum and following amendments to the Constitution in 2003) - the Legislative chamber (lower chamber) with 120 members and the Senate (upper chamber) with 100 members. The term of both the Legislative chamber and the Senate is five years. Members of the Legislative chamber are elected by the people based on a regional multi-party system. 84 members of the Senate are elected by the local Councils of Deputies by secret ballot. Each of the country's 14 regions can elect 6 senators, and the remaining 16 are appointed by the President. The Legislative chamber works on a permanent, professional basis, while the Senate meets on a sessional basis.

In April 2007 Parliament passed the law "On increasing the role of political parties in the further democratization of public administration and the modernization of the country" effective from January 1, 2008. The new constitutional law is intended to stimulate the political parties' capacity to become powerful political forces by securing their rights and strengthening



Senate
Economic Review Magazine

Box 1.2. Increasing the role of political parties

Drafts of laws submitted by the President of Uzbekistan which are directed at strengthening the role of political parties in the country's life put a big responsibility on political parties and this in turn is supposed to raise political activity and involvement of citizens in the political life of the country. Political parties and civil society institutions should participate more actively in public life and in promoting democratic processes in the country. Obviously, implementation of these bills would strengthen civil society basics in Uzbekistan.

Elisabeth Yeggle, Member of the European Parliament from Germany

their influence on the issues of the legislative process and state administration. The other purpose of the law is to raise the public accountability of state bodies and officials.

Cabinet of Ministers

The Cabinet of Ministers provides guidance for economic, social and cultural development as well as for the execution of the laws enacted by the legislative branch. In this regard, it can issue various resolutions and normative acts. The Cabinet of Ministers consists of the Prime Minister, his Deputies, Ministers and Chairmen of State Committees. The Prime Minister is the head of the Cabinet of Ministers and reports to the President and the Oliy Majlis. The President can override decisions made by the Cabinet of Ministers.

The Deputy Prime Ministers are responsible for the governance of their assigned branches of the economy. They coordinate and control the activities of their respective ministries, committees, and agencies. Currently there are 7 Deputy Prime Ministers, each assigned to guide the following areas:

- overall economic development and foreign economic relations
- public utilities services, transportation, capital construction and construction materials industry
- machinery, electrotechnical and aviation industries, and standartization
- geology, energy, chemical, petrochemical and metallurgy industries
- information technologies and telecommunications
- education, public health and social protection
- women’s affairs.

Ministries:

1. Ministry of Agriculture and Water
2. Ministry of Defense
3. Ministry of Economy
4. Ministry of Emergency Situations
5. Ministry of Finance
6. Ministry of Foreign Affairs
7. Ministry of Foreign Economic Relations, Investments and Trade
8. Ministry of Healthcare
9. Ministry of Higher and Secondary Specialized Education
10. Ministry of Internal Affairs
11. Ministry of Justice
12. Ministry of Labor and Social Protection
13. Ministry of People’s Education
14. Ministry of Sport and Culture

State Committees and Agencies:

1. State Committee on Architecture and Construction
2. State Customs Committee
3. State Committee on Nature Protection
4. State Committee on De-monopolization, Support of Competition and Entrepreneurship
5. State Committee on Geology and Mineral Resources
6. State Committee on Land Resources, Geodesy, Mapping and State Cadastre
7. State Committee on Management of State Property
8. State Statistics Committee
9. State Tax Committee
10. Agency on Automobile and River Transportation
11. Agency on Communication and Information
12. Agency on Publishing and Information
13. Agency on Copyrights
14. Agency on Precious Metals under the Central Bank
15. Agency on Public Utilities Services
16. Agency on Standardization, Metrology and Certification
17. Agency on State Archives

Judicial authority

The judicial authority is another branch of power in the Republic of Uzbekistan. The activity



Ministry of Finance
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Ministry of Foreign Affairs
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Ministry of Foreign Economic Relations, Investments and Trade
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State Customs Committee
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of the courts in Uzbekistan is governed by the Law of the Republic of Uzbekistan “On Courts”, 14 December 2000.

The following types of courts function in the Republic of Uzbekistan:

- Constitutional Court
- Supreme Court
- Higher Economic Court
- Supreme Civil and Criminal Courts of the Republic of Karakalpakstan
- Civil and Criminal Regional (Viloyat) and Tashkent city Courts
- Civil Inter-district, District (city) Courts
- Criminal District (city) Courts
- Economic Court of the Republic of Karakalpakstan
- Economic Courts of Regions (Viloyat) and Tashkent city
- Military Courts.

The Constitutional Court of the Republic of Uzbekistan is the judicial body that hears cases relating to the constitutionality of the acts passed by the legislative and executive branches. The Supreme Court of the Republic of Uzbekistan is the highest judicial body of civil, criminal and administrative law. The Supreme Court of the Republic of Uzbekistan has the right to supervise the administration of justice by the Supreme Court of the Republic of Karakalpakstan, as well as by regional, city, inter-district, district and military courts. The Higher Economic Court of the Republic of Uzbekistan is the highest judicial body in the sphere of economic legal proceedings. The Higher Economic Court of the Republic of Uzbekistan has the right of supervision over the judicial activity of the Economic Court of the Republic of Karakalpakstan, the Economic Courts of the Regions (viloyats) and Tashkent city.

All the judges of the three upper-level courts are elected by the Senate. The President appoints all other judges.

Central Bank

The Central Bank governs the banking system of Uzbekistan (see “Banking” section for details). It reports directly to the Senate. The Chairman of the Central Bank is appointed by the Senate based on the recommendation of the President.

Prosecutor’s Office

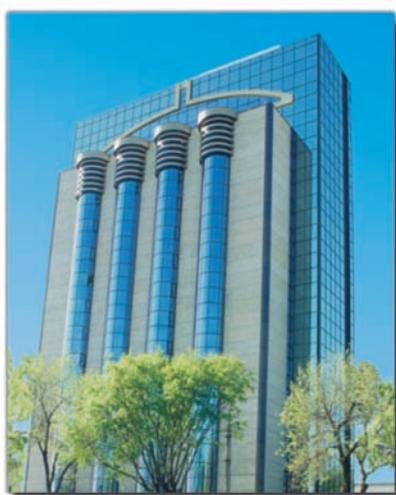
The Prosecutor’s Office is empowered to supervise the consistent and uniform application of laws by all institutions (public and private) and individuals. Under the Constitution, the Prosecutor’s Office is independent from government institutions, officials, political parties and is guided only by the law.

The Prosecutor’s Office is headed by General Prosecutor who, along with his deputies, is appointed by the President and is subject to approval by the Senate.

Regional and local administrative authorities

Uzbekistan consists of 12 administrative regions (*viloyat*), the city of Tashkent and the Republic of Karakalpakstan, which are in turn composed of districts (*tuman*), cities, towns, and villages (*kishlak, aul*), see Figure I.1. In terms of territorial- administrative governance, Uzbekistan is considered a unitary state with certain attributes of a federal structure. The Republic of Karakalpakstan is an integral part of Uzbekistan but enjoys a large degree of self-determination. It has some of the rights of a sovereign republic, in that it has its own Constitution, legislative, judicial and other autonomous (but not separate) state bodies. The Constitution and laws of Karakalpakstan should not contradict the Constitution and laws of Uzbekistan as Karakalpakstan is under the sovereign jurisdiction of Uzbekistan.

In each of the above 14 administrative regions and sub-administrative divisions (districts, cities) executive power at the local level is exercised by the khokims (governors) of the



The Central Bank
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In each of 14 regions and sub-administrative divisions (districts, cities) executive power at the local level is exercised by the khokims (governors) of the corresponding regions, districts, cities

corresponding regions, districts, cities. The regional khokims are selected by the President but approved by the locally elected Councils of Deputies (Kengash). The regional khokims then appoint the lower level khokims. The khokim's decisions are implemented by the local khokimiyats.

Khokims at all territorial levels are appointed or approved for 5-year terms, but can be removed from office before the end of the statutory term or re-appointed once the initial term is over. Kengashs are elected by the people for 5 years.

The Parliament, the President, the Cabinet of Ministers and the Constitution entrust the local municipalities with important functions, such as the drawing up and administration of the local budget, the collection of local taxes and levies, social and cultural development, rural development, maintenance of law and order, public security and environmental issues. To fulfill these duties, the khokims are entitled to issue decrees, orders, and instructions enforceable and binding on all legal and physical entities in the given region. Local authorities are also responsible for promoting trade and foreign direct investment to the regions. This includes the creation of joint ventures and new enterprises with the participation of foreign investment. The regional authorities also have responsibilities for investments located in their

Figure I.1. Regional map of Uzbekistan



Source: United Nations Cartographic Section, 2006.

Box I.3. Community empowerment

Uzbekistan has a unique national model of local self-governance in the form of citizens' assemblies in villages and rural settlements... Citizens' assemblies are to a) address issues related to the protection of citizens' interests and rights, b) support the development of small businesses, c) promote public assistance and charity funds, d) provide various forms of social support, and e) contribute to the development of social infrastructure within their areas of competence...

As part of commitments to a democratic society and market economy, it is necessary to develop and implement a comprehensive government policy aimed at the establishment of effective and functional local self-governance bodies that adhere to the social and political system of Uzbekistan and stem from the ancient national traditions of the Uzbek people.

UNDP Policy Brief №2, 2006

region such as the allocation of land and the connection to local utilities.

The local administration is carried out in theory on the basis of unitary (khokim) and collegial (Kengash) management principles. The khokim fulfills a dual role as chief executive and as head of the elected body.

While housing and small enterprises were privatized quickly and significant price liberalization took place within a few years, the Government maintained strong control over the allocation of resources in the economy and over its interface with the international economy

The introduction of the national currency in 1994 allowed the Government to implement its own monetary and fiscal policy and put in place a programme to curb inflation

1.3 Economic context: transition policies, recent results and future goals

1.3.1 Transitional policies

After declaring independence, the Government adopted a gradual approach to its transition to a market economy. This was motivated by a number of factors including:

- a large proportion of vulnerable people in the population
- a large gap between urban and rural incomes
- the overspecialization in certain sectors: cotton, chemicals and agricultural machine building and a lack of consumer goods
- the instability of some neighboring countries (Afghanistan, Tajikistan)
- the mentality of the former Soviet period and a scarcity of people trained to run the new institutions required by a market economy (Sirajiddinov 2004).

The economic policy model adopted contained the following features:

- currency regime: multiple exchange rates and controlled access to foreign exchange
- trade regime: high tariff and non-tariff barriers for many products
- financial system: state-run banks with credit allocation based on policy considerations
- industrial policy: restructuring of the economy by aiding particular sectors and active state role in enterprise decisions
- import substitution: strategy aimed at supporting the development of local industries to replace imported sources of supply (Cornia & Saidova 2005).

Nevertheless, Uzbekistan did not completely escape the disruption caused by the collapse of the former Soviet system of production and trade. Industry was affected by shortages of imported inputs, particularly of machinery parts and fuel caused by the difficulties in making payment arrangements. However, the declines in output were not nearly as dramatic as elsewhere in that real GDP decreased by 11 percent (1992) and Uzbekistan was the first among the CIS countries to return to positive growth rates in 1996. In hindsight, there is a negative correlation between rapid liberalization and growth. Thus, gradual reform might have had advantages for the Uzbek growth performance (Cornia & Saidova 2005).

Reforms in the early period (1992-1996)

Economic policy was initially focused on limiting as much as possible the decline in consumption and productive capacity. It was impossible for Uzbekistan to pursue completely independent economic policies until it left the ruble zone in 1994 and established its own permanent currency, the soum. Creation of the national currency allowed the Government to implement its own monetary and fiscal policy and put in place a programme to curb inflation. Prices were liberalized and the rationing of goods discontinued. State spending and taxation remained high during this period. Much of the Government expenditures were necessary to afford some degree of social protection to the large number of vulnerable people (children and rural population) during this early period of transition.

Rather than freeing enterprises entirely from state control, the system of state orders for industry and agriculture was kept in place for awhile. Structural reforms of the economy were achieved by import-substitution policies. Large enterprises were subsidized by soft credit. Currency rationing gave them preferential access to foreign exchange and imported raw materials. At the same time the Government privatized small enterprises particularly in the retail and service sector and housing. The State has implemented a program of allocation of land plots to the rural population to expand their private holdings. It helped to strengthen the rural private sector, increase production of food products, employment and individual dwellings. These policies led to a shift in the economy away from cotton toward other agricultural products allowing Uzbekistan to eventually produce 90% of the foodstuffs it consumes. There was also a shift toward transport, communications and services. Foreign trade remained under tight control. Believing that continued reliance on imported oil and food would threaten the country's independence, the Government has managed to achieve energy self-sufficiency and a reduction in its dependence on grain imports.

Reforms in the expansionary period (1996-2001)

Despite the return to positive growth rates, this period was marked by two external shocks. First, in 1996 the cotton crop failed and cotton prices fell on world markets by 15%. In response the Government was forced to introduce multiple exchange rates along with tighter controls on trade. The tightened trade and currency regimes further supported the strategy of import substitution. In 1998 large scale privatization began with World Bank support. State orders for enterprises also were phased out in many instances. The Government also began to encourage FDI in certain sectors such as autos, electronics, textiles, chemicals, mining and agro-processing (Alam and Banerji 2000). Large foreign investors included Daewoo, BAT, Newmont, Mercedes, and Lonrho.

The second blow came when Russia was hit by a financial crisis in 1998. This severely affected Uzbekistan's exports as Russia was its main trading partner. Despite these two setbacks Uzbekistan was able to attain monetary and fiscal stability as well as balance its current account. Most significantly, inflation declined from triple digit figures to around 26%.

Reforms from 2001 to 2007

In October 2003 Uzbekistan adopted Article 8 of the International Monetary Fund and liberalized currency convertibility and abolished multiple exchange rates. Easy credit to investment projects dried up. Inflation dropped to around 7%. However, import restrictions increased in terms of tariff and non-tariff barriers.

The Government began to tackle a number of administrative and institutional reforms. In the absence of a properly functioning treasury department, the banking system was acting as a collection agency for the Government rather than performing its usual function of financial intermediation. The Government's fiscal balance had been maintained via high taxation rather than a drastic cut in Government spending. Thus, two of the major reforms included creating a proper treasury department and simplifying the tax system and reducing tax rates.

Believing that continuing reliance on imported oil and food would threaten the country's independence, the Government has managed to achieve energy self-sufficiency and reduction in dependence on grain imports



Product of Uzbek automobile industry © Uzexpocenter

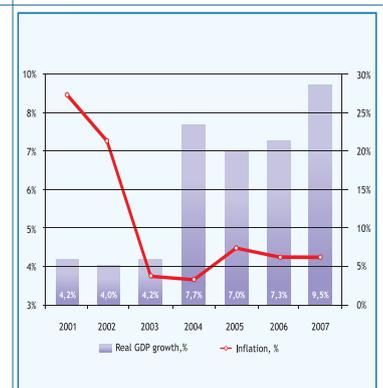
Box I.4. Gradual reform in Uzbekistan: advantages and disadvantages

For Uzbekistan — the only Central Asian republic that followed a gradual policy adjustment strategy—there was a smaller output decline than in the more reformist Central Asian republics. This gradual approach to policy reform shows the importance of keeping some continuity of institutions during transition. Recent performance, however, indicates that now is the time to move on. Inward-orientation, import substitution, and excessive state intervention from the former Soviet era have run their course. The economy may be primed for new economic policies aimed at boosting the private sector in developing a market economy.

Central Asia after Fifteen Years of Transition: Growth, Regional Cooperation, and Policy Choices, by Malcolm Dowling and Ganeshan Wignaraja, July 2006, ADB Working Paper

During the expansionary period of reforms the Government began to encourage FDI in certain sectors such as autos, electronics, textiles, chemicals, mining and agro-processing

Figure I.2. Main macroeconomic indicators 2001-2007, annual % change



Source: State Statistics Committee

Economic growth [in Uzbekistan] and the balance of payments are likely to remain strong in the short term.

IMF Staff Report, 2007



Shurtan gas and chemical complex
© Uzexpocenter

The export growth was a result of measures undertaken to liberalize foreign trade and currency policies and to stimulate private sector development as well as favorable trends in world markets

1.3.2 Recent economic results

Table I.1. Main economic indicators for Uzbekistan

	2001	2002	2003	2004	2005	2006	2007
GDP, USD bln. ¹	11.4	9.6	10.1	12.0	13.6	17.0	22.3
GDP, UZS bln. ¹	4,925.3	7,450.2	9,664.1	12,189.5	15,210.4	20,759.3	28,186.2
International reserves, USD bln. ²	1.21	1.22	1.66	2.15	2.90	4.60	7.4
External debt outstanding, % to GDP ²	-	-	42.0	36.2	30.4	24.5	15.8
Inflation, % ¹	26.6	21.6	3.8	3.7	7.8	6.8	6.8
CBU refinance rate, % ³	24.8	34.5	20	18	16	14	14
Average UZS/USD exchange rate, soum ³	431.99	774.37	971.51	1,020.47	1,114.04	1,219.33	1,263.94

Source: ¹State Statistics Committee, ²IMF, ³Central Bank of Uzbekistan

Growth

According to government statistics, confirmed by the IMF, real GDP growth was 7% and higher since 2004. The acceleration of economic growth was due to prudent macroeconomic policies, gradual structural reforms and a significant increase in the foreign trade turnover with Uzbek exports increasing substantially in 2003-2007, from USD 3.7 billion to USD 9.0 billion. The export expansion was a result of measures taken to liberalize foreign trade and currency policies and to stimulate the private sector development as well as favorable trends in world markets. The contribution to GDP growth of the capital intensive sectors has increased over time¹. The continued growth of foreign investment in the main industries and strong growth of exports and remittances should provide a further boost to GDP growth which the IMF, ADB, and the Economist Intelligence Unit forecast will be more than 8% in the short and medium

term. However, in the light of financial crisis the World Bank forecasts the slowdown of economic growth in the whole Central Asian region through reduction in trade turnover with developed countries and slowing down in migrant remittances.

Investment and structural change

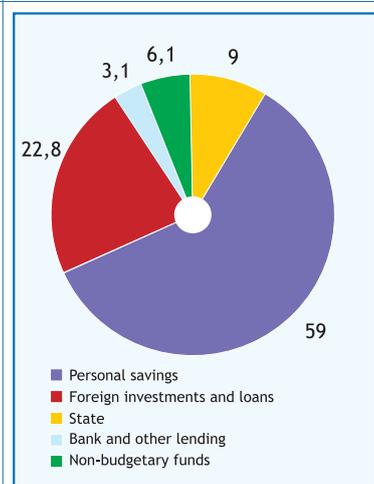
According to government data, investment from all sources in 2007 (based on reported financial statements) rose by 22.9%. The increase in investment was possibly due to changes in the tax legislation which lowered tax rates and unified tax payments, thus leaving a bit more profit for reinvestment. The main sources for this

Box I.5 Official statistics in Uzbekistan: institutional basis, quality and access

Today Goskomstat is making considerable progress towards improving the access to official statistics. However, further improving the quality of data and widening access to statistical information are key factors in national development as all levels of users need a ready supply of reliable information to make the right decisions in a timely manner.

UNDP Policy Brief #1, 2006

Figure I.3. Sources of enterprise financing (2007)



Source: State Statistic Committee

Table I.2. Growth and sectoral composition of GDP

Period	GDP			Sectors, % of GDP				
	UZS billion at current prices	Equivalent in USD at ave. exchange rate, bil.	Real growth rates	Industry	Agriculture	Construction	Services	Net taxes and foreign trade
2000	3,255.6	10.0	3.8	14.2	30.1	6.0	37.2	12.5
2001	4,925.3	11.4	4.2	14.1	30.2	5.8	38.2	11.9
2002	7,450.2	9.6	4.0	14.5	30.1	4.9	37.9	12.6
2003	9,664.1	10.1	4.4	15.8	28.6	4.5	37.4	13.7
2004	12,189.5	12.0	7.7	17.5	26.4	4.8	37.2	14.1
2005	15,210.4	13.6	7.0	20.7	25.0	4.9	38.4	11.0
2006	20,759.3	17.0	7.3	22.1	24.1	5.1	39.5	9.2
2007	28,186.20	22.3	9.5	24	21.7	5.5	39.3	9.5

Source: State Statistics Committee

investment were internal funds and personal savings.

Foreign direct investment has also increased in recent years reaching a high of USD 1.5 billion in 2008 according to preliminary official estimations (see definitions of foreign investment in the foreword). The amount of foreign direct investment remains low relative to GDP but is expected to increase as the larger state assets are sold and the privatization program is completed. The Government privatized 673 state-owned enterprises in 2006 and 631 in 2007. Foreign investors purchased 28 companies for USD 114.8 million in 2007 which was more than double the figure for 2006.

The Government plans to attract more than USD 1.9 billion in foreign investments into 86 investment projects in 2009. Out of this amount, government guaranteed foreign loans should be USD 482 million, and FDI – USD 1,382 million. The largest amount of FDI will be invested into the oil and gas sector and telecommunications.

Such investments are changing the sectoral composition of the economy and shifting production from agriculture to industry (see Table I. 2.).

The growth in output in these sectors was also boosted by increased external demand for vehicles and other mechanical engineering products as well as the increased domestic demand for construction materials and consumer goods.

Trade

Uzbekistan has maintained a positive trade balance for most of the years of the transition. While its exports declined in the early years, its imports declined even further. The importance of trade in the Uzbek economy is seen from the comparison of total trade turnover to GDP (64%) in 2007. Although it is a land-locked country, overland transport networks connect it to Central Asia, China and Europe.

Liberalized trade and currency policies, private sector development, and a more favorable world market have increased exports in recent years between 15-40% annually reaching in 2007 a record USD 9.0 billion.

The amount of foreign direct investment remains low relative to GDP but is expected to increase in the near future as the larger state assets are sold and the privatization program is completed

Box I.6. Results of the reforms in recent years

With a significant contribution from agriculture and a robust external sector performance, Uzbekistan has enjoyed strong growth over the past two years. The authorities have made progress in macroeconomic adjustment, but have further scope for improving the consistency of the macroeconomic policy mix, particularly in regard to inflation-control measures and full adherence to provisioning of foreign exchange for current account transactions. The reform backlog in structural policies suggests that the economy is underperforming, despite its recent above-trend growth. Medium-term prospects, when viewed in an accelerated reform scenario, are bright. The main uncertainty is tied to the Government's commitment to undertaking the critical mass of reforms needed for private sector-led growth.

Asian Development Outlook, 2006, ADB

Structural reforms progressed further in 2007. There was a concerted effort to increase minimum bank capitalization. The authorities removed banks' disincentives to attract local currency deposits by unifying reserve requirements on foreign and local currency deposits. Treasury modernization continued under the ongoing technical assistance project, as did tax reforms. Further, the restructuring of "shirkats" into private farms was completed. Uzbekistan moved up in the World Bank's Ease of Doing Business ranking to 138 in 2008, from 145 in 2007.

IMF, Staff Report for the 2008 Article IV Consultation

Uzbekistan has maintained a positive trade balance for most of the years of the transition



Assembling of IL-76 aircraft in Uzbekistan
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In 2007 Russia was by far the largest trading partner by total turnover, followed by the Kazakhstan, Ukraine, Turkey, China and South Korea

Table I.3. Main foreign trade indicators (USD million)

Indicator	2006	2007	2007 (1st half)	2008 (1st half)	Growth,% (2008:2007)
Foreign trade turnover	11,171.4	14,227.1	7,484.5	9,812.6	31.1
Exports	6,389.8	8,991.5	4,129.4	6,129.9	48.4
Imports	4,781.6	5,235.6	3,355.1	3,682.7	9.8
Structure of foreign trade turnover, %	100.0	100.0	100.0		
CIS countries	43.2	49.2	50.1	38.6	-11.5
Non-CIS countries	56.8	50.8	49.9	61.4	11.5
Trade balance	1,608.2	3,755.9	774.3	2,447.2	216.1

Source: State Statistics Committee

In recent years exports have risen also due to changes in the industrial structure. The State introduced measures stimulating the export of goods with higher value added. As a result of these measures the export of raw materials like cotton fiber has declined and that of finished goods has risen, including textiles, electronic products, inorganic chemical products, fertilizers,

perfume-cosmetic products, construction materials, and automobiles.

Uzbekistan is not yet a member of WTO, like numerous CIS countries. Hence, the Government closely monitors its balance of trade. Nevertheless, import regulations have been liberalized in terms of imports of machinery so that the value added of industrial and agricultural production can be increased. Machinery and equipment account for more than 40 percent of imports. Imports of foodstuffs have steadily declined as a result of increases in domestic production. Energy imports remain below 5%, chemicals and plastics, as well as ferrous and non-ferrous metals around 10-15%.

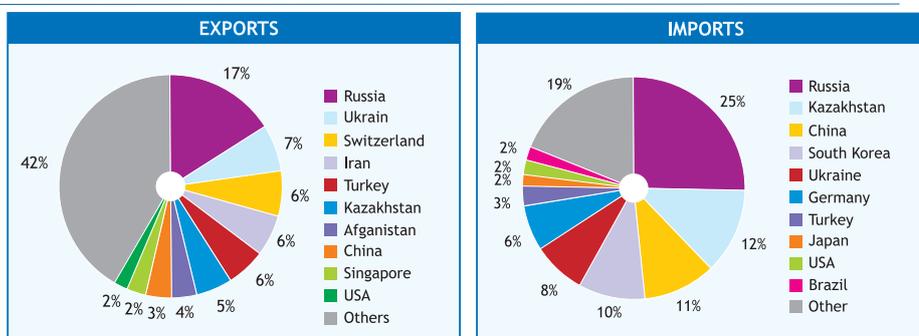
In 2007 Russia was by far the largest trading partner by total turnover, followed by Kazakhstan, Ukraine, Turkey, China and South Korea.

Box I.7. Trade liberalization is among the key factors for attaining sustainable growth of the economy

Trade liberalization is critical if the Uzbek economy is to sustain high growth through private sector development. The staff advises the authorities to lower and unify tariffs for all economic agents, eliminate differences in excises on imported and domestic goods, remove restrictions on exports (including food items), reduce administrative costs in international trade, streamline customs procedures, and accelerate efforts for WTO accession.

IMF Staff Report for the 2008 Article IV Consultation, June 2008

Figure I.4. Top 10 trading partners (1st half, 2008), % of total



Source: State Statistics Committee

1.3.3 Future goals of the transition strategy

Box I.8. Treasury reforms

The Government has established a treasury, which, under a public finance reform management project, is setting up a treasury single account and is streamlining the budget execution mechanism. In 2007, it implemented treasury operations at the regional level, closed thousands of accounts of spending units, and introduced territorial single treasury accounts. The major medium-term hurdle for these reforms will be the consolidation of all government fiscal accounts into a single account, including those of the Government's extrabudgetary funds.

ADB Development Outlook, 2008

The Government is continuing along this path of step-by-step reform as described above and has announced certain measures to further liberalize the economy. The State intends to continue to improve the business climate, particularly by improving the access of private enterprises to raw materials and credit. The share of small business in GDP reached 40.2%

The share of small business in GDP is targeted to increase to 52% by 2010

in the first half of 2008 and is targeted to increase to 52% by 2010. In terms of fiscal policy it is planned to continue development and strengthening of Treasury under the Ministry of Finance and also to monitor implementation of newly adopted Tax Code with possible revision if necessary. In accordance with the development strategy the State will further focus on development of market infrastructure, including banking and finance, leasing, audit, insurance, engineering and others. The Government will pay special attention to the ensuring of competitive environment and actively promote antimonopoly policies.

Box I.9. IMF appraisal of macroeconomic performance

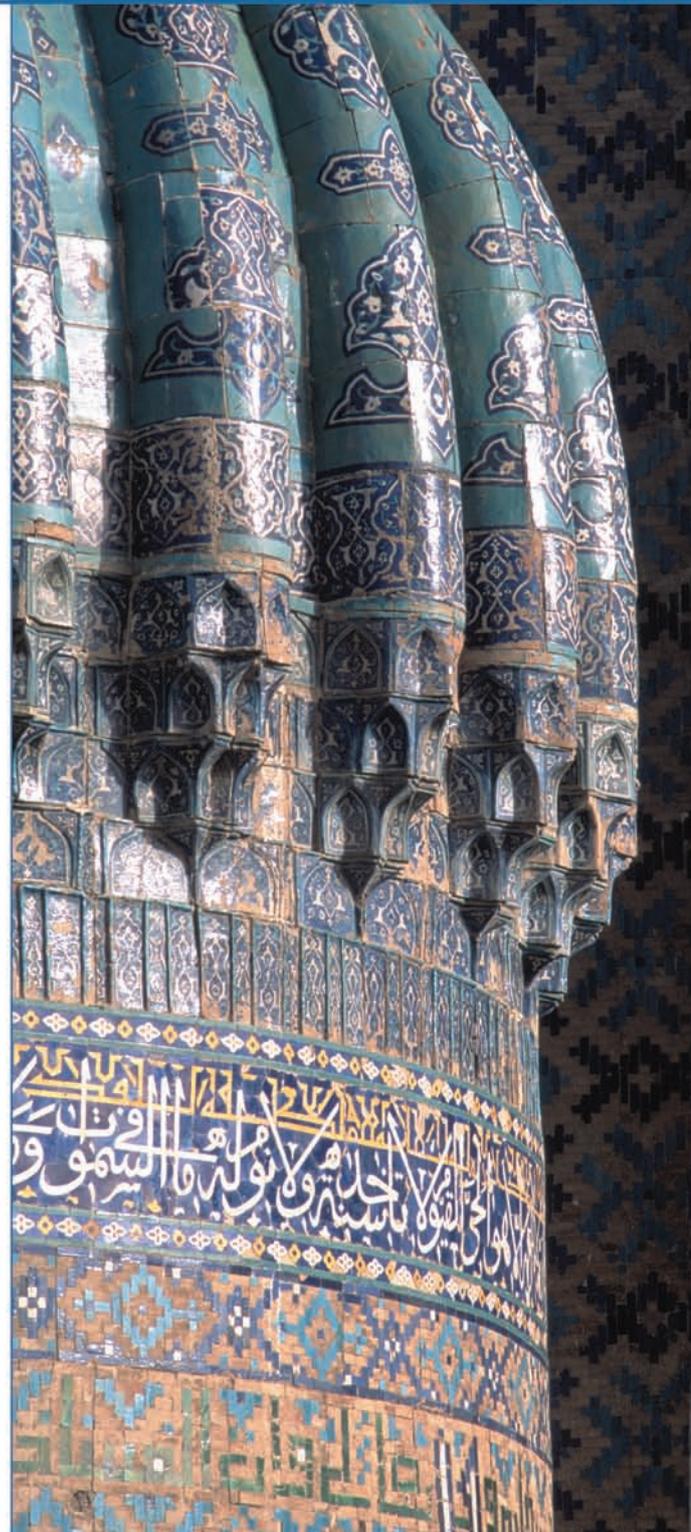
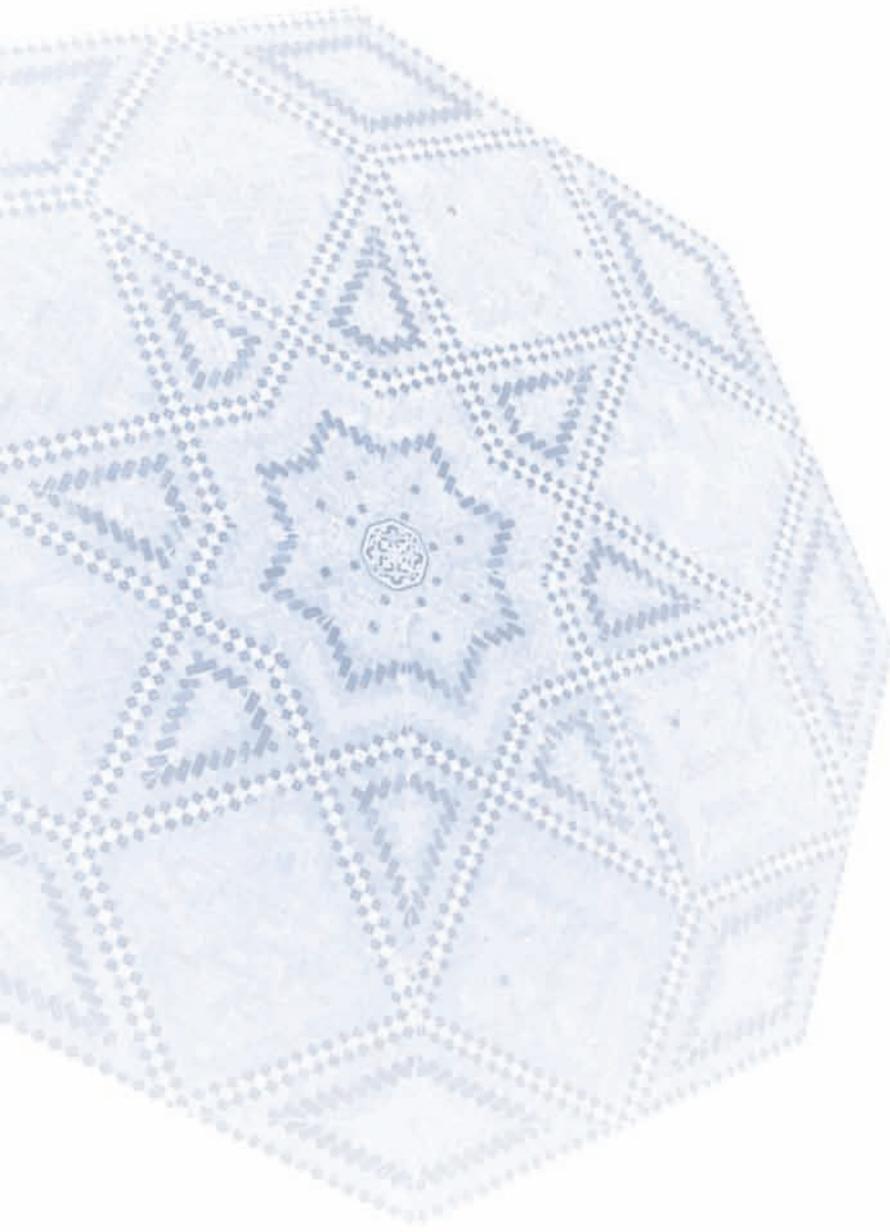
The Uzbek economy has performed well in recent years. The favorable external environment and improvements in macroeconomic policies resulted in high growth rates, large current account surpluses, a significant decline in the debt burden, and a more than quadrupling of foreign exchange reserves from 2003 to 2007. Despite the tightening of monetary conditions later in the year, the monetary stance was accommodative for much of 2007. Fiscal policy was prudent and the outcome better than budgeted.

IMF Public Information Notice, 2008

To respond to challenges imposed by the global financial crisis the Government has adopted a comprehensive Program aimed at reducing the impact of the crisis and helping domestic businesses to overcome possible downturns in the economy.

CHAPTER 2

LOCATIONAL ADVANTAGES



CHAPTER 2

LOCATIONAL ADVANTAGES

2.1 Human resources

Education

The literacy rate in Uzbekistan is almost 100%. This is due to the fact that secondary education is compulsory. During the 2006/2007 school year there were 5.7 million pupils attending 9,773 secondary schools; more than 1 million students in professional colleges and around 300,000 students at institutes of higher education.

Box II.1. Human resources

Literacy in Uzbekistan is officially almost universal at 98 percent, and workers are generally well-educated and trained, although with skills transferred from the Soviet era. Most local technical and managerial training does not meet international business standards, but foreign companies engaged in production report that Uzbek workers learn quickly and work effectively. Foreign firms find that younger Uzbeks, less influenced by the Soviet system, work well at all levels.

Uzbekistan Investment Climate Statement 2007: U.S. Department of State

27.3% of the employed labor force worked in agriculture and forestry; 13.8% in education, culture, art, science, research & development, logistics, and 13.5% in the industrial sector

Labor force

In 2007 11.2 million people were in the labor force including 11.3 million people employed. The President reported in February 2008 that 5 percent of the economically active population were unemployed.

According to the State Statistics Committee, in 2007 27.3% of the employed labor force worked in agriculture and forestry; 13.8% in education, culture, art, science, research & development, logistics, and 13.5% in the industrial sector.

Table II.1. Distribution of employment by sector

Sectors	2006	Share in employment (%)	2007	Share in employment (%)
Total number of employed	10,467.00	100.00	10,735.40	100.00
Agriculture and forestry	2,935.90	28.00	2,930.10	27.30
Education, culture, art, science, R&D and logistics	1,434.50	13.70	1,481.80	13.80
Industrial sector	1,402.40	13.40	1,445.50	13.50
Trade, catering, procurement and logistics	977.20	9.30	1,055.40	9.80
Construction	876.60	8.40	910.10	8.50
Healthcare, sport and social services	768.10	7.30	801.40	7.50
Transport and Communications	506.90	4.80	527.70	4.90
Public services to the population	331.20	3.20	346.40	3.20
Finance and credit	54.90	0.50	58.40	0.50
Other	1,179.30	11.30	1,178.60	11.00

Source: "Uzbekistan economy: Statistical and Analytical Review for the year 2007"



Westminster International University in Tashkent
Economic Review Magazine

Labor income/wages

According to the State Statistics Committee, in 2007 the annual income per capita was USD 497 (or USD 41.4 a month), and the yearly income per employed person – USD 1,255 (or USD 104.5 a month). At the same time the average income might differ by a factor of four between regions. While in Tashkent city the income per capita was USD 178 a month in 2007, in the Republic of Karakalpakstan it was only USD 24 a month (see Table II.2). The official minimum monthly wage is set at USD 20.7 (UZS 28,040) in November, 2008. The minimum wage is used primarily to calculate the statutory rates for fines, taxes, fees, royalties, etc. According to official statistics and survey data, average real monthly wages were USD 210 at the end of 2007.

Table II. 2. Monthly income per person employed, ranked by regions (2007)

Region	Monthly income per capita, UZS thousands	Monthly income per capita, USD
Tashkent city	178.30	134.1
Navoi region	84.80	63.8
Bukhara region	53.30	40.1
Tashkent region	50.80	38.2
Andijan region	42.60	32.0
Fergana region	41.30	31.1
Sirdarya region	40.10	30.2
Surkhandarya region	39.00	29.3
Khorezm region	37.10	27.9
Namangan region	36.70	27.6
Kashkadarya region	36.20	27.2
Samarkand region	34.50	25.9
Jisakh region	31.40	23.6
Republic of Karakalpakstan	30.50	22.9
Average for the country	52.3	39.3

Source: "Uzbekistan economy: Statistical and Analytical Review for the year 2007"; USD/UZS exchange rate for 30.09.2008: 1,330 UZS

The data below show the variation in salaries by type of work in Tashkent city.

Table II.3. Average salary paid by type of occupation (2008)

Nº	Type of occupation	Monthly salary, UZS '000	Monthly salary, USD
1	Unqualified worker (maintenance worker, shift-worker)	80 – 130	60 – 100
2	Qualified worker (painter, plasterer, etc.)	130 – 250	100 – 175
3.	Technical staff/officer	100 – 250	85 – 175
4.	Middle manager	150 – 350	125 – 250
5.	Senior manager	350 – 550	250 – 425

Source: Avesta Investment Group: survey data

Under Uzbek legislation the company deducts personal income tax from the individual's accrued salary. The rate is progressive and varies from 12% to 23% (2009). The company also deducts 2.5% from the accrued salary for the pension fund. The company pays an additional 24% of the accrued salary to the State as the unified social payment.

Table II.4. Calculation of taxes related to monthly compensation (2007)

	Amount (UZS)	Amount (USD)
1	Accrued salary	266,000
2	Personal income tax (13-25%)	53,865
3	Pension tax (2.5%)	6,650
4	Payment to the employee	205,485
5	Single Social Payment (Accrued salary*24%)	63,840
6	Sum of taxes related to employee compensation	124,355



Uzbekistan Banking Association
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Box II.2. Labor regulations

The employment of nationals and foreign citizens in Uzbekistan is regulated by the Labor Code. Foreign and local companies may hire employees directly, without using employment or recruitment agencies.

An employment contract may include a probationary period which cannot exceed three months.

The regular working week is 40 hours. Overtime work may be allowed only with the employee's consent. There are certain categories of work where overtime work is not permissible. Overtime work may not exceed four hours within two days or exceed 120 hours within one year. Overtime work must be compensated at a rate of at least 200% of the employee's regular wage.

Uzbekistan has nine official public holidays. The minimum paid annual leave is 15 working days.

Maternity leave is paid for no less than 70 days prior to the birth and 56 days following the birth (up to 70 days in certain cases). Maternity leave is paid for by the employer at the employee's normal salary level but it is effectively reimbursed to the employer through deduction from contributions due to the State Social Insurance Fund from the employer.

Companies with foreign employees in Uzbekistan must obtain a foreign labor licence from the Agency on Foreign Labor Migration Issues of the Ministry of Labor and Social Protection. A licensed company must also obtain a work permit (confirmation) from the Agency for each foreign employee.

The Agency is obliged to issue a foreign labor licence within 30 days from the date of submission of all necessary documents. The procedure for issuing work permits for foreign employees is similar to the procedure for obtaining foreign labor licences.

A foreign labor licence and/or employee's work permit are valid for no more than one year. The fee for a foreign labor licence is ten times the minimum monthly wage (i.e., UZS 280,400 or approximately USD 207). There is no fee for an employee's work permit.

Foreigners working in representative offices are excluded from the foreign labor licence and work permit requirements. However, each foreigner working in a representative office is required to obtain an individual accreditation card from the Ministry of Foreign Economic Relations, Investments and Trade.

Source: Baker & McKenzie, *Doing Business in Uzbekistan*, 2008

Most of the investors noted that the labor force is one of the most attractive features of Uzbekistan. Well-educated and hardworking people can easily be retrained and adapt to the conditions and requirements of foreign companies. In this respect, the key challenges before the Government are slowing down the "brain drain" of the country's educated and skilled work force and raising the standards of higher education

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

The Labor Code requires the following documents to be presented when applying for a job:

- passport or document substituting it; for individuals younger than 16 – birth certificate
- work-book, except those people, who apply to work for the first time
- certificate from the primary work (for those who apply to extra job)
- military certificate for persons liable for call-up and inductees
- diploma from specialized institutions or higher educational institutions.

Enterprises operating in Tashkent city are advised to check if applicants have a permanent or temporary Tashkent city registration. If an applicant has a temporary registration, the labor contract can be concluded only for the registration period. According to the Labor Code the salary is set by an agreement between the employee and the employer. However, the amount of the salary cannot be less than the minimum monthly wage.

The Law of the Republic of Uzbekistan "On labor unions and guarantees of their activities" states that employees have the right to create labor unions in their enterprises, companies, organizations and other working places. However, according to the Economist Intelligence Unit's operational risk overview, existing trade unions in Uzbekistan are weak and the incidence of strikes is extremely low. But on the other hand, Uzbek labor laws are weighted in favor of the employee and investors often guarantee to keep on the existing workforce for a certain period when investing in an Uzbek enterprise.

Under the labor legislation a labor contract can be terminated based on any of the following conditions:

- agreement of the parties
- initiative of one party
- expiration of the labor contract period
- conditions not depending on the will of the parties
- conditions provided for in a labor contract

- non-renewal of a job requiring such renewal.

In terminating a labor contract it is necessary to:

- receive agreement of the labor union or other representative organ, if such a requirement is set in a collective bargaining agreement
- notify the employee
- produce evidence that disciplinary action was taken for previous violations of working duties if the contract is being terminated for systematic violations of working duties
- produce evidence of a misdeed when terminating a contract for a single gross violation
- give back the work-book
- compensate accrued vacation days.

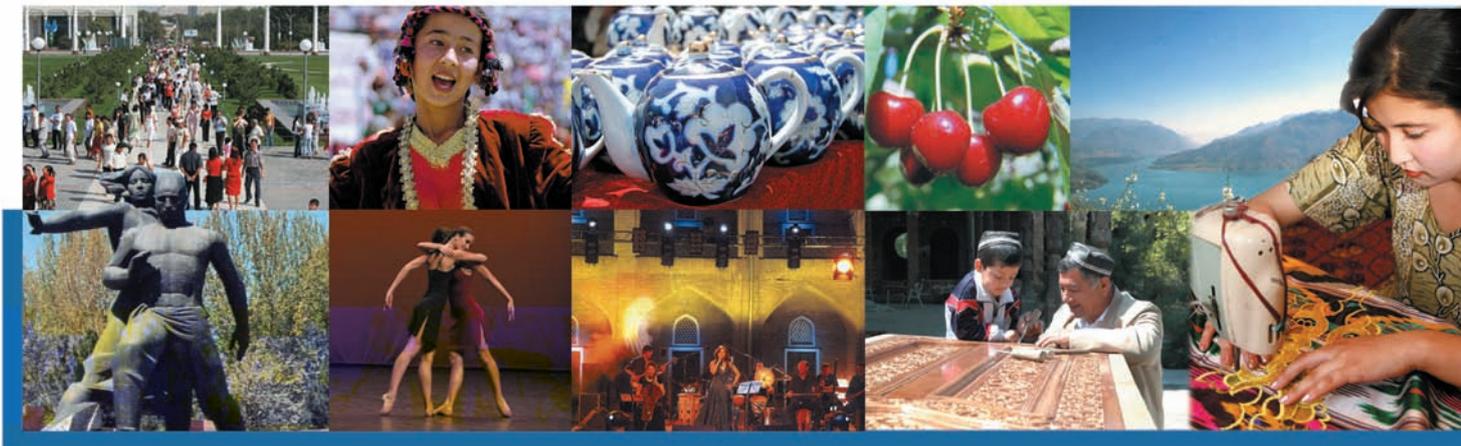
The termination of a labor contract shall follow these procedures:

1. issue an order to terminate a labor contract
2. give a copy of the order to the employee
3. give back the work-book with a record of the termination of the labor contract
4. calculate the salary and the dismissal payment.

In accordance with the legislation individual disputes can be tried in commissions on labor disputes or in district (city) courts for civil cases.



Independence square, Tashkent
Economic Review Magazine



2.2 Natural resources

The value of total proven reserves is estimated at USD 1.3 trillion, and the total mineral-resource potential of the country – at over USD 3.5 trillion

Uzbekistan possesses extensive mineral wealth. It has proven reserves of gold, uranium, copper, natural gas, oil, coal, tungsten, potassium salts, phosphorus and kaolin (fine clay for ceramics). The value of total proven reserves is estimated at USD 1.3 trillion, and the total mineral-resource potential of the country – at over USD 3.5 trillion. The country occupies the fifth place in proven reserves of gold, and ninth in gold mining; the eighth - in uranium reserves and eleventh/twelfth place in uranium mining; the tenth/eleventh place - in copper reserves and seventeenth in copper mining. The reserves ensure that the existing mining companies have a long operating perspective.

Uzbekistan has five oil and gas bearing regions with proven industrial reserves (Usturt, Bukhara-Khiva, Ghissar, Surkhandarya and Ferghana) and one perspective region - Khorezm. Currently there are total of 202 hydrocarbon sites in the country with a total value of over USD

1 trillion. Out of these more than a half are being developed or explored, around 70 sites are ready for development, and nine are closed down. There are 41 investment blocks in the country out of which 13 were granted to the foreign companies for extraction and exploitation works.

Box II.3. Growth forecasts of gas reserves

"We expect that by the year 2011 we can achieve an increase to 115 million TOE in industrial reserves of hydrocarbons in Ustyurt oil and gas region. In particular, reserves of natural gas can increase within the next five years to a level of 124-140 billion cubic meters. In the long-run – 25 years – an increase of natural gas reserves in Ustyurt is expected to be more than 1 trillion cubic meters which is around 60 percent of general forecasted increase of gas reserves in Uzbekistan".

Interview of Maksut Anderjanov, head of representative office of ZAO "Zarubejneftegaz" (subsidiary of "Gazprom") in Uzbekistan to "BIRJA" newspaper, February 2007

Box II.4. Uzbekistan energy sector at a glance

Natural gas

- Proven reserves: 1.3 trillion cubic meters (1% of world reserves)
- Production (2007): 65.3 billion cubic meters (12 active sites), 2008 (forecast) - 66.8 billion cubic meters
- Internal consumption (2007): 51 billion cubic meters: households – 43%, electricity generation – 30%, industrial (mainly chemical) – 27%.
- Gas pipelines: 13,000 km.
- Exports: 2006 – 12.7 billion cubic meters, 2007 – 14.5 billion cubic meters, 2008 (forecast) - 15.3 billion cubic meters
- Export price (per 1000 cubic meter): 2006 - \$60 to Russia, \$55 to Central Asian neighbors; 2007 - \$100, 2008 - \$130-160, 2009 - \$300 (estimated).

Crude oil

- Proven reserves: 600 million barrels
- Production (2007): 4.9 million tons
- Annual refining capacity (3 refineries): 11.2 million tons

Coal

- Proven reserves: 1.95 billion tons
- Annual production (2007): 3.3 million tons
- Internal consumption: electricity generation – 90%, other – 10%.

Electric power

- Total capacity: 11.6 million kW (48.9 billion kWh) – about 50% of Central Asian electric power capacity.
- 11 electric power stations (mainly gas) with 63 turbo generators with a total capacity 9.9 mW (85.3%). Largest – Syrdarya, Tashkent, Novo-Angren, Navoi.
- 31 hydroelectric stations with 67 hydro generators with total capacity of 1.7 mW (14.7%)
- Annual electricity generated: 48.9 billion kW (2007)

Uranium

- Proven reserves - 55,000 tons; forecasted reserves - 120,000 tons (IAEA)
- Proven deposits – 40
- Production (2007): 2,270 tons

Sources: State Geology Committee, NHC Uzbekneftegas, JSC Uzbekenergo, IAEA, press releases

Primary energy production in 2005 was 61.9 million tons of oil equivalent (TOE), of which 47.6 million TOE was consumed. The main market players in the energy sector are: Uzbekneftegaz NHC (government holding for six main operating companies), Uzbekenergo JSC (government holding for power generation and distribution companies), and UzbekKo'mir JSC (coal mining).

2.3 Regional markets

Uzbekistan lies in the heart of Central Asia and at a major intersection of the Silk Road. The potential markets of Central Asia (60 million people) and the Silk Road region (142 million people) lie unexploited. There is a growing number of formal cooperation programmes to renew trade, transit, investment and tourism in Central Asia and along the ancient Silk Road. Regional agreements are being signed to lower transport barriers and the costs of moving goods and people across the borders. Uzbekistan takes part in a number of regional multilateral agreements such as the Commonwealth of Independent States (CIS), the Shanghai Cooperation Organization (SCO), etc.

Box II.5. Projects on Saving Natural Gas

Uzbekistan is planning to direct \$600 mln to several projects on economy of natural gas. In accordance with the special decree of Uzbek President Islam Karimov, the projects on saving natural gas will be realized by 2021. The biggest project with the budget of \$247.6mln envisages transfer of boilers of Novo-Angren PS (Tashkent region) from gas to twelve-month coal burning. Successful realization of this project can enable to save about 700mln cu m of gas per year.

According to the data of the Ministry of Economy, by 2010 Uzbekistan will triple the coal production in accordance with a special governmental program, which is currently implemented in the country. The hard fuel will be used at power stations instead of natural gas. At present Angren and Novo-Angren PS are located exactly at the beds of this natural fuel, whilst still only natural gas and mazut are used for electricity production. Re-orientation of these generating powers from one kind of fuel to another requires significant investments, experts say.

Source: Trend capital

There is a growing number of formal cooperation programmes to renew trade, transit, investment and tourism in Central Asia and along the ancient Silk Road

Figure II.1. Central Asia



Some investors thought that the excellent location could enable Uzbekistan to compete with China in exporting manufactured goods and niche agricultural products to Europe provided that technologies are modernized, storage services enhanced, and transportation improved

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

Commonwealth of Independent States (CIS)

An agreement creating a free trade zone within the CIS was signed in 1994 to regulate trade and economic relations and to establish a free trade regime between member countries. The CIS member states are the main trade partners of Uzbekistan. Trade in commodities with the CIS countries accounted for more than 49% of Uzbekistan's total trade in commodities in 2007. Uzbekistan has signed bilateral free trade agreements with 10 out of the 11 CIS countries:

1. Republic of Georgia
2. Republic of Belarus
3. Republic of Kazakhstan
4. Kyrgyz Republic
5. Republic of Moldova
6. Russian Federation
7. Turkmenistan
8. Ukraine
9. Tajikistan
10. Azerbaijan

According to bilateral agreements the parties do not apply customs duties, taxes and charges or quantitative restrictions to the exports and/or imports of goods, originating from the customs territory of one country and designated to the customs territory of another country. Exceptions to the given free trade regime are contained in a mutually agreed list of goods formalized by protocols which are part of the corresponding free trade agreements. Also in accordance with these agreements signatory countries grant each other «national treatment», i.e. they do not directly or indirectly impose duties and taxes on the goods of other countries

that exceed the corresponding taxes and fees that are applied to the like goods domestically produced or to the goods originating from the third countries.

Box II.6. Comparative advantages of Central Asia

Uzbekistan is the largest country in Central Asia in terms of population size. The region is characterized not only by educated and well-trained people, but also by rich mineral resources. The other feature of this region is a free trade zone for virtually all goods, which goes even beyond the region to the whole CIS market. Moreover, the peoples of the region have very close social and cultural values, religion and language since they were part of a single territory in the past.

These, along with the other attractive factors, provide opportunities to efficiently allocate productive and marketing capacities in the Central Asian region making use of it as common regional brand. The above features also mean less than usual business costs.

Another advantage of the CA region is that it shares borders with the largest Eurasian markets - Russia and China. CA states enjoy growing trade and economic ties, promoted by intergovernmental arrangements, political partnerships and strategic relations. Economic cooperation is being strengthened within the Shanghai Cooperation Organization which has proved to be effective in promoting dialogue among the CA states, Russia and China.

Central Asia

After the disintegration of the former Soviet Union in 1991, the Central Asian countries, including Kazakhstan, Kyrgyz Republic and Tajikistan have embarked upon market reforms. Together the countries of Central Asia form a market of 60 million people.

Uzbekistan occupies a central position in the region and offers not only economic and political stability, but also the largest internal market of the five countries. Thus, a number of foreign investors have chosen it as their regional head office.

Box II.7. Afghanistan as emerging source of demand

Despite ongoing political instability, there are some positive trends in the Afghan economy. Its economic growth was 17% in 2006 and its annual GDP per capita doubled since 2002 reaching USD 355. The Afghan Government is allocating more of its national budget to the most important sectors for national development. Given their geographical proximity, transport links and common cultural traditions, Uzbekistan could play an increasing role in Afghan reconstruction and economic development. Despite low customs duties (5.3%), trade turnover between the two countries was only USD 171 million in 2006 indicating that there is much potential for improvement. Both countries are eager to increase their economic cooperation. During his visit to Uzbekistan, the Afghan Minister of Foreign Affairs stated that his country wanted the collaboration of Uzbekistan in the reconstruction of the Afghan economy and infrastructure, in particular, in the construction and maintenance of roads and railroads, in mining and in education and the exchange of specialists.

Shanghai Cooperation Organization (SCO)

The declaration on the establishment of the SCO, signed on 15th June 2001, includes China, Kazakhstan, the Kyrgyz Republic, the Russian Federation, Tajikistan and Uzbekistan. The main objectives of the organization are the strengthening of mutual trust and friendship and encouraging effective

cooperation between countries in the political, trade, economic, scientific, technical, cultural, educational, energy, transport, and ecological spheres. This includes joint efforts to maintain and ensure peace, security and stability in the region. The SCO group ranks after the CIS in its importance for trade for Uzbekistan. In 2007 trade with SCO members accounted for 45% of total Uzbek trade.

Uzbekistan has signed an agreement with the People's Republic of China on the provision of most-favored-nation treatment. The treatment requires the application of MFN customs duties to the goods, originating in China and imported to Uzbekistan, and vice versa. Exports from Uzbekistan to the People's Republic of China accounted for 8% of exports to the SCO countries in 2007, imports accounted for 17% of imports from the SCO countries.

Uzbekistan also has bilateral agreements on free trade with all SCO members, except for People's Republic of China.

Box II.8. Free Industrial and Economic Zone in Uzbekistan

In December 2008 President issued a decree on setting up free industrial and economic zone (FIEZ) in Navoi region for 30 years period with possibility of further extension. The key designation is manufacturing of high-tech products, competitive and exportable, through introduction of modern equipment and machinery, as well as innovative technologies. FIEZ stipulates special customs, foreign currency and tax regimes, simplified procedures for entering, staying and leaving the country, receiving licenses and permits. Coordination and operational management of activities will be entrusted to the Administrative Council, set up of state agencies' representatives, and Directorate, to be designated on a competitive basis from international management companies.

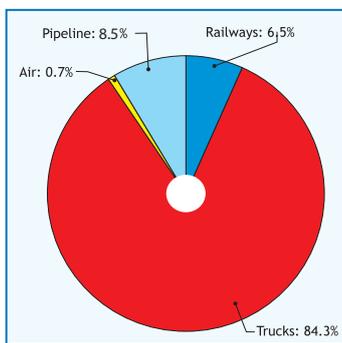
Government plans that several other special economic zones will be created within the territories of three neighboring regions (Samarkand, Navoi and Bukhara). UNDP, within its joint project with the Government, has conducted the policy research in this area.



Regarding infrastructure, progress has been outstanding in telecommunications and roads but there is still much room for improvement

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

Figure II.2. Transport by type (2007)



Source: State Statistics Committee, 2008

2.4 Infrastructure

2.4.1 Transport

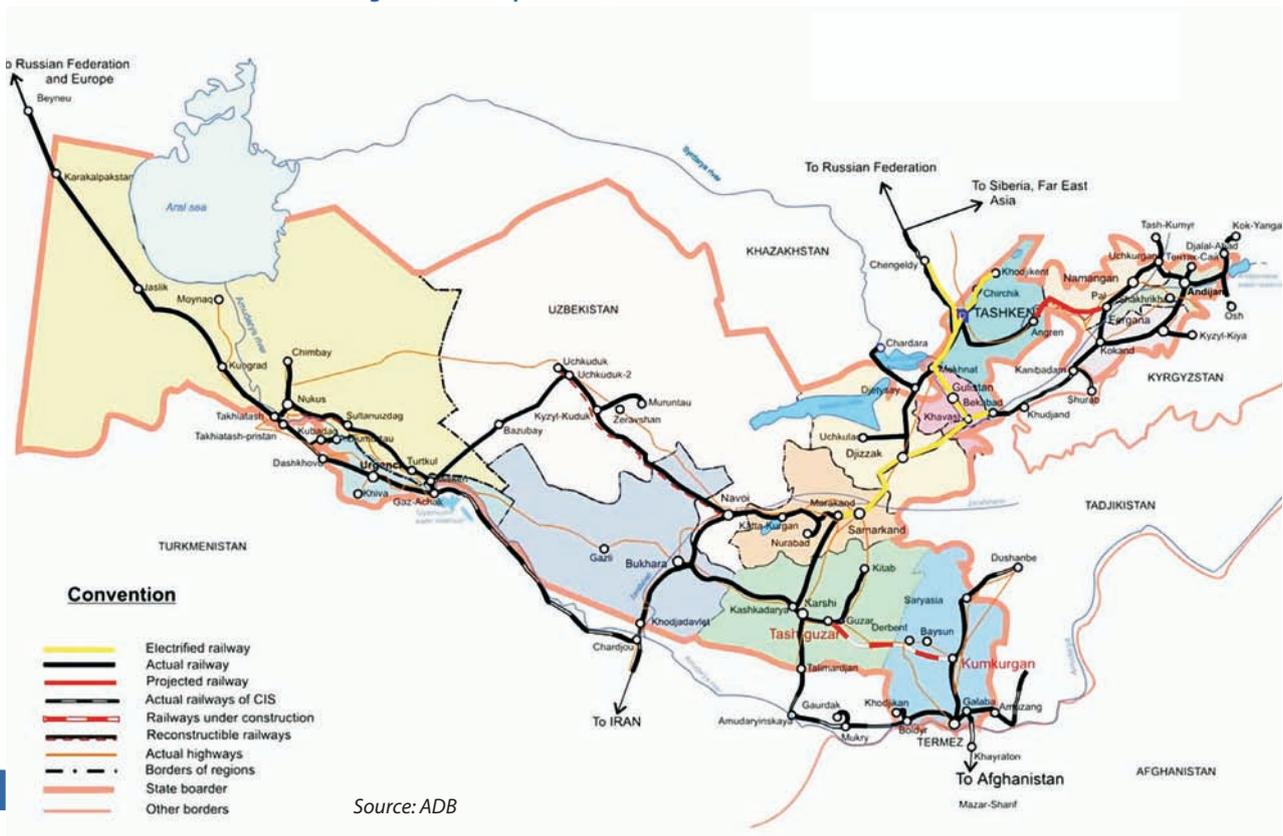
Uzbekistan has a relatively good transport infrastructure ensuring that investors have access to local, regional and international destinations. The transport infrastructure provides secure and efficient freight transportation in all directions both within the country and beyond its territory. The total volume of goods shipped in 2007 was 888.8 million tons (79 billion freight ton-kilometers). Out of this 84% went by truck, 8.5% - by pipeline, and 6.5% - by railway. Air transport accounted for a very small portion of all the goods transported (see Figure II.2).

Railway transport

The improvement and extension of railway transport is one of the country's priorities. The State Joint Stock Railway Company "O'zbekiston Temir Yo'llari" is the provider of railway transportation services. The company has its headquarters in Tashkent and five branches in the largest regions of the country: Fergana, Bukhara, Priaralsk (Karakalpakstan), Karshi and Khorezm. There are 244 stations, 183 of which receive and dispatch cargo. The total operating length of the railway system is about 3,641 km, with a capacity to carry over 200 million tons annually. Freight travels at speed up to 90 km/h and passengers - up to 120 km/h. Uzbekistan is favorably located in CA region in terms of availability of transport infrastructure for exporting and importing goods from CA and CIS countries. In 2007 14.3% of total goods exported or 6.4 million tons went by rail; however for exports to CIS countries rail accounted for around 94% of shipping volume.

The railway lines connect the capital of Uzbekistan with all the regional centers throughout the country, as well as with cities in CIS states and non-CIS countries. The freight transported to Europe and western territory of the Russian Federation goes through the territory of the Republic of Karakalpakstan to Kazakhstan, Beineu station. The freight transported to Turkmenistan, Iran and the Middle East goes through the southern regions of Uzbekistan

Figure II.3. Transport routes



Source: ADB

(Bukhara and Kashkadarya regions). The freight transported to Kyrgyzstan and the Chinese People's Republic goes through the territory of Fergana valley; freight transported to Siberia and Central Kazakhstan goes through Tashkent to the border station Chingeldy.

The main Eurasian transport corridors are:

- Northern corridor – Tashkent-Riga – 4,008 km
- Northwest corridor – Tashkent-Brest – 4,249 km
- Central corridor “Europe-Caucasus-Asia”- Tashkent-Aktau-Poti – 2,309 km; Tashkent-Farab-Poti – 2,733 km
- Southern corridor – Tashkent-Bandar-Abbas – 3,617 km
- Eastern corridor – Tashkent – Lianyung 4,550 km
- Southeast corridor – Tashkent-Nahodka – 8,701 km

The following railway transport development projects are underway:

- Construction of Uchkuduk-Nukus and Guzar-Kumkurgan railroads will allow cargo to avoid transit via Turkmenistan and therefore considerably cut hard currency costs when shipping local goods to Surkhandarya, Khorezm and Karakalpakstan as well as export-import operations to the North and West.
- The construction of the Angren-Pap route (beyond the borders of Tajikistan) will cut hard currency expenses when shipping locally to Fergana Valley.
- Construction and reconstruction of railway Uzbekistan-Kyrgyzstan-China. Based on the agreements between Uzbekistan, Kyrgyzstan and China, these three countries have started working on this route. The route will become a continuation of the TRACEKA corridor and become a short connection between Asian and Pacific countries and Middle East and Europe.

Motor transport

The total length of motorways is 183,900 km, out of which 42,500 km are roads of general use, including 2,200 km of roads of the first category (5.2%). Over 80% of the motor ways have hard surfaces. Motor ways connect Uzbekistan directly with the other Central Asian states. Uzbekistan has been actively reconstructing old motor ways and constructing new ones. During 1991-2005, 2,143 km of roads were constructed and reconstructed, 690 bridges and over-passes were put into use or repaired. “Uzvneshtrans” and “O’rta Osiyo Trans” are the largest companies engaged in transportation of goods to external markets. “Uzavtotrans” is the largest motor transport company which handles 85% of the total volume of passenger transportation and 50% of cargo transportation within the country. About two million passengers and over 212 million tons of cargo are delivered by several “Uzavtotrans” enterprises. In December 2007, ADB approved an ordinary capital resources (OCR) loan of \$75.3 million for the CAREC Regional Road Project which will assist the Government to develop strategic international highways and improve road sustainability in Uzbekistan.

Air Transport

The airport network of Uzbekistan connects the cities within the country as well as with foreign countries. National Airline Company “O’zbekiston Havo Yo’llari” has 12 airports in its network. Airports in Tashkent, Samarkand, Bukhara, Urgench, Termez have international status. In the internal market NAC “O’zbekiston Havo Yo’llari” is the only national carrier for passenger transport, whereas there are ten international airlines for international travel. About 90% of all international air traffic of NAC “O’zbekiston Havo Yo’llari” is handled by 16 new aircraft purchased from major international manufacturers, including 10 from Boeing, 3 from Airbus, and 3 mid-flight distance RJ-85s. Recently, the company has signed contract with Boeing and Airbus Industry on purchase of new airplanes: by 2014 company is planning to put into operation two Boeing 787-8 Dreamliners and six A-320-200. There are over 43 regular flights from Tashkent to Europe, Asia, and America, which make Uzbek airports some of the busiest for international air travel in Central Asia.

Most of the freight shipped by air is handled by IL-76 aircraft produced by the Tashkent-based aircraft plant “TAPOICH”.

Many investors think that given well - trained specialists, available productive capacities and its geographical location, the country could become the air hub between Europe and Asia. Further modernization of the airports and the improvement of cargo and passenger transportation services is needed.

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007



Highways in Tashkent
© Uzexpocenter

There are over 43 regular flights from Tashkent to Europe, Asia, and America, which make Uzbek airports some of the busiest for international air travel in Central Asia

Box II.8. Construction of the new international logistics hub

In 2008 Uzbekistan Airways and Korean Air inked the memorandum of understanding in which two sides have drafted a plan on construction and operation of the international center of logistics in Navoi Airport. The first step will be in a short period of time to establish domestic and foreign routes through the airport. Later, it is planned to turn the airport into a center of regional cargo processing as well as goods and services distribution.

Navoi Airport was chosen due to several advantages over other locations: primarily, it enjoys good geographic location at the crossroads of air transportation between Europe and Asia. At the same time, the international transport corridor, international motor highway, and transcontinental railroad are located at the vicinity of the airport. Besides, the Navoi region, which will soon become a special economic zone, concentrates a large industrial sector of Uzbekistan with big exports potential.

Source: Uzinfoinvest

2.4.2 Telecommunications

In terms of infrastructure development, the telecommunications sector has seen the most rapid development. The telecommunication sector is of critical importance both for communications and for the transfer of information. The volume of information transferred world wide is doubling every two to three years. The more rapidly Uzbekistan

upgrades its telecommunications sector, the more completely it will integrate into the global economy and put an end to the isolation it has endured since the demise of the Silk Road.

The creation of a modern telecommunications infrastructure is considered as one of the most important factors increasing business activity and transferring knowledge. Uzbekistan has been implementing concepts of e-trade and e-government as a result of rapid growth in the telecommunications sector. Government has elaborated a program for telecommunications development and undertook steps to reform JSC Uzbektelekom system.

The telecommunications industry is regulated by the Agency on Communications and Information (UzACI), under the laws "On telecommunications" (1999, 2004, 2005, 2006), "On mail service" (2000), "On communications" (1992, 1997, 2000, 2003) and "On radio frequency spectrum" (1998, 2003). Telecommunications services must be licensed by UzACI according to the laws "On telecommunications" and "On licensing of individual types of activity" (2000, 2002, 2006). The following telecommunication services must be licensed:

- local networks
- inter-city networks
- international networks



TV tower in Tashkent
© Uzexpocenter

Table II.5. Main players in the telecommunication market (2007)

Type of service	Number of operators	Operators	Additional information
Local fixed line communications	4	JSC Uzbektelekom, JV Buzton JV East Telecom JV Unitech	More than 90% of services are rendered by JSC Uzbektelekom
Inter-city communications	3	JSC Uzbektelekom, JV Buzton JV East Telecom	More than 90% of services are rendered by JSC Uzbektelekom
International communications	1	JSC Uzbektelekom	
Mobile communications	5	MTS-Uzbekistan (GSM), Beeline (GSM), Ucell (GSM), Perfectum Mobile (CDMA), Uzbektelekom Mobile (CDMA)	Rapidly growing market, at the consolidation stage. More than 50% of the market is controlled by MTS-Uzbekistan which is owned by Russian MTS
Internet	829	UzNet, Sharq-Telecom, Sarkor Telecom, Platinum Connect, Ars-Inform, GlobalNet, Albatros, Dostlink and others	Rapidly growing market with growing competition
Data transfer	5	UzNet, JV Buzton, East Telecom, Sharq-Telecom, Sarkor Telecom	Competition is weak

Source: UzACI

- mobile communication networks
- personal radio calling networks
- data transfer networks
- television and radio broadcasting networks.

Licences are given for the period of up to 15 years, but not less than 5 years. An individual licence which is given for the first time cannot exceed 5 years.

Fixed line communications

The density of fixed line communications in Uzbekistan is small relative to the other countries of Central Asia and the CIS. By July 2008, the penetration rate for fixed line communications in Uzbekistan was 6.7 phones per 100 people.

The dominant market player for fixed lines is JSC Uzbektelekom. Local fixed line communication services are undertaken almost entirely by the branches of JSC Uzbektelekom which are present in all regions of Uzbekistan. Alternative providers include two operators – JV Buzton and JV East Telecom, in which JSC Uzbektelekom owns 43.52% and 15% equity stakes respectively. The network of alternative operators covers mostly Tashkent city.

Competition in inter-city and international communications is very low because JSC Uzbektelekom owns the national telecommunication infrastructure. Operators and providers of international communications, together with JSC Uzbektelekom are JV East Telecom, JV Buzton, JV Sharq-Telecom, JV Unitech, Oxygen Networks which offer services via pre-paid calling cards. The major foreign investors in the fixed line communications are Vimpelkom (Russia), KTC (Korea), Sumitomo Corp. (Japan).

Mobile communications market

As in many other parts of the world where fixed line density is low, this deficiency is being remedied by mobile phones. Mobile phone service is available in all of Uzbekistan. Mobile communications have become more affordable as mobile operators lowered prices in light of the competition. Hence the number of subscribers increased nearly ten times within last 3-4 years from 1.15 million in 2005 to 10 million in September 2008. According to the investment attractiveness of mobile communication market rating, published by Altimo, Uzbekistan is among top ten countries with highest "Mobile communication development index". It is expected that by the end of 2008 the number of subscribers will reach 12 million people. Major mobile operators are Uzdunrobita which provides its services under the trademark MTS and controls about 49% of the market, and Unitel which works under the trademark Beeline and controls about 31% of the market. Obviously, there is room for foreign investment in this sector.

Internet and data transfer services market

Internet services are growing rapidly. 829 enterprises provided Internet access by July 2008. The internet penetration rate was 81 user accounts per 1000 people (2.21 million users) as of the first half of 2008. The main providers are JV Sarkor Telecom, JV Sharq Telecom, JV Buzton, Ars-Inform, and affiliates of JSC Uzbektelekom – UzNet and TShTT.



Telecommunications
© Uzexpocenter

The number of mobile subscribers increased from 1.15 million in 2005 to 10 million by September 2008

Box II.9. New technologies in telecommunications

Super iMAX Company under the EVO trademark announced about the commercial launch at the mobile market of Uzbekistan. The company was established in 2007 with participation of Korea Telecom Corporation, which acts as the investor and the operator and Japanese Sumitomo Corporation as the investor.

EVO is one of the first operators of the mobile network WiMAX of wave-2 in the world and has all licenses to render respective telecommunication services on the territory of Uzbekistan. These services are based on the technologies of broadband wireless access of fixed and mobile WiMAX.

2.4.3 Real estate and utilities

Real estate

The real estate market of Uzbekistan is becoming more and more attractive to local as well as to foreign investors. The rural-urban migration and the entrance of foreign companies and international organizations have increased the demand for offices and apartments. Given the limited number of commercial properties and the limited housing stock, prices have risen dramatically.

The average annual price for a one-room apartment was USD 243 for 1 sq.m. in June of 2006, by the end of the year this price doubled – USD 447 for 1 sq.m.

Avesta real-estate analysts estimate that there are about 100,000 square meters of office space available in the better business centers of Tashkent. These premises are rented mainly by international organizations, as well as companies with foreign investment. The rental for these

premises ranges from USD 150 to 350 per square meter per year. There is little price competition between the A-class business centers and since the start of 2006 most of them were almost fully occupied. Currently there are two large-scale business centers have

Box II.10. Real estate market

The Uzbek real estate market in 2006 displayed strong and healthy growth. Real estate prices in Tashkent are still lagging behind by a wide margin that of Almaty and Moscow. Though, the situation is changing rapidly, prices are growing fast under the pressure of booming demand from local and international investors. Tashkent, as the country's capital, dominates in attracting real estate investment from neighboring countries.

"Real Estate Market: Tashkent city profile", NOKA Group, July 2006

been recently built in the center of Tashkent – the "Poytaht" business center and "Bank Land", which should increase the amount of available office space in the market. The occupancy rate for the business centers ranges from 60% to 80%. The well-known office sites are listed in the Table II.6.

The majority of local companies prefer to rent less costly offices offered by federal and municipal organizations, mostly without renovation, or to locate their offices in the remodeled apartments along the main commercial routes.

The remodeled private houses offer some advantages over business centers in that they sometimes have better services, are in quieter districts and are less expensive. This is the case for the district near "Grand Mir" Hotel where there are many such offices in residential buildings.

Table II.6. Business centers in Tashkent (2008)

Name of the complex	Address	Occupancy,%	Tenants
International Business Center	Amir Timur, str., 101	60	World Bank, IFC, JICA, Siemens, Zarubezhneftegaz, Soyuzneftegaz, Parex, Western Union
Uzbekistan Banking Association Business Center	Khodjaev str, 1	100	ADB, LUKOIL, Baraka Leasing, Uzbekistan Banking Association
International Banking and Financial Center	Turab tula str, 1	80	EBRD, Commerzbank, J.P.Morgan, Credit Suisse, Chadbourne & Park, Uzbekleasing,
Inconel	Pushkin str, 75	100	Ernst&Young, Deloitte&Touche, HP, Xerox, Tetra Pak
Poytaht Business Center	Rashidov str.	n/a	Eurasia Capital Fund
Business complexes on Afrosiab str.	Afrosiab str.	80	Gideon Richter, TNT, ABB, ITE
Uzincomcenter	Amir Temur str., 107A	90	Unitech, Business Partner newspaper

Source: Avesta Investment Group

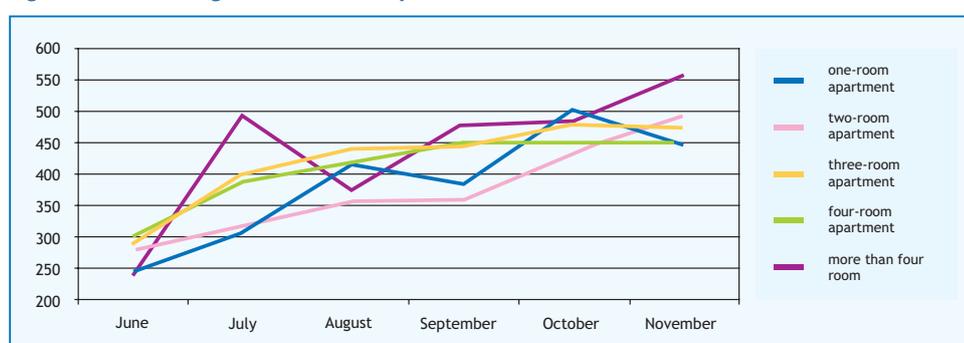
Type of real estate	USD/ m ²
Uzbekistan Banking Association Business Center	300-350
International Business Center	250
Inconel	250
International Banking and Financial Center	250
Poytaht Business Center	250
UzIncomcenter	100-150
Former municipal enterprises	20 – 75
Other non-residential premises	50 – 100

Source: Avesta Investment Group



Poytaht Business Center
Economic Review Magazine

Figure II.4. The average 2006 rent for 1 sq.m. in Tashkent (USD)



Source: Avesta Investment Group, June-November 2006

Location	USD/m ²
Darkhan	120 – 150
Kunaev str.	120 – 150
Central Department Store district	120 – 150
Usman Nosir str.	120 – 150
S. Azimov str.	100 – 130
Bobur Str.	100 – 130
A. Navoi, Sharizab str,	100 – 130
Buyuk Ipak Yo'li metro station	60 – 100
Ring-road	45 – 70
Chilanzar	45 – 70
Sergeli	30 – 50

Source: Avesta Investment Group

All considered that Uzbekistan has a relatively good business infrastructure. However, the area where most investors wanted improvements was in public utilities: gas, water, electricity. Prices in these utilities are very competitive; however, problems with access to them and their reliability still exist

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

Water supply

Water supply for enterprises is provided by contract with the state water-supply enterprise "Suvsoz". The price for water supply is set together with the local authorities. The current prices for commercial enterprises in Tashkent city are presented in the Table II.9.

Locational advantages



Gas pipelines
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Table II.9. Water supply prices for commercial enterprises, Tashkent city (2008)

Type of service	Price (UZS)	Price (USD)
1 Water supply	UZS 109 for 1 liter of water consumed	USD 0.08 for 1 liter of water consumed
2 Sewage	UZS 69 for 1 liter of water discharged	USD 0.05 for 1 liter of water discharged
3 Heating	UZS 15,648 for 1 gCal of energy used	USD 11.77 for 1gCal of energy used

Source: Suvsoz

Electricity supply

The price per kWh is set by state controlled JSC "Uzbekenergo" for ten groups of consumers divided by type of activity.

Table II.10. Price per kWh for different enterprises & individuals (2008)

Group	Type of enterprise	Tariff rate (UZS)	Tariff rate (USD equivalent)
1	Industrial enterprises and consumers, capacity – 750 kW and more	Two-part tariff: Price for 1 kW at maximum capacity – UZS 100,000 a year* Price for 1 kW of electric power consumed – UZS 47.55	Two-part tariff: Price for 1 kW at maximum capacity – USD 75.19 a year* Price for 1 kW of electric power consumed – USD 0.036
2	Industrial enterprises and consumers, capacity – up to 750 kW	UZS 60.40 for 1 kWh	USD 0.045 for 1 kWh
3	Agricultural enterprises including pumping stations, financed from the budget	UZS 60.40 for 1 kWh	USD 0.045 for 1 kWh
4	Electrified railway and municipal transport (electric traction)	UZS 60.40 for 1 kWh	USD 0.045 for 1 kWh
5	Non-industrial consumers, budget organizations, municipal lighting	UZS 60.40 for 1 kWh	USD 0.045 for 1 kWh
6	Trade, service organizations, cafés and restaurants	UZS 62.00 for 1 kWh	USD 0.047 for 1 kWh
7	Local population, residences, houses Houses equipped with electric ovens	UZS 43.70 for 1 kWh UZS 30.20 for 1 kWh	USD 0.033 for 1 kWh USD 0.023 for 1 kWh
8	Electric power used for heating, hot water supply, and air conditioning	UZS 60.40 for 1 kWh	USD 0.045 for 1 kWh
9	Advertising and illumination	UZS 110.00 for 1 kWh	USD 0.083 for 1 kWh
10	Power-system needs	UZS 50.40 for 1 kWh	USD 0.038 for 1 kWh

Source: Energosbit

*Including VAT, USD 1 - UZS 1,330.00

Gas supply

JSC "Uztransgaz" is the sole distributor of gas in Uzbekistan. The gas-transport system includes over 13,000 km. of gas pipeline, 24 compressor stations, 310 gas distribution stations, 3 underground gas storage facilities, aggregate capacity of 4.5 bln cubic meters, and 250 gas-pumping stations. Gas to residential and commercial users is distributed through its regional and local gas supply companies. The wholesale price for internal sales of gas is UZS 41,400 for 1,000 m³ (about USD 33) including VAT. Starting from 2009 Uzbekistan has switched to the market prices for exports of gas to Gazprom previously exported by the fixed price of USD 165 for 1000 m³.

CHAPTER 3

FINANCIAL INFRASTRUCTURE



CHAPTER 3

FINANCIAL INFRASTRUCTURE

3.1 Banking

As in most other countries, Uzbekistan has a two-tier banking system consisting of the Central Bank and the commercial banks and other financial institutions such as credit unions and microfinance institutions.

Box III.1. Reform of the banking sector

The banking sector is undergoing structural changes and the prudential ratios exceed minimum standards. Spurred by legal reforms, banks are developing their business in consumer lending, real estate, and SME financing. Consequently, there has been some move to more local currency and longer-term lending to private sector. Banks have also been active in channeling remittances into Uzbekistan. According to official data, banks' risk-weighted capital adequacy ratios are well above the minimum requirement and non-performing loans are declining. Solvency ratios seem robust to exchange rate shocks and a rise in non-performing loans. However, the strength of banks' balance sheets partly reflects the large proportion of government-guaranteed loans, which carry a zero risk weight. With the government no longer issuing guarantees for loans and foreign funding, the banking system will need to manage its balance sheets more conventionally in the future. In this context, the authorities recently increased the minimum capital requirements from US\$5 million to €5 million.

IMF Staff Report for the 2006 Article IV Consultation, 23 January 2007

Some recent developments have been promising. Minimum charter capital requirement for new commercial banks was raised from US\$5 million to €5 million; those banks that did not satisfy the new limit had to augment their capital, partly through the stock market. Government-guaranteed loans are on the decline and on-lending of foreign credit lines has fallen over time, lowering foreign currency exposure of domestic banks. Nonperforming loans have stayed stable as share of total lending.

Authorities have recently allowed foreign exchange transactions in euros to help develop the foreign exchange market and plan to continue increasing bank capitalization by 20 percent annually over the next few years, sell 51 percent of Asaka Bank to a strategic partner, corporatize the National Bank of Uzbekistan, and implement by 2010 BASEL II standards.

IMF Staff Report for the 2008 Article IV Consultation, 25 June 2008

The Central Bank implements monetary policy, manages the financial system and monitors the commercial banks' activities. The distinguishing feature of the Uzbek banking system is the relatively small number of banks in comparison with other CIS states. One of the main reasons for this is the tough position of the Central Bank regarding the issue of licensing.

Uzbek legislation divides banks into the following categories:

- state-owned bank – state directly owns more than 50% of equity (generally held or managed by State Property Committee or Ministry of Finance)
- private bank – individuals own at least 50% of equity; no state ownership
- bank with participation of foreign capital – foreign shareholders own at least 30% of equity
- joint-stock commercial bank (JSCB) – banks in which the state share is less than 50%, the private sector share is less than

50% and the foreign-owned share is less than 30%.

Minimum charter capital for banks is increased starting from 1 January 2008 to be set at 5 million Euro for commercial banks, and 2.5 million Euro – for private banks.

BANKING SYSTEM AT A GLANCE

Main indicators (July 2008)

Total 29 banks. Out of them:

- state owned – 3
- joint-stock commercial – 10
- private commercial – 11
- with foreign investments – 5

Total assets – USD 8.45 billion (38% of GDP)

Total capital – USD 1.26 billion (5.7% of GDP)

Amount of loans to the real sector – USD 3.8 billion (17.1% of GDP)

Source: Central Bank of Uzbekistan



Headquarters of National Bank of Uzbekistan

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The five largest banks, National Bank for Foreign Economic Activity (NBU), Asaka Bank, Pakhta Bank, Uzpromstroybank and Ipoteka bank account for 80% of bank assets. The foreign banks operating in the country are Royal Bank of Scotland Uzbekistan (joint venture among ABN

AMRO Bank (Netherlands), NBU, IFC and EBRD), UzKDB Bank (Uzbek-Korean joint venture bank), Uzbek Turkish Bank, joint Uzbek-German Savdogar Bank, and a subsidiary of Saderat Bank (Iran).

The banking sector of Uzbekistan is one of the most attractive sectors for large foreign investors. The two largest banks in the country currently controlled by the Government - the NBU and the Asaka Bank are expected to be privatized by 2009. The auction for a 51% stake in Asaka Bank is expected to take place in 2009.

Despite the dynamic growth of the banking sector in the past few years, Uzbek banks have been unable to fully service the financing needs of local enterprises (Figure I.3). Latest Avesta research shows that the most significant source of enterprise financing was their own internal funds. Banks currently do not play an important role in financing enterprises as their share in total enterprise financing ranges from 3 to 5%. There is significant potential for growth in business loans if the banking sector can attract

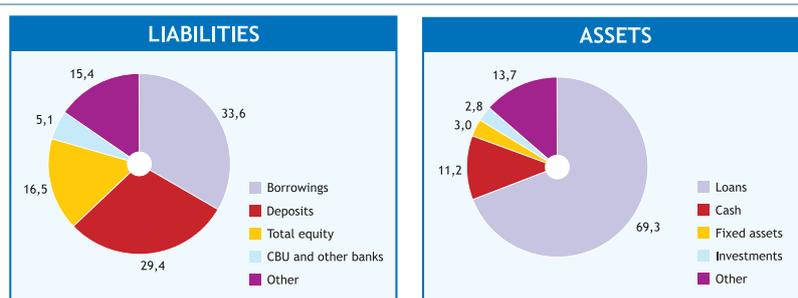
Figure III.1. Total assets of Uzbek banks (USD million)



Source: Central Bank of Uzbekistan

The banking sector of Uzbekistan is one of the most attractive sectors for large foreign investors

Figure III.2. The structure of bank assets and liabilities (2006)



Source: Central Bank of Uzbekistan, 01/04/06

additional funds in the form of deposits and equity capital. For comparison, the S&P estimates that the level of financial intermediation in most of the CIS countries in 2003 exceeded 20%.

Table III.1. Ranking of top five banks (2007)

Top 5 banks by assets, USD million	Top 5 banks by charter capital, USD million	Top 5 banks by profit, USD million
NBU 3,258.9	NBU 417.4	Uzpromstroybank 13.9
Asaka bank 1,001.5	Asaka bank 135.2	Pakhta bank 8.2
Pakhta bank 571.4	Pakhta bank 83.9	Credit Standard 4.8
Uzpromstroybank 821.7	Uzpromstroybank 68.2	Ipoteka bank 4.3
Ipoteka bank 369.9	Ipoteka bank 41.0	Hamkorbank 5.5

Source: Financial reports

Note: Exchange rate of USD set by CBU for 31 December 2007 was USD 1= UZS 1291.23

There is potential for growth in business loans if the banking sector can attract additional funds in the form of deposits and equity capital

The commercial banks also perform treasury functions for the state such as tax collection whereby the accounts of individuals/enterprises held in commercial banks are automatically debited for tax payments. The State is moving in the direction of eliminating this situation and setting up a proper treasury department. Presidential Resolution #PP-594, 28 February 2007 has set up the treasury department. However, it will take time and extensive resources to become fully operational. Among other weaknesses in the banking system is the fact that

An underdeveloped financial system is considered by investors as a major obstacle to business operations. However, they acknowledge that the Government has been taking steps recently to change the situation. Among the measures taken are efforts to create a treasury department which would free commercial banks from their atypical functions as well as steps to remove restrictions on access to cash and to enhance bank confidentiality

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007



Touch of nature
Economic Review Magazine

cash withdrawals are regulated by law and limited to salaries and business travel expenses. All other business transactions must be done by bank transfer.

The local banks extend loans to private enterprises in foreign currency from their own sources and the funds provided by credit lines opened by international financial institutions (IFIs). Banks are not able to fully meet the current demand for foreign currency loans due to limited capitalization and limited foreign currency deposits and due to the fact that the existing credit lines from IFIs are exhausted. Currently, the main source of financing in foreign currency to small enterprises is direct financing from IFIs.

Trust in the banking sector has been affected by instances of the banks' misuse of deposits, difficulties in making withdrawals and lack of transparency and client confidentiality. This lack of trust has resulted in the undercapitalization of the banking system and its inability to perform a normal intermediation role between depositors and creditors. In September 2005 a presidential decree was passed to stop banks' use of deposits for their own profit and to ensure that they fulfill their obligations to their customers and respond to their customers' inquiries and requests. The Central Bank and commercial banks were ordered to take the necessary measures to process payments from deposits and facilitate cash withdrawals. An earlier decree (June 2005, #UP-3619) stipulated that bank account transactions could be suspended only with the approval of the courts. The tax authorities retain the right to stop bank account transactions of taxpayers only in proven cases of money laundering and financing of terrorist activities.

In 2008 the new presidential decree «On additional measures to liberalize conditions and ensure guarantees of population's deposits in commercial banks» (February 2008, UP-3968) was adopted, enabling, during the period April 1, 2008 - April 1, 2009, to open individual deposit account in national or foreign currency without submitting documents confirming the source of their origin.

Resolution of the President "On measure for further development of banking system and attraction of disposable cash assets for bank transactions" of November 7, 2007, #PP-726 approves the Program for intensified reforming and development of the banking system in 2007-2010. In the framework of the program a number of measures was approved. The minimum size of the charter capital was set at EUR 5 million for commercial banks and EUR 2.5 million for private banks (January 1, 2008). Commercial banks are now eligible to conduct activity at the equity market as investment mediators, investment assets managers and investment consultants. Dividends from equity capital in commercial banks are now exempt from income tax (January 1, 2007) as well as accrued interest from legal entities' deposits and debt securities (January 1, 2008) for 3 years. Hopefully, these moves will improve depositor confidence and that this improvement combined with the privatization of large state banks will result in the increased capitalization of the banking system.

3.2 International finance

Several IFIs are taking an active part in assisting Uzbekistan to make the transition to a market economy. They include the Asian Development Bank (ADB), the Arab Coordination Group (ACG), the Islamic Development Bank (IDB), Kreditanstalt für Wiederaufbau (KfW), the World Bank Group and the European Bank for Reconstruction and Development (EBRD). They provide not only finance in the form of credit, equity, loan guarantee programmes and grants but also technical assistance and macroeconomic and microeconomic analyses in order to provide the Government with their recommendations on how to improve the regulatory and institutional framework of the economy.

European Bank for Reconstruction and Development (EBRD)

EBRD supports private investment and private business by the provision of credit lines to banks and through direct investments and loans to private businesses. Since starting its

operations in 1993 the EBRD has provided EUR 492 million for credit, trade guarantees and equity investments in enterprises. Annual investments have fluctuated between EUR 150 million and 5.3 million annually.

The EBRD has provided credit lines to finance SME projects for the total sum of USD 180 million. The first credit line was opened exclusively to NBU in 1993 for USD 60 million. The funds were used to finance 22 projects and were exhausted in 1996. The second line was opened in 1996 to four local banks for USD 120 million – NBU (USD 60 million), Asaka Bank (USD 30 million), UzPSB (USD 15 million) and Pakhta Bank (USD 15 million). Both NBU and Asaka Bank have exhausted their facilities completely, whereas the unused amounts at UzPSB and Pakhta Bank have been returned.



International Business Center
© Uzexpocenter

Since 2004 the EBRD has adopted a policy of focusing exclusively on private initiatives with no government links. It has launched new initiatives to provide debt and equity financing through the Direct Loan Facility (DLF) and the Direct Investment Facility (DIF).

Box III.2. New loans to private sector

The EBRD has provided the leading privately-owned Uzbek pharmaceutical company Jurabek Laboratories with a loan of €2.55 million to finance the acquisition of equipment for the production of various types of intravenous infusions and their packaging into modern polypropylene vials. With the new equipment Jurabek Laboratories will become the leading local producer of these types of intravenous infusions packaged in polypropylene vials, the most advanced packaging, which is currently 100 per cent imported.

World Bank Group

The World Bank assists in four areas: environment and rural development, public sector projects (water, waste management, etc.), human development and private sector development and reform. It has committed USD 654 million and disbursed over USD 400 million. In June 2008 the World Bank Group has approved a new strategy aimed at supporting government initiated Welfare Improvement Strategy. The areas covered by the strategy will include rural development, business environment improvement, public service provision development, regional cooperation. The Country Assistance Strategy will cover period of 2008-2011. Within the Rural Enterprise Support Project USD 67.9 million has been already allocated.

The International Finance Corporation has provided equity and debt financing to five private enterprises in Uzbekistan. The first project was FAYZ holding company where IFC provided USD 500,000 in equity and a loan for USD 2.4 million. The total amount of IFC financing provided to private enterprises, not including credit lines, is USD 9.53 million.

Table III.2. IFC direct investments in the private sector

Name	Industry	Year of inception	IFC equity (USD)	IFC debt (USD)
Uzbekleasing International	Leasing	1996	900 ths.	2.5 mil.
ABN Amro Bank NB Uzbekistan	Banking	1996	1 mil.	
FAYZ holding company	Furniture production	1999	500 ths.	2.4 mil.
Elmo Cheese	Food processing	2000		584 ths.
Azia Granit	Construction	2001		1.65 mil.
Total			2.4 million	7.13 million

In 2001 the IFC opened SME credit lines to four local banks: NBU (USD15 million), Asaka Bank (USD 15 million), Parvina Bank (USD 1 million), Hamkor Bank (USD 1 million). Out of these banks only Asaka Bank and Hamkor Bank have fully used up their credit lines. The IFC cancelled USD 4.1 million of the NBU line and USD 650,000 of the Parvina Bank credit line. On the other hand the IFC is currently reviewing opening an additional USD 3 million SME facility to Hamkor Bank. The IFC has undertaken an annual surveys of 3000 small and medium enterprises in order to identify obstacles to their growth. The surveys cover the deficiencies in the business climate which affect most enterprises.

Asian Development Bank (ADB)

The ADB is providing financial and technical assistance for agriculture, education, water supply and power. The first ADB credit line was opened to NBU in 1996 in the amount of USD 50 million to support rural enterprise development. In 2000 ADB opened an SME credit line for the total sum of USD 50 million to three banks – NBU, Asaka Bank and Pakhta Bank. In 2002 the ADB approved a USD 20 million for the Small and Microfinance Development project in technical assistance for the development of the credit union industry. The project extends credit lines to commercial banks for on-lending to microenterprises and to refinance credit unions. It has also taken over a World Bank project on public finance reform in which a treasury department is being established for better cash management of government operations.

Islamic Development Bank

Relations between the IDB and Uzbekistan received renewed impetus in 2004. During the year 2006 IDB has provided direct debt financing for two projects in the textile industry: USD 20 million to YaDem Textile (Tashkent region) and USD 7.6 million to Alisher Navoi International (Andijan region). In 2007 IDB participated in three projects: construction of high-voltage electric distribution lines (USD 4.7 million), construction of schools and their equipment (USD 3.6 million), and medical equipment to emergency care units (USD 9.7 million).

In addition IDB opened a credit line to NBU for USD 15 million to finance private enterprises and SMEs. All of these funds have been fully utilized. Also credit lines totaled to USD 15 mln was allocated to three government controlled banks – Asaka Bank, Uzpromstroybank and Ipoteka Bank. Currently, IDB approved USD 42 million credit line to the Government of Uzbekistan for construction of transmission line in the south of the country.

3.3 Uzbekistan Reconstruction and Development Fund

In May of 2006 the President of Uzbekistan announced plans to establish the Uzbekistan Reconstruction and Development Fund. This new institution took place of the NBU and Asaka Bank in providing new government-guaranteed loans and equity investments to strategic sectors. The fund provides debt financing for the modernization and technical upgrading of strategically important enterprises in energy, chemicals, mining, machinery and non-ferrous metallurgy sectors (See Annex for projects financed by the Fund).



Steel plant
© Uzexpocenter

The fund was created under the Cabinet of Ministers and has a legal status. The equity capital of the fund has been set at USD 1 billion and was fully funded in 2007. It is planned to be increased five times by 2010, reaching USD 5 billion. The main sources of funding are surplus earnings, received as the result of the favorable market prices for natural resources, taxes and payments from economic entities, foreign currency reserves, income from production sharing agreements, funds received from the sale of state property to foreign investors, investment income from the management of assets of the fund. The Presidential Decree exempted the fund from all types of taxes, duties and obligatory payments, except for unified social payment.

3.4 UzEmiratHolding

The holding was established in October 22, 2008 based on the agreement signed between the Government of Uzbekistan, Uzbekistan Reconstruction and Development Fund and Dubai Holding. The charter capital of UzEmiratHolding is set at USD 1.25 billion, with 80% of shares (USD 1 billion) owned by Dubai Holding and 20% (USD 250 million) by Uzbekistan Reconstruction and Development Fund.

It is planned that the company will conduct its investment activity inside the country as well as abroad and also assist in attracting foreign direct investments to Uzbekistan. The company's

investment portfolio will be formed through equity and portfolio investments, purchase of property, loan financing and other financial tools.

3.5 Credit unions and microfinance

Credit unions are relatively new players in the financial system of Uzbekistan and were established under the law "On credit unions" in April 2002. According to this law, a credit union is an organization which is created by legal entities and natural persons with the purpose of providing credit and other financial services. They serve the needs of small borrowers who are passed over by the traditional commercial banks as they find it too costly to service them.

Until recently, a credit union had the right to perform the following types of activities:

- attract deposits from its members
- give credit to its members
- conclude agreements and make other civil-legal agreements in accordance with its statutes
- receive grants and other funds
- provide consulting and information services
- set the size of fine for non-fulfillment or improper fulfillment of financial liabilities by the members of the credit union
- attract credit.

The successful activity of credit unions has led to a broadening of their activities. They can provide the following additional services:

- undertake leasing operations with their members
- create associations for purpose of coordinating their activity, protecting members' interests and undertaking of joint programs
- create affiliates.

At the beginning of 2008 there were 55 credit unions with 66,000 clients. Total assets were UZS 48 billion, total capital UZS 11.6 billion and deposits UZS 34 billion. The World Council of Credit Unions (WOCCU) has been providing technical assistance by setting standards, promoting the Association of Credit Unions and assisting it to set up a stabilization fund to guarantee deposits. Currently, 10 of the 55 credit unions are the members of the Association. The credit unions occupy an important niche between banks and microfinance organizations. Traditional banks are unable to capture the broad money in circulation because of the population's lack of trust as explained earlier. However, credit unions can more easily do this but the need for credit is enormous. Recognizing this unmet need and the viability of microcredit, the Government is promoting Microcredit Bank. However, it currently lacks the products and effective delivery systems to reach the large number of small and microenterprises, farms and households.

Microfinance has also taken root starting with a UNDP pilot project in 1998. Subsequently, 10 microfinance institutions serving 34,000 members were set up as subsidiaries of non-governmental organizations. Funding came largely from the donor community. These institutions are now in the process of being licensed under new legislation which will provide the oversight needed to safeguard the public. With regularization, they will be able to attract funds from global players such as Accion International and Finca as there is a huge underserved market estimated at USD 500 million in potential loans. USD 500 million is about one third of the broad money currently circulating outside the banking system (Borish 2007). According to UNDP research 1.9 million small and microenterprises need microloans as well as the rural labour released from the disbanded shirkats.

3.6 Leasing

Leasing started in 1993 when Uzbekistan Airlines modernized its fleet of airplanes by leasing planes from three leading manufacturers. These leases were financed by the NBU with assistance from international export agencies and financial institutions.

The credit unions occupy an important niche between banks and microfinance organizations



Boeing aircraft leased to national air company
© Uzexpocenter

Leasing is currently developing as an alternative form of financing for private enterprises. The passage of leasing legislation (1999, 2002) and the favorable tax treatment of leasing operations (2004) facilitated 2,810 leasing deals in 2004, the highest number in Central Asia. Based on this progress, the IFC set up the Central Asia Leasing Fund in 2005 for USD 30 million.

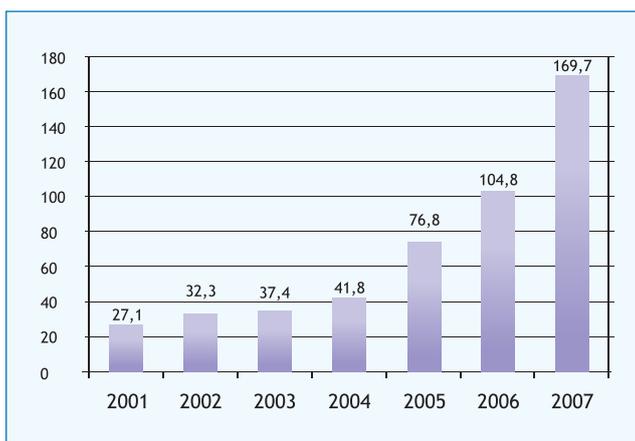
The first leasing company, Uzbekleasing International, was registered in 1995. In 1999 Parliament adopted the law "On leasing" (1999) that gave a further boost to leasing operations. The Presidential Decree issued in 2002 "On measures for further stimulation of leasing system development" freed leasing operations from considerable tax burdens. The banks quickly entered the leasing market to take advantage of the new tax incentives. Under the new legislation equipment imported for leasing purposes is free of VAT and customs duties. The leased property is exempt from property tax and leasing payments are free of VAT. The lessees can reduce their taxable base by deducting accelerated depreciation and interest payments and the latest Presidential Decree of April 2006 exempts the income from leasing operations from taxes for the next three years.

At the beginning of 2008 49 entities were engaged in leasing service provision, including 20 leasing companies, 21 commercial banks, 4 credit unions and others. The largest player in the market is state controlled Uzelkhodzmashtizh which provides equipment to the agricultural sector and is financed by the State Fund for Supporting Agricultural Machinery under the

Ministry of Finance. Despite state support it has been losing its market share. In 2007 its share of leased assets was 22% compared to 93% in 2001. Likewise its portfolio increased in 2005 by only 66 % whereas other players' portfolios grew by 170%.

Notable that companies for which the primary activity is not leasing also started to finance leases. In 2007 the total volume of lease financing reached USD 169.7 million – a sixfold increase since 2001 (Figure III.3.). Commercial banks' share was about 47.3% of total. Agricultural equipment accounts for more than a half of leased property. Leasing arrears is not significant in Uzbekistan, comprising only 1.9% of the total lease portfolio in 2004.

Figure III.3. Value of leased assets (USD million)



Source: Uzbek Association of Leasing companies

Commercial banks are financing leases directly rather than through wholly-owned subsidiaries.

Leasing companies finance their operations from their own funds and from shareholder loans (with the exception of Uzelkhodzmashtizh which is financed from a special fund under the Ministry of Finance).

According to the forecast made by the Uzbek Association of Leasing Companies the volume of leased assets is expected to grow by 20% annually, reaching UZS 209 billion in 2010.

The Swiss – IFC Central Asia Partnership (CA Partnership) has been established between the Swiss Secretariat for Economic Affairs (SECO) and the IFC Private Enterprise Partnership (PEP) to promote private sector development in Uzbekistan, the Kyrgyz Republic and Tajikistan. As a part of this program the IFC has been supporting the development of leasing in Uzbekistan.

3.7 Securities market

At the present moment the securities market functions as the facilitator for the privatization process and the secondary circulation of securities, thus leaving space for further development as the source of equity funding for enterprises. Trading activity has grown noticeably since

Securities market functions as the facilitator for the privatization process and the secondary circulation of securities, thus leaving space for further development as the source of funding for enterprises

2006 due to the increasing demand for Uzbek securities from foreign strategic and portfolio investors. The share of secondary market in the total volume of traded securities reached 67% in the first half of 2008. The largest trades by volume have taken place in banking sector (55%), financial sector (11%) and construction materials sector (12%).

SECURITIES MARKET AT A GLANCE

Main indicators (2007)

Number of investment institutions – 303:

- stock exchanges (RFB Toshkent) – 1
- OTC markets – 2
- clearing houses – 2
- intermediaries (brokerage firms) – 94
- custodians – 40
- advisors – 23
- asset management companies – 54

Number of joint-stock companies in the market – 1,925

Value of registered stocks – USD 2.5 billion, bonds – USD 54.5 million

Number of new issues: stocks – 163, corporate bonds – 2

Number of shareholders: legal entities – 44,003; individuals – 1,181,667

Annual market turnover – USD 316 million

Paid out dividends – USD 62.7 million

Source: Orient Capital Management, 2008

The total volume of all traded securities during 2007 increased by 3.5 times since 2003 reaching USD 316 million. The volume of securities offered for initial placement reached USD 212 million, while the transactions in the secondary market equaled to USD 105 million.

The securities market is regulated by the Law «On securities market», adopted on July 23, 2008, aiming to unify the existing legal acts and encourage further development of securities market.

3.8 Insurance

The insurance sector was reformed under the law “On insurance activity” (2000). The insurance sector currently has 27 insurance companies, 25 of which are non-life insurance, one is life insurance and one is a re-insurer.

By the end of 2007 the total capitalization of local insurance companies was USD 87.8 million. Most of the insurance clients are corporate businesses but there is a growing demand for consumer loans and mortgages from individuals. In 2008 approximately USD 57.3 million had been collected in premiums.

INSURANCE MARKET AT A GLANCE

Main indicators (2007)

Total number of general insurers – 27:

- state controlled - 4
- with foreign capital participation – 7
- 100% foreign-owned – 1

Life insurance – 1

Re-insurance – 1

Representative of international insurer – 1

Assistance company – 1

Total equity capital – USD 87.8 million

Collected premiums – USD 57.3 million

Fulfilled claims – USD 6.25 million

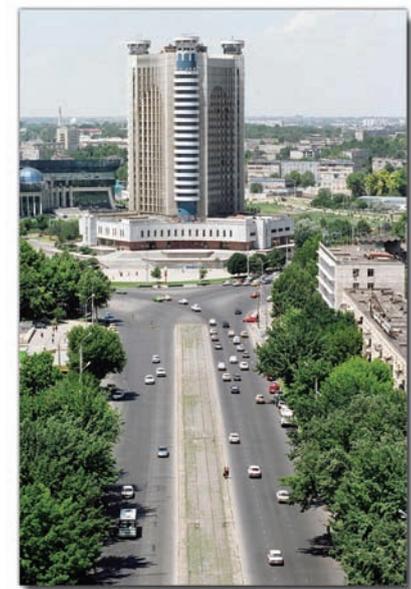
Insured liabilities – USD 20 billion

Note: All amounts have been converted at the following FX rate: USD 1 = UZS 1,263.67

Source: Avesta Investment Group, 02/2008.



Cotton mechanical harvester
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City roads in Tashkent
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Table III.3. Top 10 insurance companies based on collected premiums (2007)

#	Company	Share of collected premiums, %
1	Uzbekinvest	22.3
2	Uzagrosugurta	18.2
3	UVT Inshurans	12.9
4	Standard Insurance Group	12.9
5	Kafolat	6.6
6	ALSKOM	3.0
7	Alfa Invest	2.8
8	Asia Inshurans	2.8
9	Kapital Sugurta	2.8
10	Transinshuranse plus	1.8

Source: Avesta Investment Group, 02/2008

3.9 Auditing, accounting and consulting services

The transformation to international standards for accounting and auditing is underway. In 1998 the Ministry of Finance adopted accrual accounting and is in the process of bringing national accounting standards closer to international standards. In theory enterprises should produce two sets of accounts; one according to national accounting standards and another one according to tax rules. However, most enterprises do mostly tax accounting. Only foreign companies and those local companies with foreign investors or seeking an international listing or foreign loans use international accounting standards and have their financial statements audited. Such enterprises would have to produce three sets of financial statements; one according to national standards, one according to tax accounting rules and one according to international standards. Given the limited demand for financial statements audited according to international standards, the auditing profession is still in its early stages of development.

As of 1st November 2008 there were 131 audit organizations licensed to perform audits. This number has decreased in recent years, prompted by increasing requirements and tighter control in order to insure high quality of provided services. There were 1,155 qualified auditors. The Association of Accountants and Auditors runs training programs and is pushing for reforms in terms of standards and certification methods.

All of the "Big 4" international audit firms have representative offices in Uzbekistan including Ernst&Young, PricewaterhouseCoopers, Deloitte&Touche and KPMG. The local companies through which these companies render their services are given below.

Table III.4. Main Audit Firms

#	Company	Name of the local company
1	Ernst&Young	Ernst & Young Audit LLC
2	PricewaterhouseCoopers	PricewaterhouseCoopers affiliate audit company
3	Deloitte&Touche	Deloitte & Touche LLC
4	KPMG	Foreign enterprise KPMG LLC

The Big 4 mainly serve the foreign and large local companies such as banks. The main source of revenue for many audit companies is tax consulting.

Another reason that the present market for accounting services is underdeveloped is that outsourcing of services is not a common business practice in Uzbekistan as it is in developed economies. The firms employ their own accounting professionals to prepare the quarterly reports and interact with the State Tax Committee.

Consulting

The main spheres of consulting are legal, accounting (including tax), investment (including consulting on the securities market), production and management consulting. The consulting services market is still in a "development" phase since local enterprises do not often use consulting services, except for some specific projects (e.g. issue of corporate bonds).



Graduates of Westminster International University in Tashkent
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CHAPTER 4

BUSINESS ENVIRONMENT



CHAPTER 4

BUSINESS ENVIRONMENT



Furniture production
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4.1 Promotion of the private sector

The role and size of the private sector has grown with the gradual liberalization and privatization of the economy. 7,045 state manufacturing and social entities have been privatized in 2000-2007. Currently, the share of the private sector in GDP is 79% (including not privatized enterprises), more than 80% in industry, and almost 100% in agriculture.

Research by Avesta shows that the Government's share in the equity of joint stock companies (JSC) fell from 85.4% in 2002 to 70.1% in July 2008. Thus, there is a potential for the role of the private sector and FDI to grow in the future. The Government took steps to strengthen financial stability of enterprises of private sector by increasing the minimum statutory capital requirement for joint stock companies in 2003 and 2008 (to the equivalent of USD 50,000 and USD 400,000 respectively). The number of joint stock companies is expected to decline significantly with many changing the legal status to limited liability company (LLC).

The share of small enterprises in GDP reached 46% in 2007. Further increases in the share of small enterprises could be facilitated by improved access to raw materials and goods, the improvement of the tax administration and a further reduction of tax rates.

Table IV.1. Shareholder structure of joint stock companies (2002-2008)

	2002	2003	2004	2005	2006	2007	1H2008
Number of joint-stock companies	4,716	4,305	2,271	2,114	2,017	1,925	1,870
Total volume of outstanding shares (UZS billion)	1,895.6	1,993.6	2,217.7	2,787.3	2,996.4	3,255.8	4,210.6
Government stake (SPC)	788.0	814.1	956.5	1,014.4	1,058.6	1,144.6	1,178.8
Government stake, managed by professional organizations	202.5	295.7	228.5	451.7	533.4	583.6	881.2
State property, to be included in equity	103.8	2.0	62.0	91.8	-	-	-
Government share to be privatized, including:	469.4	492.1	497.3	766.3	744.9	682.8	1,051.7
Shares owned by employees, not yet bought	16.0	5.8	1.5	1.9	-	-	-
Government stake, blocked for other reasons	56.4	55.1	65.4	1.0	0.6	61.5	32.3
Owned by private sector and other shareholders	275.5	334.6	408.1	462.2	637.9	821.6	1,227.7

Source: Avesta Investment Group, Center for Coordination and Control over Equity Market Operations under SPC

The share of private sector in GDP is 79%

Other measures have been taken to strengthen the functioning of the market in order to promote small enterprises including abolishing the limitations on cash withdrawals from

banks, limiting state interference such as excessive reporting requirements and reducing the number of inspections. Of particular significance were measures to reduce the requirements for setting up a business such as registration and obtaining licences and permits. There is now one window for registration and a 30 day waiting period for obtaining a licence after submission of documents.

Box IV.1. Streamlining inspections

Special mention should be made of the fact that both entrepreneurs and representatives of inspection bodies agreed on the need to revise or abolish provisions whereby inspectorates may impose sanctions which can have a major impact on enterprise activities (e.g., suspension or cessation of such activities, cancellation of a lease, removal of goods from circulation, putting a bank account on hold or impounding it, imposition of severe fines, etc.)

"Business Environment in Uzbekistan as Seen by Small and Medium Enterprises", IFC Survey Results based on 2003

Most of the entrepreneurs surveyed who had undergone an inspection mentioned the positive impact of the recent Presidential Decree (#UP-3619, 14 July 2005) that is intended to give more legal protection to businesses. In accordance with the Decree's provisions, the only agency now allowed to inspect the overall financial

Licences are now granted for not less than five years and for some activities they can be granted on an indefinite basis removing the need for frequent renewals. Entrepreneurs have been given additional legal protection of their rights. For example, a licence cannot be cancelled by the issuing agency but only through a court proceeding.

The effectiveness of these reforms, in terms of improving the ease of starting and operating a business, depends on how these reforms are implemented.

Improvements in the business environment have probably been influenced by the fact that the private sector has recently acquired a voice through the Uzbek Chamber of Commerce and Industry. There have been initiatives to hold regular public-private dialogues using business forums. The Uzbek Chamber currently has more than 15,000 paying members and regularly participates in the Intergovernmental Council on Entrepreneurship as well as in bilateral discussions with various ministries. It has the right to participate as an observer in the formulation of all laws affecting entrepreneurship. It also takes part in government study tours and has benefited from dialogues held with other chambers abroad.

and business operations' of a firm is the Tax Inspectorate. If the Tax Inspectorate reveals some indication of a crime, another agency (the Prosecutor's Office) may also be engaged. Additionally, the Decree stipulates that measures such as closing a business, suspending operations and bank account transactions, and application of severe penalties may be only be applied to businesses as a result of a court order, after July 1, 2005.

Another positive development revealed by the survey was a further reduction in both the frequency of inspections per enterprise and the share of enterprises undergoing an inspection over the course of a year. Between 2001-2005, the number of inspections that businesses faced each year fell from 6.2 to 0.9, while the share of inspected SMEs decreased drastically from 89% to 22%. IFC experts estimate a potential annual effect from the Decree #UP-3619 to the SME sector of USD 21 million.

"Business Environment in Uzbekistan as Seen by Small and Medium Enterprises", IFC Survey Results based on 2005

Box IV.2. Growing activity of small businesses: increase of reinvestments

The business environment survey for 2005 confirmed the growing activity of the SME sector. Among the positive developments revealed by the survey was a higher portion of small enterprises making investments in fixed assets during the year. Although this indicator has not yet reached the highs seen in 2001-2002, the data for 2005 still demonstrate a significant growth from the deep recession in 2003... This indicator shows growing confidence of entrepreneurs in the effectiveness and stability of recent reforms... Accordingly, a number of steps to liberalize the economy taken in 2005 have contributed to entrepreneurs' willingness to invest in their businesses.

"Business Environment in Uzbekistan as Seen by Small and Medium Enterprises", IFC Survey Results based on 2005

Box IV.3. Chamber of Commerce and Industry

The Chamber of Commerce and Industry of Uzbekistan (CCI) was founded in 2004 in place of the dissolved Chamber of Commodity Producers and Entrepreneurs. CCI is the principal public institution for the support of the private sector in Uzbekistan. It unites thousands of business entities and a number of professional and sectoral associations and strives to promote a favorable business climate by organizing public-private dialogues and by engaging in policy advocacy, unbiased settlement of commercial disputes, as well as providing services to its members.

Box IV.4. Credit rating improvement

Reforms to business regulation reached record numbers this year, with Eastern Europe and Central Asia leading among world regions for a fifth consecutive year, according Doing Business 2009. According to Doing Business 2009 Report, Uzbekistan improved its ranking having jumped from 145th place in last year's report to 138th place thanks to establishing a private credit bureau and a public credit registry to share credit information among financial institutions. The credit registries will enable banks to better assess the creditworthiness of potential borrowers. These measures have significantly improved access of population to credit resources.

Doing Business 2009 (Press Release), World Bank

Table IV.2. Development of small businesses (2004-2007)

Indicators	2004	2005	2006	2007
Share of small businesses in GDP of Uzbekistan (%)	35.6	38.2	42.1	45.7
Number employed by small businesses (million)	6.0	6.7	7.3	7.8
Employment share of small businesses (%)	60.3	65.5	69.3	72.3
Number of jobs created by small businesses	392,600	434,200	431,902	469,788
Number of small enterprises per 1,000 people	9.2	10.3	11.4	15.9

Source: State Statistics Committee

4.2. Registration and licensing

According to the business community registration is no longer a problem in setting up a business

Registration

Registration procedures have been further improved by the Presidential Resolution (#PP-357,24/05/06) which simplified the pre-existing “one-window” registration system (introduced by resolution of the Cabinet of Ministers #357, 2003) by the creation of the “notification method” for most types of new enterprises. The “notification” system has eliminated the necessity of obtaining a full legal review of documents; limited denial of registration on frivolous ground and reduced the number of state bodies involved in the process. The registering body (see below) now performs some of the functions done by others such as issuance of statistics codes, seal, permit etc. Documents may be submitted in person or by mail and their number has also been reduced.

The period for the issuance of a certificate of registration has been shortened to two working days after the submission of documents. According to the business community registration is no longer a problem in setting up a business. The simplified notification procedure does not apply to enterprises involved in activities that require land plots, gas and electricity connections or licences: they fall under the earlier “one-window” registration.

The state registration of legal entities is conducted by:

- Ministry of Justice of the Republic of Uzbekistan – audit and insurance companies, stock exchanges, joint-stock companies (including state joint-stock companies and holdings) created by a decision of the President or the Cabinet of Ministers for governance in sectors of economy as well as enterprises with foreign investments, tax consulting companies and markets founded in Tashkent
- Ministry of Justice of the Republic of Karakalpakstan, departments of justice in the regions – enterprises with foreign investments, tax consulting companies and markets founded in respective regions
- Khokimiyats (governor’s office) of the districts and cities – all enterprises, including enterprises with participation of foreign capital, except for the above mentioned cases.

Registration fees:

- five minimum monthly salaries and also USD 500 – for enterprises with foreign investments
- four minimum monthly salaries – for insurance and audit firms, stock exchanges, state joint-stock companies and markets.

Fees are not paid when registering a joint-stock company created on the basis of state companies. The fee is reduced 20% for registration of an entity in mountainous regions and regions with difficult access.

The following documents should be included in the application for registration:

- two original copies of charter documents in Uzbek certified by the Uzbek notary
- document confirming the postal address of the legal entity
- bank document confirming payment of the fees for the state registration of the legal



Agricultural fields
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Figure IV.1. Procedures for state registration

Stages	Responsible parties	Actions	Consideration period
1 stage	Founders (or Chamber of Commerce and Industry, consulting firms or other authorized entities)	1. Prepare necessary documentation for state registration of entities. 2. Develop drafts of founding documents.	Under discretion of founder
2 stage	Founders or representative of founder empowered in accordance with the legislation	Submit documents to registering organ for state registration of entity.	Under discretion of founder

Stages	Responsible parties	Actions	Consideration period
3 stage	Responsible official of registering authority	Examines documents submitted for state registration of an entity.	Not more than 3 working hours
4 stage	Responsible official of registering authority	1. Gives statistical codes to the entity (industry codes). 2. Sends inquiry to state tax inspection of a district (city) on issuing identification number of taxpayer. 3. Formalize permission for producing seal and stamp.	
5 stage	Responsible official of state tax authority	1. Issues INT to an entity through centralized database of INT in real-time operation mode. 2. Enters relevant note into the centralized database of INT. 3. Sends via email or fax document on issuing INT to responsible official of registering authority.	Not more than 8 working hours
6 stage	Responsible official of registering authority	1. Enters data on state registration of entities in state register. 2. Issues certificate of state registration and other documents.	Not more than 2 working days after receiving documents
7 stage	Responsible official of registering authority	Provides data from state register and other documents to relevant authorities of public management.	During one day after conducting state registration
8 stage	Respective authorities of public management	1. Registers the entity including as a payer of insurance fees to off-budget Pension Fund, Employment Fund, Road Fund (for entities who are subject to these payments). 2. Includes the entity into the State register of enterprises.	During two days after receiving documents

entity

- certificate on the uniqueness of the legal name of the legal entity issued by the district (municipal) organs of statistics office
- sketch of the seal and stamp of the legal entity in three copies.

In addition to the above mentioned documents enterprises with foreign investments and enterprises with participation of foreign capital should provide the following:

- an extract from the national trade register of the foreign participant in the legal entity or passport if foreign participant is natural person. These documents should be legalized by the Uzbek embassy (consulate) in the home country of the foreign participant. If the foreign investor invests intellectual property into a charter fund, then the applicant should provide a report of the assessment made by an appraiser
- documents confirming that each founder has deposited to charter fund at least 30% of its share in charter capital (bank statement of the deposit of funds or customs document confirming import of property).

Licensing

Licensing activity and acquiring a license is regulated by the Law of the Republic of Uzbekistan "On licensing particular types of activity". While the law regulates fundamental rules, peculiarities of licensing in each activity are referred to other legislative and by-law acts. Licensing is conducted by various state agencies depending on the type of activity which is being licensed (see appendices for state agencies involved in licensing). There are

Box IV.5. Streamlining permit and licence procedures

Today's most pressing problem continues to be the lack of systematization in the regulatory basis of permits and approvals. The legal base still consists of a large number of completely disparate interagency administrative rulings and regulations, most of which have not been scrutinized, as required, by legal experts and are difficult for most entrepreneurs to access.

"Business Environment in Uzbekistan as Seen by Small and Medium Enterprises", IFC Survey Results based on 2003

Presidential Decree #PP-186 improves the situation in this area by reducing the list of publicly issued permits, establishing the minimum term for license validity of five years, and approving the list of types of activity licensed for an indefinite term. The survey has shown that by canceling 12 permits, 19% of the SMEs that need to obtain permits gained an opportunity to work without them. As IFC experts estimate, the economic effect from the Decree PP-186 could be at least USD 5.2 million per year.

"Business Environment in Uzbekistan as Seen by Small and Medium Enterprises", IFC Survey Results based on 2005



Saleswoman in bazaar
Economic Review Magazine

Taxation is an area where those surveyed were the most satisfied with the apparent progress. As described earlier the new Tax Code promises to reduce the burden of taxation by simplifying the rules and reducing tax levels. This is most true for the smaller businesses which will pay the unified tax payment. For the larger businesses and the investors, they will still face relatively high overall levels of taxation

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

two types of licences. Standard (simple) licences are limited to legal entities and individuals who meet the requirements imposed for carrying out the relevant activities. Individual licences are issued to legal entities and individuals based on special terms and requirements. The number of individual licences is restricted according to the area of the activity, the type of activity, and the purpose of the activity. Individual licences are issued, as a rule, on a competitive (tender) basis.

Thirteen categories of licences (audit services, medical, pharmaceutical and veterinary activities, river transportation services, manufacture of jewelry from precious metals and stones, professional activity in securities market, valuation services, insurance and insurance brokerage services, commodity exchanges, tourist services, pawnshop activity, wholesale trade services) are issued for unlimited terms and the rest should be given for not less than five years. Legislation defines the minimum and the maximum term of the licence for certain industries. Also, based on the application the licence can be issued for a specific period. To obtain a licence, the applicant should submit to the relevant licensing agency the following documents:

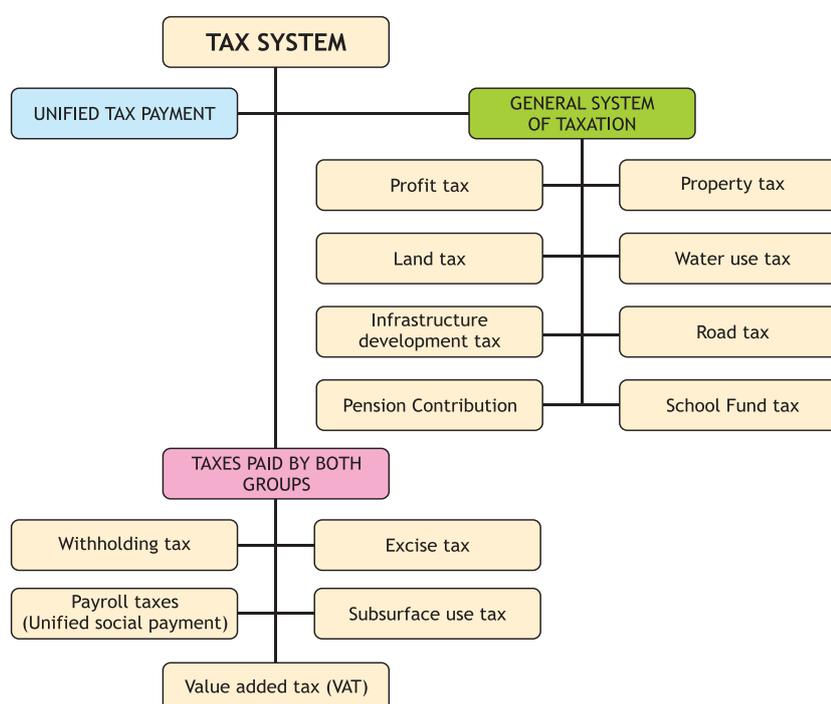
- an application with the following information: for a legal entity - name, organizational and legal form, location (postal address), name of its bank, clearing account number; for individuals - name, surname, patronymic and identity card data; and for both - category of activity, term of the specified of activity
- for legal entities - notarized copy of the certificate of state registration of the legal entity; for individuals - notarized copy of the certificate of state registration of the individual entrepreneur
- the document confirming payment of the application fee (payment stub)
- other documents confirming the ability of the applicant to meet the requirements and terms, defined under law for a license for a certain activity.

A licence can be suspended for more than 10 days only by a court order.

4.3 Taxation

The State Tax Committee was established in 1994. The Tax Code, adopted in 1997, was produced quickly and had many weaknesses and more than 310 changes and amendments had to be made over time. In addition it was very condensed and required many normative

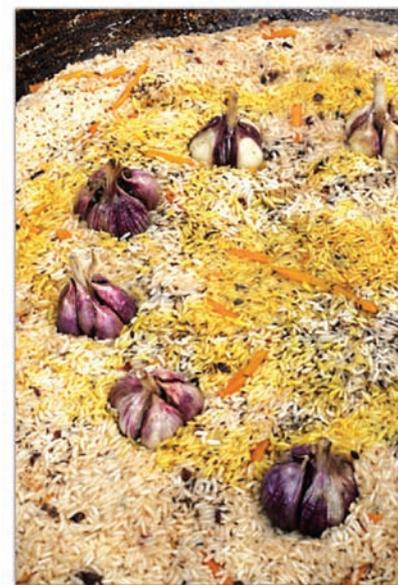
Figure IV.2. Enterprise taxation system



acts (about 1300) to allow its implementation. As a result tax legislation became unsystematic, nontransparent and burdensome to businessmen. The Tax Code has been revised; the new edition came into full effect in January 1, 2008. The new Tax Code is the main basis for the implementation of the new rules in contrast to the previous Code and has replaced the slew of additional decrees and normative acts implemented in the former tax system. It also envisages that only 16 taxes will be left in place.

The new system intends to reduce the burden on enterprises and individuals by reducing rates, eliminating some inefficient taxes, and unifying others. It also abolishes unjustified exemptions from the general tax regime in order to establish a level playing field for all enterprises. It is expected to provide for a stable tax system allowing entrepreneurs to better calculate their profits from a particular investment or venture. The new Code also makes the tax regime less punitive by eliminating six monetary sanctions and reducing the severity of nine other sanctions. For example, if a tax payer finds an error that was made in the amount of taxes payable, there is no penalty if the full amount of the tax is paid prior to the planned tax inspection. For every day of delay the Government charges 0.05% of owed taxes. The other substantial novelty is the shift of financial responsibility for tax evasion from the entity to the official responsible for the accounts including the CEO, accountant or other person.

According to a new report *Paying Taxes 2008*, launched by the World Bank, IFC, and PricewaterhouseCoopers, Uzbekistan is among reformers which made it easier to pay taxes in 2006/2007; however, the country still ranks 159 in the world in terms of ease of paying taxes out of 178.



Delicious Uzbek pilaf
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Box IV.7. Improving tax administration: new revision of the Tax Code

Within the work undertaken on the new Tax Code great attention was given to the improvement of tax administration: 1) defining priorities in off-site inspections; on the basis of such off-site inspections deciding on the necessity of conducting on site inspections; 2) defining the criteria for the inclusion of certain economic entities into the schedule of tax inspections; 3) regulation of the subject matter of each kind of tax inspection, methods and tools used during inspections and mechanisms for their application; 4) defining concrete types of liability of officials violating the tax control procedures.

Along with harmonizing tax inspections, the new draft Tax Code deals with the simplification of tax reporting procedures and the strengthening of taxpayers' rights. The draft also contains clear procedures for the interaction between state bodies and entrepreneurs in the taxation sphere, for the inspections and for appeals of decisions and actions taken by tax authorities and tax officials. These issues are of utmost importance for securing the rights of taxpayers.

UNDP Tax Administration Project, 2007

Box IV.8. Tax and treasury reforms

In recent years, the Uzbek authorities have undertaken impressive tax and treasury reforms. The authorities: (i) reduced taxes on profit and income while increasing taxes on natural resources; (ii) streamlined the tax system by reducing the number of taxes and fees and introducing a simplified taxation for SMEs; (iii) unified the regulatory framework by bringing all laws and regulations under a single comprehensive tax code in 2008; (iv) unified the accounting rules for estimating the tax base and tax payments; and (v) reduced tax exemptions and concessions. At the same time, reporting for tax purposes was simplified and the number of tax inspections reduced considerably.

IMF Staff Report for the 2006 Article IV Consultation, 25 June 2008

Unified Tax Payment Regime

The most important achievements of the 2007 tax revisions are to simplify and to reduce the tax burden for small enterprises². Small enterprises, wholesale/retail/catering enterprises, brokerages, procurement enterprises and enterprises providing services under commission contracts will pay the unified tax payment which is in lieu of: income tax, property tax, pension contribution, school fund tax, road tax (mandatory payments), water tax, land tax and infrastructure tax. The standard unified tax payment rate in 2008 was 8% of gross turnover.

² Small enterprises include micro firms with the total number of employees not more than 5-20 people and small firms with the total number of employees not more than 25-100 people depending on the sector of business.

Small enterprises retain an option to switch to the unified tax payment system or remain under the general system of taxation. To be eligible for the unified tax payment a small enterprise must apply to the local tax office with the request to register as a payer of the unified tax payment within 10 days after state registration. If it is an existing legal entity, it must apply one month before the next quarter. Otherwise it will automatically remain in the general taxation system.

The following taxes and other obligatory payments remain for those enterprises using the unified tax payment:

- a) withholding tax (applied to non-resident legal entities)
- b) VAT (for services provided by non-residents)
- c) excise tax when producing excise goods
- d) subsurface tax
- e) customs payment
- f) unified social payment
- g) state duties
- h) fees on retail trade of particular goods and services
- i) road tax (collections)



Sardoba - water reservoir: historical heritage
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Table IV.3. Rates of unified tax payments (2008)

Entities eligible for unified tax payment	Tax rates (%)
I. All small enterprises, except for:	8
Software companies (volume of software production >80%)	5
Agricultural enterprises	6
Entertainment enterprises	30
Procurement and storage enterprises and enterprises providing services under commission contracts	33
Brokerage companies in securities markets	13
Private notaries	50
II. Public catering enterprises	8
III. Wholesale/retail enterprises:	
in cities	4
in rural areas	2
in mountainous areas	1
Wholesale enterprises	5
Wholesale and retail drug-stores:	
in cities	3
in rural areas	2
in mountainous areas	1
IV. Enterprises providing gambling services	33
V. Notaries, carrying out private activity	50

General Tax Regime

Corporate income tax on legal entities³

The tax rate on taxable profits is 10%; taxable profit is based on statutory accounting profits, adjusted for specific items. The number of deductions has increased recently thus decreasing the tax base. There was reduction in corporate income tax for banks from 17% to 15%, with condition that the released money will be directed to equity fund formation. Starting from 2007 banks and other financial institutions finally were permitted to go through the same procedure of paying corporate income tax as other enterprises by deducting salaries from taxable profits.

³ Name of taxes have been standardized. For instance income tax, profit tax, tax on company's income are all named corporate income tax.

Non-residents acting via PEs are also subject to the net profits tax which is assessed at 10% on profits retained after the payment of CIT.

Value-added tax

The value-added tax (VAT) is levied on the sale of goods, works and services of legal entities. VAT is levied on imports of goods, works and services by legal entities and individuals (diplomatic entities and their personnel are zero-rated). The standard VAT rate is 20%. The tax base is generally the turnover of goods, works or services. VAT is charged to customers at the appropriate rate and paid to the authorities, net of input VAT related to production expenses or distribution costs. All exports are exempt from VAT. In addition there are certain items also exempt from VAT including:

- insurance and certain financial services
- lease payments
- imports of certain categories of technological equipment according to the officially approved list
- operations related to bank accounts, currency and securities circulation
- license fees for intellectual property
- certain medical services
- publications
- exports for hard currency
- transportation and logistics of exports.

The property tax rate is doubled for equipment not installed in due time

Small enterprises pay VAT on a voluntary basis. But in fact many continue to pay VAT because they wish to maintain good relations with their suppliers who are reluctant to exempt them from VAT. If a small enterprise pays the VAT, it is entitled to a 50% reduction in its unified tax payment.

Property tax

The property tax is imposed on enterprises and individuals. It is set at 3.5% for legal entities.

The tax is assessed on the residual value of the fixed assets adjusted for revaluation which is done annually; the residual value of intangibles, the value of overdue construction-in-progress and equipment not installed in due time. There is an exemption for newly installed technological equipment for five years. The rate is doubled for equipment not installed in due time. There is also a rate reduction for companies engaged in the production and export of goods. Property tax on enterprises-exporters, exporting products of its own production for the hard currency:

- when exports are 15-30% of total sales, the tax is reduced by 30%
- when exports are more than 30%, the tax is reduced by 50%

Also there is rate reduction for equipment financed by a foreign loan for the period of the loan not to exceed five years and for leased property for the period of the lease. All newly founded enterprises (except for reorganized ones) are exempt from property taxes for two years.

Box IV.6. Exemptions

There are numerous concessions offered to reduce the amount of enterprise taxes. Among those exemptions are:

- enterprises carrying out export activities subject to the income (profits tax) and unified tax payment get reduced tax rates and reduced property tax rates (when exports are 15-30% of total sales the tax is reduced by 30%, when exports are more than 30% the tax is reduced by 50%)
- enterprises producing certain consumer goods get reduced rates, and some exemptions from excise taxes; this includes enterprises paying the income (profits) tax as well as enterprises paying the unified tax payment
- enterprises engaging in leasing are exempt from value added, import duties on technological equipment and property taxes on leased property for the period of the lease contract (leasing payments exempted from VAT; technological equipment imported to Uzbekistan, components and accessories – from customs duty and VAT, leasing receivers - from property tax to the item to the whole period of leasing contract)
- financial institutions are exempt from certain types of taxes:
 - profits received from dividends at commercial banks are exempted from profit tax until January 1, 2010
 - deposit accounts of physical persons are exempted from all taxes and payments until 1 April 2009
 - profit of commercial banks, received from providing investment credits to local producers and directed at increase of the charter capital
 - expenses on opening mini-banks according to government programs are exempted from all taxes and payments; credit unions and microcredit organizations are exempt from income tax and unified tax payment
- taxable profits may be reduced by the amount of expenditures that qualify as “investments” less the total annual depreciation charge; relief is limited to 30 % of taxable profits
- enterprises with foreign investment (exemptions described in the section 5.4)



Delicious Uzbek grapes
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The unified social payment is distributed to the pension fund, the employment fund and the trade union federation council

Business environment

Individuals pay the tax at the rate of 0.5 %. If there is no officially valued cost of the property the value for calculation of the tax in Tashkent city and Tashkent viloyat districts is UZS 2,100,000, and in other cities and districts it is UZS 920,000.

Land tax

Legal entities and individuals who own, possess or use land plots pay the land tax. It is applied to taxpayers on the basis of fixed fees established by a presidential resolution based on the quality, location and level of water supply to each piece of land. Exemptions are given for land plots allocated for construction under the projects included in the investment program. This exemption is granted for the period of construction.

The land tax is to be calculated by legal entities as of 1 January of each year, and calculations should be filed with the local tax authority by 1 February. For 2008 the land tax ranges from UZS 2,000 to 150,000 per hectare of irrigated fertile land, UZS 400-1100 per hectare of dry land, UZS 70-300 per hectare of non-irrigated pastures and hayfields.

Water use tax

Legal entities using water in their activities and individuals using water in their entrepreneurial activities pay a water use tax in their territory of water usage. The tax is based on the total volume of water used from surface and underground sources. Water rates are set by the annual presidential resolutions. Water rates for 2008 are as follows:

- for 1 cubic meter of surface water is UZS 17.3;
- for 1 cubic meter of underground water is UZS 22.0.

Infrastructure development tax

The infrastructure tax is assessed on net profit after the payment of the corporate income tax. The maximum rate is 8%.

Taxes paid by all enterprises

Withholding tax paid by foreign investors and creditors

The withholding tax is levied on dividends, interest and royalties earned by foreign investors, except for banks. The withholding tax is deducted directly from the dividends and interest that enterprises and institutions pay to their investors or creditors.

Taxes levied on foreign entities not registered in Uzbekistan (PEs, etc)

If a foreign entity derives income from sources in Uzbekistan but does not carry on activities that lead to the creation of a taxable Uzbek permanent establishment, it becomes subject to the withholding tax levied at the source as opposed to the profits tax. This would include dividends and interest, insurance and reinsurance premiums, international transport and telecommunications, royalties, rents, lease income, management fees and other.

The foreign entity is exempt from withholding tax at the source if it is a resident of a country that has a double taxation treaty with Uzbekistan and provides proof that it paid income taxes in its home country.

Table IV.4. Withholding tax rates (2008)

Income type	Rate (%)
Dividends and interest	10
Insurance and re-insurance premiums	10
International transport and telecommunications	6
Royalties, rents, lease income, management fees, and all others	20

Value Added Tax (for services provided by non-residents)

Non-resident legal entities who chose to pay unified income tax are still subject to VAT. Works, services, rendered by non-resident of the Republic of Uzbekistan are considered as taxable transaction of the subject, receiving these works, services, if these works, services are rendered in the territory of the Republic of Uzbekistan, and are due to value added tax.

Export oriented enterprises are granted substantial tax concessions

Excise tax

The excise tax is paid by all individuals and enterprises that produce, import and sell certain products. The Government establishes the list of products subject to excise taxes and the applicable rates. Products sold for export are exempt from excise tax, except for goods specifically listed as subject to excise by the Resolution of the President.

In 2008 a calculation method of excise tax rates was changed to make it more transparent and the number of items subject to excise tax was reduced to 13 in 2008 from 19 in 2007.

	2008 rate	2007 rate
Petrol	UZS 148,000-188,000 per ton	28%
Diesel	UZS 130,000 per ton	25%
Jewellery	25% (on price excluding excise tax)	20% (on price incl. excise tax)
GM cars	29% (on price excluding excise tax)	22.5% (on price incl. excise tax)
Natural gas	25% (on price excluding excise tax)	25% (on price incl. excise tax)

Subsurface Use Tax

Legal entities and individuals involved in extraction of natural resources and by-products or other use of natural resources are subject to the a) subsurface use tax, b) excess profit tax and c) signing and commercial exploration bonuses, except for entities operating under product sharing agreement. Subsurface tax is levied on extracted volumes of natural resources, net of VAT and excise tax. Oil production and gas condensate are taxed at 20%, natural gas at 30%, gold at 5%. Excess profit tax is levied on difference between selling price of the commodity and the price set by the legislation. The companies producing natural gas, cement, cathode copper and polyethylene granules are subject to this tax. The tax rates for 2008 are set as follows: cement, polyethylene granules and natural gas – 75%, cathode copper – 60%. Bonus is a one-time fixed payment for acquiring a license giving the right to perform exploration, probing and extraction activities.



Ancient rock drawings
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Payroll taxes

Unified social payment:

All legal entities-residents of Uzbekistan and non-residents, involved in entrepreneurial activity in Uzbekistan through PR, representatives, branches, are subject to unified social payment.

Obligatory payment:

All physical persons - citizens of Uzbekistan must pay insurance payments to National Pension Fund (NPF). The rate of insurance payment is 2.5%. Obligatory payment to NPF is paid from the amount of net revenue⁴.

Road tax

Mandatory payments to Republican Road Fund (RRF)

The mandatory payment to RRF is paid from the amount of net revenue of legal entities. The rate of mandatory fees to RRF varies from 1% to 1.5% of net revenue depending on the type of company.

⁴ Net of VAT and excise tax

Business environment



Uzbek bread
Economic Review Magazine

Collections to RRF

Collections to RRF include:

- Payments for the purchase or temporary entry of auto (motor) vehicles to Uzbekistan
- Payments for the entry and transit of auto (motor) vehicles of foreign countries to Uzbekistan

General rate of payment for the entry, exit, transit of auto (motor) vehicle:

- vehicles of foreign countries to Uzbekistan US 400\$
- vehicles of neighbor countries Tajikistan, Kazakhstan, Kyrgyzstan US 50-300\$

Personal income tax

A person is considered resident in Uzbekistan for income tax purposes if he/she is present for 183 days or more during any 12 month period beginning or ending in a financial year. An Uzbek resident is taxed at progressive rates on all earned income, passive income and capital gains. A number of items are exempt from personal taxation. In 2008 the rates for upper income is set at 25%; for middle income, 18% and for lower income, 13%.

Avoidance of double taxation

Double taxation negatively influences investment, the transfer of technology, and raises the issue of the inequitable distribution of the tax burden. To resolve these problems and guarantee the stability of tax relations, Uzbekistan has concluded bilateral treaties on the avoidance of double taxation. These treaties cover the income (profits) tax of legal entities, withholding tax, personal income tax and property tax. To qualify for this scheme, the foreign legal entity or person must prove that its permanent place of residence is in the country with which Uzbekistan has a treaty.

The appendix lists 51 state with which Uzbekistan has concluded treaties on the avoidance of double taxation.

Uzbekistan signed treaties on avoidance of double taxation with 51 state

Table IV.5. Summary of enterprise tax rates (2008)

Tax	Statutory tax rate	Preliminary rates for 2009	Tax base
Unified tax payment	8%	7%	Gross sales/turnover
Income (profits) tax	10%	10%	Statutory accounting profit
Value Added Tax (VAT)	20%	20%	Value added
Excise tax	Various	Various	Customs/purchase price (ex. VAT)
Infrastructure development tax	8% max	8% max	Net profits
Land tax	Various	1.2 times increase	Fixed rates (depending on square meter)
Property tax	3.5%	1.2 times increase	Residual value of fixed assets
Water use tax	17.3-22 UZS/m ³	1.2 times increase	Volume used
Unified social payment	24%	24%	Gross salaries
Pension fund contribution	2.5%	3.5%	Employee's accrued salary
Withholding taxes:			
- Dividends and interest	10%	10%	Dividends and interest income
- Insurance and re-insurance premiums	10%	10%	
- International transport and telecommunications	6%	6%	
- Royalties, rents, lease income, management fees, and all others	20%	20%	

⁵"Provision of procedures on conducting buying and selling operations with foreign currency in off-stock foreign currency market" Decree of the Cabinet of Ministers #294, 10.07.2001

4.4 Currency conversion and circulation

Currency conversion

As mentioned earlier, Uzbekistan adopted Article 8 of the International Monetary Fund in October 2003, and liberalized currency convertibility on current account transactions and abolished the practice of multiple exchange rates. Current account transactions are mainly related to foreign trade and to repatriation of dividends.

Box IV.8. Currency conversion

The Uzbek authorities remain fully committed to currency convertibility for current account transactions, in line with their obligations under Article VIII of the Fund's Articles of Agreement. The comfortable level of official reserves, the considerable increase of the current account surplus, and the tight monetary and fiscal policies obviate the need for any administrative measures on the foreign exchange market. My authorities are aware, however, that some sporadic irregularities in conversion transactions have been reported by market participants. But they would like to highlight that these problems were caused by transitory problems related to the introduction of new anti-money laundering legislation.

Thomas Moser, IMF Executive Director for Republic of Uzbekistan, 2007

According to the legislation, all legal entities should conduct foreign exchange operations through authorized banks. An enterprise wishing to purchase foreign currency must provide the following documents to its bank:

- a) an application form
- b) import contract (agreement, treaty) with a foreign partner⁵.

Foreign currency operations are conducted after signing a contract between the authorized bank and the commercial entity – a client of the bank. In the contract the parties show the name of currency, the character of the transaction, the sum in foreign currency, the method of payment, and the obligations of parties. In order for the bank to execute the conversion operation, the client needs to deposit the necessary sum in national currency (soum) into the special conversion account within two working days. If the deposit is not received, then the transaction is canceled. After receiving the deposit, banks must convert the currency within a period of not more than 5 working days.

The single biggest complaint by the business community relates to predictable access to foreign currency. This issue is an obvious candidate for a public-private sector dialogue so

Table IV.6. Summary table of currency conversion process

Responsible parties	Transactions, actions	Consideration period
Expert group within the approved bank (approved banks have a licence from the CBU to carry out foreign exchange transactions)	Review client applications for purchase and sale of currency. Carries out meetings at least 2 times a week regarding making decisions on providing expert opinion.	3 business days
Approved banks	Submitting application to CBU for expected purchase and sale of foreign currency.	Not later than the next day after positive decision of the expert group and not later than 1 day before the start of inter-bank trading session
Trading participants (CBU and approved banks)	The CBU Council on managing consolidated stabilization fund receives information about accepted applications and sufficiency of soum (UZS) coverage.	Prior to 15:00 of the day, prior to the day of trading
Trading participants	Deposit on special accounts of CBU foreign currency or UZS depending on the desire to sell or purchase.	Completed 1 hour before the start of interbank trading session
Bank clients/approved bank	Conducting payments on the FX trades	In two business days
Bank clients	Using converted foreign currency	During 7 days after receiving foreign currency in the bank account

All small enterprises and enterprises with foreign investments specializing in production of consumer goods are exempt from the mandatory sale of earnings in foreign currency

Business environment



Tashkent international airport
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There are no export customs duties in Uzbekistan

that there is a better understanding of monetary and trade policies and practices. It is very encouraging in this regard that the Government has created a Treasury Department in the Ministry of Finance. A project has been signed with the Asian Development Bank to facilitate that. It is expected that the Treasury Department will improve access to cash and foreign currency as well as free banks from their role as the state collection agents.

The converted foreign currency can be used only for the purposes indicated on the application form and the import contract submitted at the time of application for currency conversion. If the client does not use the foreign currency within seven working days from the time of converting it, he/she must sell it back to the bank. Authorized banks have a right to charge a commission fee in the amount of not more than 2% of the value of currency converted.

The client cannot withdraw cash in foreign currency from its bank account except for the purposes of covering international travel expenses. It is also not allowed to transfer foreign currency from its foreign currency account to the foreign currency account of another local commercial entity.

Commercial entities regardless of their form of ownership are required to sell 50% of their foreign currency receipts from the sale of exports of goods and services (except for cotton) to the bank. However, all small enterprises and enterprises with foreign investments specializing in production of consumer goods are exempt from the mandatory sale of earnings in foreign currency. An enterprise is considered to be specialized in the production of consumer goods if the share of its own production of these goods is more than 60% of total earnings⁶.

The mandatory sale of foreign currency receipts must be done no later than five working days from the date of receiving these earnings and in the case of exports – no later than three working days.

Legal entities and residents and non-residents, except those of the Central Bank and authorized banks, are not allowed to conduct any cash-based foreign exchange operations outside of bank operations. Non-residents have a right to freely transfer, export and send foreign currency out of the country in the amount not exceeding the amount of foreign currency previously transferred, imported or sent into the country in accordance with the procedures set by the Central Bank and the state tax and customs authorities.

Currency circulation

Under the legislation of the Republic of Uzbekistan all legal entities shall keep their funds in authorized banks. All settlement of accounts among legal entities and individuals, if they involve entrepreneurial activities, must be done by bank transfers. In general, legal entities have a right to withdraw cash from their bank account only for the following purposes:

- salaries
- travel expenses
- dividends to individuals.

However, several legislative acts have been adopted to ensure the right of legal entities to receive cash for special purposes, other than the ones mentioned above. For example, a legal entity may withdraw cash to purchase certain agricultural goods from individuals, such as milk, tobacco leaves, sheepskin etc.

Furthermore, all legal entities receiving cash from their customers must deposit their daily cash balances from their cash registers which are over a certain amount that has been fixed by an agreement with the bank.

4.5. Foreign trade



Customs officials at work
© State Customs Committee

⁶“Procedure on mandatory sale of earnings in foreign currency by commercial enterprises” Decree of the Cabinet of Ministers, 29.06.2000 # 245

Foreign trade is regulated by the Civil Code, the Customs Code, the Law “On foreign economic activities” 26.05.2000 and other legislative acts. Customs payments include:

- customs duties
- value-added tax
- excise tax
- fees for customs services.

Customs duties, excise taxes and customs fees are calculated according to the tariff rates on the basis of either the customs’ value of the goods (ad valorem rates) or per unit of goods (specific rates). As regards VAT, it should be calculated on the basis of the customs value of the goods as well as customs duties and excise taxes.

Customs duties

Customs duties are payments imposed by Cabinet of Ministers and collected by customs bodies when importing or exporting goods into/from Uzbekistan. In fact, currently there are no export customs duties. Current import duties are given in the Annex I to the Resolution of the President #PP-823, 27 March, 2008.

The following trade regime is in place:

- customs duties are not imposed on goods produced in countries, which have signed agreements on the creation of free trade zones and the goods are exported by residents of that country⁷;
- customs duties are imposed on goods from countries, with which have signed an agreement on trade and economic cooperation providing most-favored nation status⁸;
- customs duties are doubled on goods produced in other countries or where the country of production is unknown.

VAT on imported goods

The sum of customs duties and excise taxes is included in the taxable value of the imported goods together with the customs value of the imports. The VAT rate is currently 20% of taxable turnover (see tax section for exemptions).

Excise taxes on imported goods

Excise taxes are imposed on some goods imported by legal entities and individuals into Uzbekistan based on a list and rates determined by annual presidential resolutions. Rates for 2008 are contained in Annex #12-1 to the Resolution of the President #PP-876, 23 May 2008.

Certification of goods

In order to import certain goods on the list of compulsory certification⁹, the importer must present to the customs authorities a certificate of conformity issued by the Agency for Standardization, Metrology and Certification (“Uzstandart”) or other authorized entity. When submitting an application for product quality certification, it is necessary to provide a copy of the document containing information on the products and a copy of a document with the information about its arrival to the customs territory.

In the absence of documents confirming the safety of the imported products, customs bodies inform “Uzstandart” and prohibit their import until the completion of certification of the products or the recognition of a foreign certificate.

⁷ States, which are members of the Agreement “On creation of free trade zone” (15.04.1994), are listed in interministerial act #429, 8 April 1998 (see also page 19)

⁸ See Appendix 2 for the list of countries with the most-favored nation regime in Uzbekistan

⁹ The list of goods subject to compulsory certification is introduced by resolution of the Cabinet of Ministers #90, 7 May 2008 (Annex 1)



Uzbek persimmon
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Many investors think that customs administration in Uzbekistan creates substantial barriers to foreign trade and transit. Going through customs procedures takes much time and causes considerable costs for the participants of foreign economic activities. The main reason for the delays is the large volume of normative acts which often irrationally replace customs legislation and make it non-transparent.

To address these issues, the Government launched a reform of customs administration and in this regard is actively examining best practices worldwide as well as involving the private sector and international organizations in the discussion of the new draft Customs Code which is supposed to streamline legislation and procedures and make them transparent and in line with internationally accepted standards

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

Non-tariff regulations of exports and imports

Certain categories of goods may be exported or imported only after the receipt of an appropriate permit (licence) issued by the agencies authorized by the Cabinet of Ministers¹⁰. Export of certain goods subject to control due to security reasons and strategic importance are allowed only after registration at MFERIT. Import and export of some other goods and services is subject to permission by authorized bodies¹¹. The Cabinet of Ministers may establish quantitative restrictions (quotas) with regard to exports and imports of certain categories of goods. Quotas are allocated on a competitive or auction basis. The list of certain categories of exports and imports which are subject to licensing and quotas as well as the process of obtaining licences and allocations of quotas are fixed by the Cabinet of Ministers. Certain categories of imported goods are subject to compulsory labelling in Uzbek¹².

Customs administration

The Customs Code was established in 1997 and has been supplemented by further laws and normative acts. This plethora of rules has led to inconsistencies in their application. It is also very difficult for enterprises to keep up to date on the latest rules as there is no system of notification. In view of these problems the Customs Code is undergoing revision by eliminating the inconsistencies introduced by multiple acts. UNDP has provided technical assistance in this.

¹⁰ The list of goods subject to import and export licensing is set by decree of President #UP-3982, 28 March 2008

¹¹ The list of goods and services (1) subject to the MFERIT registration at export, and (2) requiring permit for export or import is set in resolution of the Cabinet of Ministers #137, 31 March 1998

¹² The list of goods subject to marking in Uzbek when imported is set by resolution of the Cabinet of Ministers #427, 5 December 2002 (Annex 1)

CHAPTER 5

INVESTMENT CLIMATE



CHAPTER 5

INVESTMENT CLIMATE

5.1 Investment regulations and the definition of foreign investors and enterprises with foreign investment



Textile company
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The rights and responsibilities of foreign investors are set out in the following legislative acts:

- Law of the Republic of Uzbekistan “On foreign investments” # 609-I, 30.04.1998
- Law of the Republic of Uzbekistan “On investment activities” # 719-I, 24.12.1998
- Law of the Republic of Uzbekistan “On guarantees and means of protection of foreign investors’ rights” # 611-I, 30.04.1998

The Uzbek legislation separates out enterprises with foreign participation from enterprises with foreign investment which qualify to receive certain benefits. Both types of enterprises need to be registered. Enterprises with foreign participation can register at khokimiyat. But enterprises with foreign investment need to register with the Ministry of Justice or its regional offices. In order to be classified as an “enterprise with foreign investment” an enterprise needs to meet the following criteria:

- foreign investor’s share in the statutory capital is not less than 30%
- the statutory capital not less than USD 150,000 equivalent
- at least one of the foreign investors must be a legal entity.

For “enterprises with foreign investments” registered in the Republic of Karakalpakstan and Khorezm Region, the statutory capital requirement is lowered to USD 75,000.

All other enterprises with foreign investments, not meeting the above criteria, are considered by Uzbek legislation as “enterprises with foreign participation”.

As noted in the definition section the Uzbek definition of foreign investment differs from the international definition of foreign direct investment (FDI).

Investment promotion

In 2007 Islam Karimov, President of the Republic of Uzbekistan, established “UZINFOINVEST”, the Information Support and Foreign Investment Promotion Agency. Its primary purpose is to provide “one stop shop” for information and other support to foreign investors. The Agency is an independent institution (legal entity) under MFERIT. The Agency has launched a website www.uzinfoinvest.uz, where investors can obtain useful information on investment legislation, the investment climate and the investment potential of the Republic, including investment proposals and profiles of the economic sectors and regions.

5.2 Investing in a business entity

A foreign investor may establish and participate in the entities with the following legal forms of ownership¹³:

- partnerships
- limited liability companies and additional liability companies
- joint stock companies either open or closed
- affiliate or subsidiary enterprises
- wholly owned enterprises
- other forms, which are not contrary to the Uzbek legislation.

Investors welcomed the recent creation of a government agency which will provide them with information they need for making their investment decisions. In this regard, some investors are looking for the next step to be taken – the creation of a one stop shop for investment promotion with a full package of services helping foreign investors establish and run businesses in Uzbekistan

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007

¹³ Details on legal forms of organization can be found in the attachment.

Representative Office

A foreign enterprise may open a Representative Office (RO) which is not considered to be a legal entity for tax purposes. The RO must be accredited by the Ministry of Foreign Economic Relations, Investments and Trade and the procedure is described below. The RO is not allowed to conduct any business in Uzbekistan and can only exchange information, establish business contacts and engage in other representative functions.

Establishing a Representative Office (RO)

The accreditation of the RO is done by the Ministry for Foreign Economic Relations, Investments and Trade. A foreign enterprise interested in opening its representative office submits an application in which it indicates:

- information on the foreign enterprise's activities
- detailed information on its business connections with other enterprises and organizations in Uzbekistan
- concluded agreements and contracts in progress with which it is assisting
- future business plans in Uzbekistan
- the period for which the accreditation is requested.

The following documents should be attached to an application:

- copies of the articles of incorporation of its head office prepared in accordance with the home country legislation
- copy of the certificate of incorporation or an extract from the trade register of the head office prepared in accordance with the home country legislation
- power of attorney for the head of the RO issued by the head office and containing full passport details and specifying the authority of the person to whom it is granted
- statute of the RO approved by the appropriate management body of the head office which is authorized to make such a decision, stamped with the enterprise's seal
- letter from the owner of the office space with confirmation of preparedness of the owner to lease the premises to the RO.

The above mentioned documents should be legalized in consular institutions of the Republic of Uzbekistan in the home country of the foreign enterprise. Documents should be translated into Russian or Uzbek and certified by a notary.

The application for accreditation and the attached documents are examined for ten days. In case of a positive decision the certificate of accreditation is issued during a five-day period. Accreditation is usually given for three years with the possibility of prolongation. Accreditation by MFERIT is done free of charge.

Permanent Establishment

Foreign enterprises may conduct business in Uzbekistan without establishing a legal entity. A foreign enterprise can set up a Permanent Establishment (PE). As mentioned in the tax section, a PE that does not carry on activities that lead to a "taxable" PE, pays withholding taxes as opposed to the profits tax.

5.3 Investment protection

Rights of investors

In accordance with the legislation of Uzbekistan, the foreign investor has the following rights:

- to decide on the amount, kinds and channels of investments
- to conclude agreements with legal entities and individuals to carry-out investment activity
- to own, use and dispose investments and the results of investment activity



Foreign brands representation in Uzbekistan
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Handicrafts
30 Economic Review Magazine

- to patent inventions, useful models and industrial samples belonging to the foreign investor in Uzbekistan
- to freely repatriate profits from Uzbekistan or to reinvest them into Uzbek legal entities
- to obtain financial resources in the form of credits and loans

Box V.1. Uzbekistan: membership in international treaties in the field of intellectual property

- WIPO Convention, since December 1991.
- Paris Convention (Industrial Property), since December 1991.
- Berne Convention (Literary and Artistic Works), since April 2005.
- PCT (Patents), since December 1991.
- PLT (Patent Law Treaty), since July 2006.
- Madrid Agreement (International Registration of Marks), since December 1991, denounced effective from January 2008.
- Nice Agreement (International Classification of Goods and Services), from January 2002.
- Locarno Agreement (International Classification for Industrial Designs), since July 2006.
- Strasbourg Agreement (International Patent Classifications), from October 2002.
- Budapest Treaty (Deposit of Micro-organisms), from January 2002.
- TLT (Trademarks), since September 1998.

World Intellectual Property Organization (WIPO)

- to convert local currency into foreign currency
- to possess and use land on terms provided by the legislation
- to receive adequate compensation for investments and other assets in case of their expropriation by the state
- to receive adequate compensation for losses incurred as a result of illegal activity or decisions of the state authorities
- other rights as may be provided by the legislation of Uzbekistan.

The legislation further provides the following additional guarantees for foreign investors:

- foreign investors may not be discriminated against on the basis of their nationality, place of residence and country of origin
- legislative acts may not harm retroactively the foreign investor or foreign investments
- foreign investors have the right to apply at their own discretion those provisions of the new legislation which provide for better conditions for their investments
- the state authorities have no right to interfere in the economic activity of foreign investors carried out in accordance with the legislation of Uzbekistan
- if the subsequent legislation of Uzbekistan worsens the investment conditions, then the legislation in place on the date of the investment is applied to foreign investments for ten years following the date of the investment.

The last protection has been difficult to implement as there are different interpretations of what “worsening of investment conditions” means. For this reason the Government has clarified what it means by a “worsening” of investment conditions. The following should be understood as a worsening of investment conditions:

- increasing the withholding tax rate on dividends payable to the foreign investor
- introducing additional requirements making repatriation more complicated or decreasing the amount of profits (income) of foreign investors transferred abroad
- introducing limitations on the size of investment as well as increasing the minimum size of statutory capital for enterprises with foreign investments
- introducing restrictions on shareholding by the foreign investor in the statutory capital of the enterprise
- introducing additional procedures for visas for foreign investors as well as additional requirements to qualify as a foreign investment.



Pears of Uzbekistan
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If investment conditions worsen as described above, then a foreign investor informs the relevant body in writing about his intention to seek protection under the guarantee. The relevant bodies informed by the foreign investor include those institutions that carry out registration of legal entities – the Ministry of Foreign Affairs, the Ministry of Internal Affairs, MFERIT, the State Tax Committee and responsible banks. This notification is the basis for the implementation of the legislation which was in force at the moment when the investment was made.

There is a Department on Legal Protection of Foreign Investment and Enterprises with Foreign Investment in the Ministry of Justice. The Department can monitor violations of investors’ rights and request the offending agency to provide justification for the agency’s actions against the

investor. The Department then assesses the agency's actions and if found in violation, it makes recommendations to the head of the agency regarding ending the violation. If the agency fails to take action, the Department can direct the agency to suspend its actions. If this fails, the Department may take the case to economic and civil courts in order to protect the rights of investors. The rulings of the judicial authorities are binding on all ministries, committees and agencies.

Transfer of funds

Foreign investors are guaranteed transfer of funds in foreign currency to and from the Republic of Uzbekistan without any limitations provided they have paid taxes and other obligatory payments in accordance with the procedures established by the legislation. Such transfers include the following:

- initial and additional sums designed either to support or to increase foreign investments
- income received from investments
- funds received as compensation for losses inflicted in accordance with the legislation
- payments executed according to agreements
- proceeds of sales of all or part of foreign investments
- payments arising from dispute settlements including any judicial or arbitral decision
- salary and other payments to workers
- funds from other sources received in accordance with the legislation.

In accordance with the rules of international law, the Republic of Uzbekistan may stop the repatriation of a foreign investor's funds in cases of insolvency and bankruptcy of an enterprise with foreign investments or the protection of creditors' rights, criminal acts or administrative infringement of a law by a foreign investor - natural entity, or when necessary to stop such repatriation according to arbitration or a court decision.

Companies with foreign investments may purchase foreign currency for repatriation by foreign investors of profits, dividends and other income in OTC currency market. The procedures for purchasing foreign currency in such market are described in section 4.4 of the present Guide.

In addition to the required documents already described, foreign investors should provide the authorized bank with the following additional documents when repatriating profits, dividends and other income:

- document on distribution of profits (a decision of stockholders meeting) and payment of dividends
- copy of the audit by an audit firm or state tax organ
- specification of amounts to be converted
- calculations of income tax on dividends certified by tax organs
- confirmation of payment of income tax on dividends.

Non-resident individuals have a right to freely transfer, export and send from the Republic of Uzbekistan foreign currency observing customs regulations in the case where the currency was previously transferred, imported or sent to the Republic of Uzbekistan in accordance with the procedure set by the Central Bank together with the State Tax Committee.

Dispute settlement

Uzbekistan is a member of the International Center for the Settlement of Investment Disputes and a signatory to the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

The main document used during a dispute settlement is the document which regulates a foreign investor's activity, such as JSC or LLC shareholder agreement, joint-venture agreement, production-sharing agreement, investment agreement with the Government and other relevant agreements. These agreements should clearly spell out the method for dispute settle-

One of the most important institutional reforms related to the investment climate is the reform of the judiciary system and the independence of the courts. For investors, the objectivity and fairness of settling investment disputes is critical

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006 – March 2007



Ornamented pottery
30 Economic Review Magazine

Box V.2. International arbitration

Due to rising controversies over the interpretation of Article 10 of the Law "On guarantees and rights of foreign investors" which secures the right of an investor to settle any investment dispute in court or alternative settlement institutions, the Constitutional Court of Uzbekistan adopted a decision declaring that the wording of the article shall not be construed as the consent of Government to present possible investment disputes to international arbitration.

The Court's decision is based on the fact that without prior agreement between the parties a dispute cannot be presented for binding international arbitration. This rule comes from a well-known arbitration concept which is considered to be a cornerstone for international alternative dispute settlement.

UNDP Support to External Economic Policy Project, 2007

ment. If it is not otherwise stipulated in the agreement between the investor and a resident or the Government of Uzbekistan, an economic dispute can be settled in the economic courts of Uzbekistan under the applicable law.

Investors having disputes regarding their business operations should refer to the following legal acts effective in Uzbekistan:

- the Economic Procedural Code, 30.08.1997 (with amendments),
- Law of the Republic of Uzbekistan "On courts", 14.11.2000 (with amendments),
- Law of the Republic of Uzbekistan "On contractual basics of activities of commercial enterprises",
- Agreement on procedure on settlement of disputes connected with entrepreneurial activities, 20.03.1992 (for legal entities and citizens of member-states of CIS).

If an investor is a citizen of one of the countries with which Uzbekistan has signed bilateral treaties on the promotion and protection of investment (see list of countries in the Appendices), then the parties may use these agreements in the dispute settlement as all of such agreements provide comprehensive dispute settlement tools in cases of investment disputes with the host

Government.

In 2006 the law on arbitration courts was passed to create a non-governmental judiciary or alternative dispute settlement mechanism. As such this alternative mechanism is relatively informal and is designed to cut the cost and time to reach a settlement while preserving confidentiality. Both parties to the dispute can choose their own arbiter and they in turn chose a chair. The decision of these courts would be binding and implemented by the judiciary system. The Uzbek Chamber of Commerce and Industry has set up its own non-governmental court and started rendering arbiter service to business participants.

Box V.3. Law «On arbitration courts»: highlights

- under the law, permanent and ad hoc arbitration courts may be created in Uzbekistan. Executive or legislative organs, or any other state bodies, may not create arbitration courts and be a party to arbitration proceedings
- arbitration courts hear only civil cases, including commercial ones, arising between economic entities
- an arbitration court settles disputes under the legislation of Uzbekistan
- the honorarium rate of arbitrators takes into account the value of the claim, the difficulty of the dispute, the time spent by the arbitrators to resolve the dispute
- distribution of expenses between the parties of a dispute settled in an arbitration court is decided by the arbitrators in accordance with the agreement of the parties. In the case of the absence of agreement between the parties, expenses are divided according to the ratio of the sustained or rejected part of the initial suit
- the verdict of the arbitration court can be appealed by either party to the dispute to the general court system by applying within 30 days from the date of the verdict. When trying the case, the general court may not reconsider the material circumstances of the case or reconsider the case on its merits. The arbitration court's decision may be canceled by the general court only if procedural violations during arbitration proceedings are found
- if the arbitration court's decision is not implemented voluntarily in a timely manner, then it is subject to enforcement through mechanisms provided for the enforcement of the state courts' decisions.

Bilateral investment treaties and the protection of investment

Uzbekistan has signed 49 BITs providing for reciprocal promotion and protection of investments

Uzbekistan has signed a number of bilateral investment treaties (BITs) providing for reciprocal promotion and protection of investments. As of August 1, 2008, Uzbekistan has signed BITs with 49 States (see list of countries in the Appendices). Such treaties typically cover the following areas: scope and definition of investment covered, admission and establishment, national treatment, most-favored-nation treatment, fair and equitable treatment, non-discrimination, compensation of damages to the investor in emergency events, prohibition of expropriation of the investment except for extraordinary cases, guarantee of transfer of funds, and dispute settlement mechanisms, both state-state and investor-state.

Repatriation without restriction is guaranteed to the investor for payments related to investment: initial and reinvested capital, profits, liquidation proceeds, compensation and wages of foreigners. The transfer of funds shall be provided without unreasonable delay in

a freely convertible currency at market exchange rates. The BITs signed by Uzbekistan give an investor the choice of national courts, ad hoc arbitration or the World Bank's International Center for the Settlement of Investment Disputes (ICSID) when the dispute is with the Government. ICSID provides facilities for the conciliation and arbitration of the disputes in accordance with the Convention on the Settlement of Investment Disputes between States and Nations of Other States, where Uzbekistan is a member-country since August 1995. ICSID arbitration awards enjoy recognition and enforcement by all ICSID member states, whether or not they are parties to the dispute.

5.4 Incentives for foreign investment

Incentives provided to enterprises with foreign investment

There are many incentives and benefits provided to enterprises with foreign investment. These can be the same as the ones provided to any enterprise under the general tax legislation previously discussed or provided for enterprises participating in the investment program, localization program or sectoral modernization program. In addition enterprises with significant foreign investment in priority sectors or regions can negotiate special benefits by concluding an investment agreement with the Government. All incentives are for a specific period of time.

Some of the tax incentives described below are open to all enterprises including enterprises with foreign investment. Other incentives are only for enterprises with foreign investment.

Tax breaks for enterprises with foreign participation and foreign investment:

- joint ventures with foreign participation in the oil and gas sector carrying out exploration works have a seven year tax holiday from income tax from the extraction start date and thereafter a 50% reduction, and exemptions from property taxes and dividend taxes (President's Decree, On means for attracting foreign direct investments to exploring and extraction of oil and gas, UP-2598, 28/04/00)
- goods produced and imported by a foreign investor who invested more than \$50 million in Uzbekistan are exempt from customs duty¹⁴;
- enterprises with investments of USD 300,000 and more are exempt from single tax payment, income (profits) tax, property tax, infrastructure development tax, road tax for three to seven years depending on the amount invested; however, the investor's share must be at least 50%; the investment must be made in hard currency or new modern equipment; tax savings are re-invested; there is no sovereign guarantee, and enterprises are located in specific regions (Karakalpakstan, Djizak, Kashkadarya, Syrdarya, Surkhandarya, Khorezm, and rural areas of Navoi, Andijan, Namangan and Ferghana). Investments eligible for this privilege should be in the following economic spheres: 1) electronics and computer parts production, 2) light industry, 3) silk industry, 4) construction materials, 5) industrial production of poultry and eggs, 6) food industry, 7) production of meat and dairy products, cheese and meat fat, 8) chemical and pharmaceutical production.

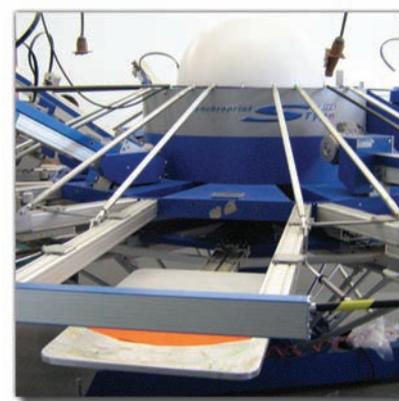
The tax incentives are provided based on the amount invested for the following periods of time:

- from USD 300,000 to USD 3 million - exempt for three years;
- from USD 3 million to USD 10 million - exempt for five years;
- more than USD 10 million - exempt for seven years (Decree of President, On additional means for stimulating foreign direct investment", #UP-3594, 11 April 2005).

Incentives for imported inputs for foreign investments

There are exemptions from customs duty and VAT for certain kinds of imported new technological equipment and its spare parts. The list of technological equipment subject to the exemptions is approved by the Inter-ministerial Resolution of the Ministry of Economy, Ministry of Finance, MFERIT and the State Customs Committee (#1802, 03/05/2008). Property

Foreign investments of more than USD 300,000 and falling under certain pre-conditions are granted exemption from all major taxes



Imported technological equipment
© Uzexpocenter

¹⁴ List of technological equipment and spare parts set by Inter-ministerial Resolution #1669, 31 March 2007



TV sets manufactured under the localization program
© Uzexpocenter

imported for productive needs by a foreign investor or an enterprise with foreign investments with foreign share of 33% and up is exempt from customs duty. Imported laboratory equipment is included in the exemption as well as imported raw materials and semi-finished goods used in the production of entities with foreign participation specializing in children's footwear. Property imported as a part of investment obligations within privatization deals with State Property Committee is also exempt from VAT.

Incentives for enterprises participating in the localization program

The Localization Program was adopted by the Government to decrease the dependence of the economy on imports, increase the value added of production, strengthen business linkages and reduce unemployment rate. The Localization Program for 2008-2010 is approved by the Resolution of the President #PP-879, 28 May 2008.

Under the legislation the enterprises participating in the Localization Program are exempt from the following taxes until January 1, 2011:

- customs payments, including customs duties, VAT and excise tax (except for the customs clearance fees) for technological equipment and spare parts
- corporate income tax/ unified tax payment – for the products produced under the localization projects
- property tax – for the main production facilities used in the localization project.

Enterprises interested in participating in the Localization Program should apply to the Cabinet of Ministers, which, in turn, sends all the requests with their documentations to the Ministry of Economy, the Ministry of Finance, the MFERIT and corresponding bank for analysis and approval.

Upon approval by the authorized bodies the Cabinet of Ministers sends the project for review to a special commission dealing with the Localization Program. The special commission reviews all potential projects for inclusion into the Localization Program in its quarterly sessions.

Incentives for enterprises participating in the Modernization Program

Eleven medium term programs were elaborated and accepted on modernization, technical and technological reequipment of the major industries such as cotton processing, fat and oil, chemical, textile, pharmaceutical, automobile, agriculture machine building, construction materials and ferrous metallurgy and also on the enterprises of Navoi and Almalik Mining and Metallurgy Industrial Complexes as well as Uzmetkombinat (Uzbek Metallurgical Complex).

In accordance with Modernization and Technical Reequipment Program enterprises of textile industry participating in the Program are exempt from customs payments (except for the customs registration fees) for imported technological and supporting equipment, production tools and spare parts for the period of 2007-2010. At the same time, enterprises concentrated on production of garment, foot wear and hosiery are exempt from all types of taxes and payments except for VAT.

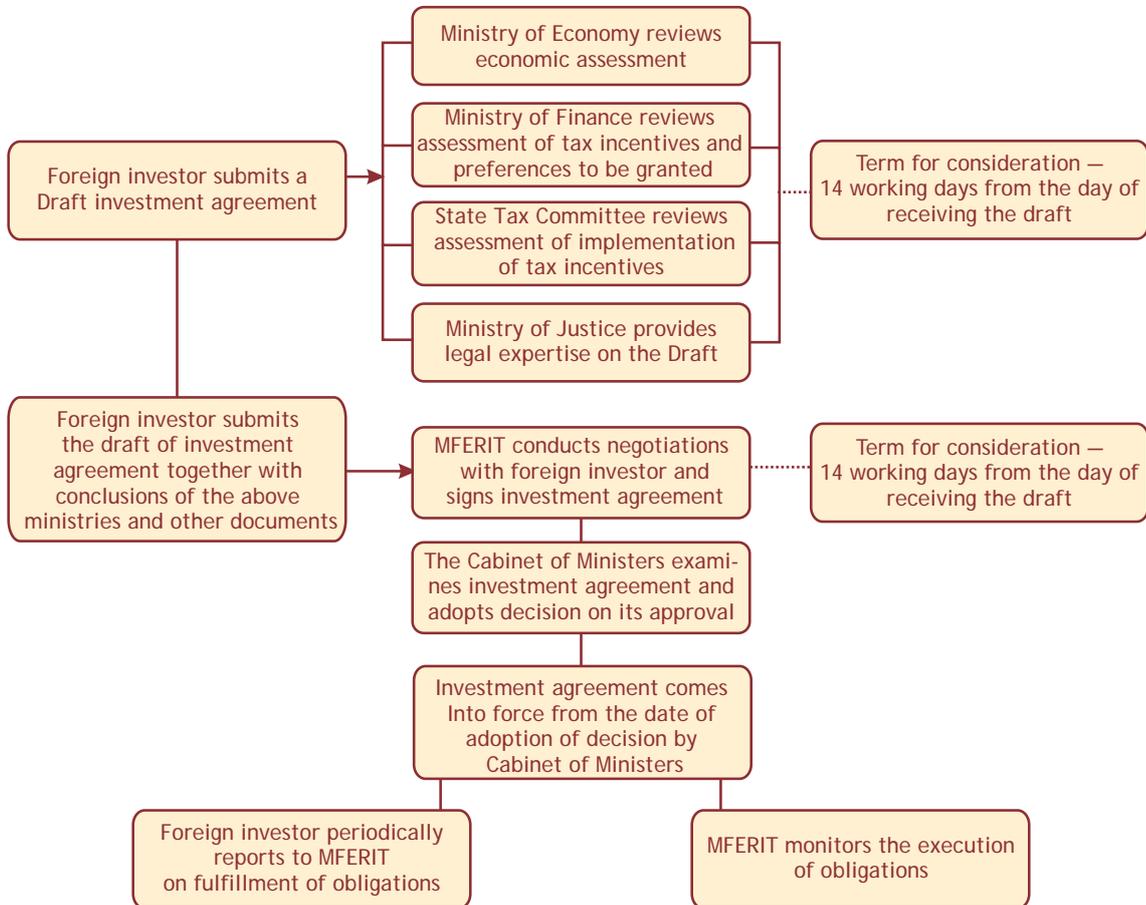
Incentives for investment agreements

Foreign enterprises, making significant investments (more than USD 20 million), usually discuss additional conditions with the Government including tax and customs incentives, government guarantees and co-financing, etc. Such additional incentives should be approved by the Cabinet of Ministers. All rights and obligations of such investors are stated in the investment agreement concluded between the investor and MFERIT. The procedure for concluding an investment agreement with the Government is described in the resolution of the Cabinet of Ministers #180, 2 August 2005.

The investment agreement should include the following provisions:

- rights and obligations of the investor with regard to amount of investment, level of production and localization, quality of products, volume of exports, repayment of loans

Figure V.1. Steps to conclude an investment agreement



International trade and exhibition complex, Tashkent
© Uzexpocenter

guaranteed by the Government, environmental protection, compliance with the labour legislation

- rights and obligations of the Government including obligations for providing additional guarantees
- responsibilities of the parties for failure to comply
- procedures for amendments and termination
- procedures and place for dispute settlement.

5.5. Production sharing agreements

Another form of agreement that foreign investors, particularly in the oil and gas sectors, can conclude is a production sharing agreement (PSA). The Law on Production Sharing Agreements specifies the terms under which foreign investors may enter into PSAs. Usually, PSAs are restricted to areas where there are no proven reserves or in cases where there are proven reserves, but there is a lack of financial and technical resources on the part of the State to exploit these resources. As a rule PSAs are subject to competitive bidding. However, the Cabinet of Ministers may waive this process if there is only one foreign investor interested in a particular area. Activities under the PSA are subject to licensing by the Cabinet of Ministers. The financial statements, budgets and economic activities related to the PSAs must be audited annually.

As in most standard PSAs, the investor can recoup the exploration costs in the form of production. Taxes, insurance for risk, sales expenses and fines are excluded from expenses that can be recouped. Investors are liable for income (profits) tax, land tax, subsurface use tax, water use tax, environmental pollution fees and payroll taxes after the completion of the exploration works. The investor is exempt from all other taxes. The local suppliers of the investor are exempt from VAT. The investor is also exempt from customs payments for goods, works and services imported for the PSA.

5.6 Restrictions on foreign investment

There are no limitations on the participation of foreign investors in various sectors of the economy of Uzbekistan. However, there are industries and enterprises, where private capital, both local and foreign, is not allowed. For example, article 4 of the Law "On denationalization and privatization" 19 November 1991 lists the state assets, which cannot be denationalized and privatized. In accordance with this list land, cultural heritage sites, enterprises operating in the military sector, enterprises dealing with scientific-technical research and others cannot be sold to private investors. All organizations and institutions having importance for national security and for the stability of the state cannot be privatized.

Regarding formal ownership restrictions most investors thought this was a thing of the past. However, there was the belief that some areas such as oil, gas and mining were becoming "unofficially" restricted

Summary of consultations and interviews with foreign investors in Uzbekistan, December 2006-March 2007



CHAPTER 6

OPPORTUNITIES UNDER PRIVATIZATION



CHAPTER 6

OPPORTUNITIES UNDER PRIVATIZATION

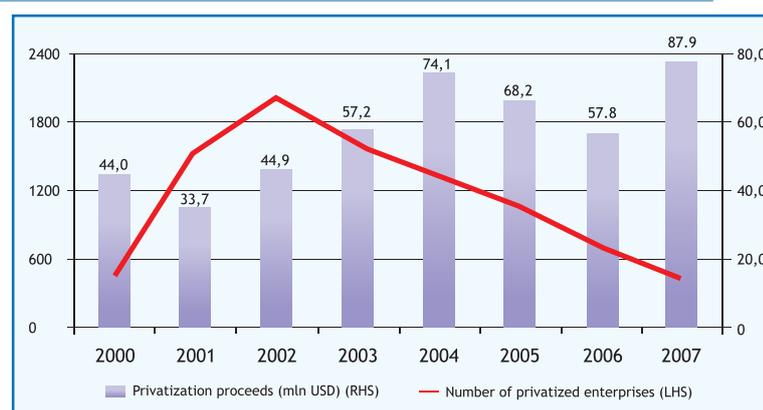
6.1 Results so far



Juice production lines
© Uzexpocenter

The role of the private sector in the economy has increased with the widening and deepening of the privatization process. Since the adoption of the Law “On denationalization and privatization” in 1991 more than 84,000 state enterprises were privatized. The Presidential Decree adopted on 24 January 2004, “On measures to fundamentally increase the share and significance of the private sector in the economy of Uzbekistan” and other government acts issued after it, set out the tasks for the State Privatization Committee for the next years. With the purpose of attaining these goals, the Government undertook special measures to accelerate the process of privatization and attract foreign investment to state-owned enterprises and liberalize the securities market.

Figure VI.1. Main indicators of privatization of state-owned enterprises



Source: State Property Committee

The foreign investors are displaying an increasing interest in the privatization of state assets. The number of joint stock companies with state participation has decreased to 921 and the total nominal value of state assets in them is UZS 2,434.2 billion (USD 1.92 billion). The notable deals of 2005-2007 are listed in Table VI.1. These deals do not include equity sales to Vimpelcom (USD 260 million) for Unitel and Buztel.

PRIVATIZATION AT A GLANCE

Main indicators (2007)

- 408 state enterprises and assets were sold
- Total receipts from privatization were about UZS 111.1 billion (USD 87.9 million)
- Privatization brought in USD 114.8 million in FDI
- 28 contracts for the sale of state assets to foreign investors were signed for a total sum of USD 108.2 million with investment commitments totaling USD 198.7 million and UZS 32.5 billion
- 15 state assets were sold at zero price
- Major foreign players in privatization - Russia, EU, China
- Largest privatized enterprises: JSC Electrohimprom (49%), JSC Ammofos (49%), JSC Samarkand Elevator Plant (75%), JSC Kokand super-phosphate plant (85.2%), JSC Dorrefrans (47%), JSC Kinap (98.89%).

Table VI.1. Notable Deals in 2005-2007

Year sold	Privatized enterprise name	Industry	Investor
2005	NHC Uzbekneftegas (Shege field)	Oil and Gas	Lukoil (Russia)- USD 4.27 mln.
2005	OJSC Bukharagips	Construction materials	Knauf (Germany) – USD 1.55 mln. USD 6.3 mln. in investment
2005	OJSC Akhangaran – Cement	Construction materials	JV Bentonit (Switzerland) - USD 7 mln.
2005	Samarkand Tea Packing Factory	Food	All Americas Intl. (USA) - USD 6.4 mln.
2006	Samarkand Elevator Plant (75%)	Manufacturing	Peresvet Invest (Russia) – USD 1.3 mln. and USD 7.5 mln. investment obligations
2006	Chorsu	Hotel	Silk Way Hotels Company LTD (Gibraltar) – USD 5.5 mln. and investment obligations for USD 14 mln.
2006	Uzbekistan Post (25%)	Postal Services	Fihex Ltd (China) - USD 2.7 mln.
2006	Khorezm Sugar	Food	SEID Handelsgesellschaft GmbH.H - USD 7.6 mln. and USD 17.4 mln. investment obligations
2007	Electrohimprom	Chemical	MAXAM Corp. S.A.U. (Spain) - USD 22.4 mln. and investment obligations for USD 53 mln.
2007	Ammofos	Chemical	MAXAM Corp. S.A.U. (Spain) - USD 18 mln. and investment obligations for USD 30 mln.
2007	Kokand super-phosphate plant	Chemical	Monolit (Russia) – USD 3.8 mln.

Source: State Property Committee

Some of the notable assets offered for sale in 2009-2010 are listed in Table VI.2 below:

Table VI.2. Large state assets earmarked for privatization in 2009-2010

Enterprise name	Industry	Offered share (%)
NHC Uzbekneftegas	Gas & oil	49
JSC Uzbektelecom	Telecom	49
JSC Navoiazot	Fertilizers	49
JSC Uzkimyosanoat	Chemical	49
JSC Uzdaewoauto	Automobile	50
Asaka Bank	Banking	51

Source: State Property Committee

More detailed information about upcoming privatization sales can be found on the website of State Property Committee: <http://www.gki.uz> and in the Investment Catalogue which is a companion to this Guide.

Box VI.1. Land privatization in Uzbekistan

The Presidential Decree “On privatization of land areas under the buildings and structures owned by legal entities and citizens” was issued in 2006. It establishes that legal entities-residents of the Republic of Uzbekistan may purchase the land where their buildings and structures are located or those they want to buy as a result of the privatization of state assets. The size of the land area to be acquired is to be determined by the production needs considering the technological processes being used, city planning rules, and other regulations.

“Privatization of the land areas will be a voluntary process, based on market prices, with the transfer of ownership rights in accordance with the order established by the effective legislation”, - the Decree states.

Non-privatized land areas used by the legal entities-residents of the Republic of Uzbekistan, on a continual basis are to be re-registered by 1 January 2008 for rental periods of up to 50 years but no less than 30 years.

“The right to a long-term rental of the land may be canceled or the area of the rented land may be reduced before the termination of the rental period specified in the contract in the cases established by the effective land legislation”, according to the Decree.

According to the Decree, citizens-residents of the Republic of Uzbekistan are also granted the right to privatize the land allotted to them for individual housing construction and for existing residential housing. The Presidential Decree states that the privatization of the land, allotted for individual housing construction and for existing residential housing, within the limits and size, specified in the cadastre documents, is to be done at market prices. The historical cost for the land for individual housing construction and existing residential housing is to be taken into consideration in determining the amount to be paid for the privatization of the land through auctions.

The subsequent transfer of ownership of privatized land area is not limited and can be done via deals on purchase-and-sale, exchange, granting, inheriting, and leasing, and such land may serve as collateral for the loans from banks and other credit institutions.

The Presidential Decree states that the “proceeds from the privatization of the land areas will be fully directed to the state budget, with 80% of the funds going to the republican budget, and 20% to the corresponding local budgets for the development of infrastructure and territories”.

More detailed procedures on land privatization and evaluation methods are yet to be elaborated by the Government.

6.2. Priority areas for privatization

Box VI.2. Possible investment opportunities

The following sectors are relatively more open to foreign direct investment (FDI): natural resources (mining, oil & gas exploration, extraction and processing); power (transportation and distribution, renewable energy); machine building (automotive, agricultural, railroad trains and cars, aerospace, etc.); and tourism and tourism infrastructure. However, the government closely scrutinizes some of these industries, as well as others that are considered "nationally strategic."

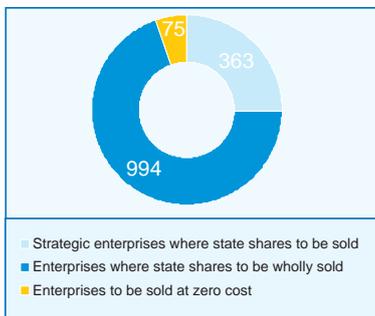
Uzbekistan Investment Climate Statement 2007: U.S. Department of State

key directions of the new Program of Privatization for 2006 – 2008 which are:

- concentration on the large enterprises needing heavy capital investments
- extension of the list of the enterprises offered at zero redemption cost in return for investment commitments

- reduction of the state share in the companies such as UzSelhozmashHolding, UzbekEnergO, State Joint Stock Company Uzbekiston Temir yollari (Uzbekistan Railways), NHC Uzbekneftegaz and others.

Figure VI.1. Privatization Program 2007-2010: outlook



Source: SPC

Updated Privatization program for 2007-2010 has recently been adopted in Uzbekistan by Presidential resolution no. PP-672 stipulating full or partial privatization of 1,432 entities through direct sales, tenders and at zero redemption cost.

Analysts expect that in accordance with the latest presidential directives regarding privatization in 2007-2010 the state share in the national economy will decline significantly.

Independent research indicates that the total receipts from privatization of state assets during the period of 2006-2008 could reach USD 750 million. These estimates are based on the increasing interest of large foreign investors, in particular, those from the Eurasian region in purchasing Uzbek assets. This is confirmed by previous deals in the oil and gas sector, in telecommunications, the food industry and the construction and mining sectors.

It is expected that the tenders for the sale of shares in the largest strategic enterprises shown in Table VI.2 will be announced.

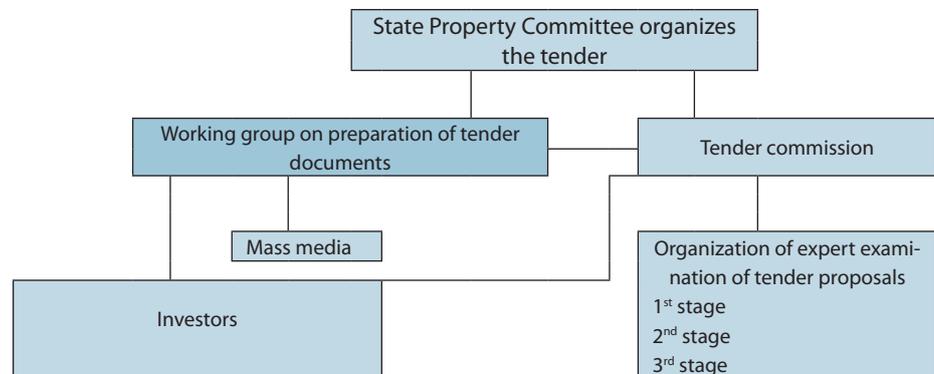
6.3. The privatization process

The Cabinet of Ministers or relevant government bodies select state assets to be privatized. Khokimiyats are empowered to make decisions on the privatization of communal property. The State Property Committee announces lists of enterprises to be privatized on a regular basis.

Enterprises or blocks of shares can be obtained by foreign investors through stock exchange purchases or participation in tenders.



Production process of GM cars in Asaka
© Uzexpocenter



The expert examination of tender proposals consists of three-phases:

1st stage: pre-selection of tender proposals based on meeting the requirements of the tender

2nd stage: expert selection of tender proposals meeting the criteria

3rd stage: determination of the main parameters of the project, rights and obligations of the parties and selection of the winner.

The most attractive tender proposals are submitted to the State Property Committee, which enters direct negotiations of with the tender participants, clarifying the details and obligations of parties. The relevant government bodies then discuss the investment obligations required by the privatized enterprise/ asset after which contracts are signed.

Auctions for real estate

Auctions can be open or closed. For participation in an auction the applicant should provide the following documents:

- two copies of application
- copy of the invoice proving the deposit of the down payment to the auction organizer
- for legal entities – copy of certificate of state registration and the representative's power of attorney certified in accordance with legislation
- for individuals – copy of passport and power of attorney of the authorized representative.

The auction commission decides on admittance to the auction. Foreign investors can participate in the auctions on equal terms with all others. On the day of the auction the winner signs a protocol (minutes) with the organizer of the auction which has the power of a contract.

Selling shares of privatized companies on exchange and on off-exchange markets

The shares of companies to be privatized can be sold on the stock exchange or by concluding off-exchange agreements.

Within the course of the privatization program for 2005-2006, the Government has introduced a number of changes into the process of selling strategically important assets, which has had a positive impact. The State retains at least a 51% stake in enterprises and assets with strategic importance for country's economic stability. In all other instances state- owned enterprises and assets can be fully privatized. For instance, the entire state share of such large enterprises as the Samarkand tea-packing factory, JSC Ahangaran-Cement, JSC Bukhorogips and others has been sold. At the beginning of 2007 the number of joint-stock companies with the participation of the state was 921 (48.7%), a threefold decrease in the last three years.

Taking into account past experience, the State Property Committee has developed a method for selling state assets. After acquiring a non-controlling stake in a strategically important enterprise and investing into technological modernization of that enterprise, the buyer, upon Government's decision, can be granted a right to manage the state's share, which should provide an opportunity to establish management control and achieve transparency in the financial flows of the enterprise. Furthermore, if the investor proves to be an efficient manager, the State Tender Commission, responsible for selling state shareholdings in strategically important enterprises to foreign investors, can independently make a decision to sell the remaining state shares to that investor. On the other hand, recent Presidential decree #UP-3897, 20.07.2007, has introduced "golden share" rule. Whenever this rule is applied by Government with respect to a privatized strategically important enterprise where there is no state share or it is up to 25%, the State Property Committee has right to include its representative into board of directors of that enterprise empowering the State Property Committee to veto certain major decisions of the enterprise.

The possibility of security market growth (mainly primary market) by means of state shares can be estimated at 682.8 bln sum (USD 540 mln). Accordingly the forecasted number of joint ventures without state participation in statutory capital can increase by 560 in the near future.



Snowy picks of Tian Shan
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After acquiring a non-controlling stake in a strategically important enterprise and investing in technological modernization of that enterprise, the buyer has a right to manage the state's share

Opportunities under privatization

The 2007 receipts from the sale of state-owned assets and shares through the trades at the securities markets increased almost two folds compared to 2006 and amounted to UZS 111.1 billion (USD 87.9 million).

The State adopted a policy of selling unprofitable enterprises at zero redemption cost in return for investment commitments. In 2007, 15 state assets were sold at zero redemption cost. The bad debts of the enterprises bought at zero redemption cost were written off. The new Privatization Program (2007-2010) provides the list of 75 sites for sales at zero redemption costs.



CHAPTER 7

SUCCESSFUL INVESTMENT STORIES IN UZBEKISTAN



CHAPTER 7

SUCCESSFUL INVESTMENT STORIES IN UZBEKISTAN

7.1 FDI inflows: current situation

There is a range of estimates for foreign direct investment inflows depending on the source. The foreign investment figures from the Government include guaranteed foreign loans to firms as well as FDI (see page vi for detailed explanation of FDI statistics). Even when these loans are subtracted out, the official figures for FDI are still many multiples of the figures shown in different international publications. Given the sizable investments made in the telecoms and oil and gas industry, it could be that the international publications missed out on some the large FDI deals.



Isuzu cars assembled in Uzbekistan
© Uzexpocenter

Table VII.1. Foreign investments in 2001-2007 (USD million)

	Foreign investments	FDI
2001	823.9	96.5
2002	516.5	80.1
2003	602.1	166.7
2004	754.6	333.8
2005	746.6	545.5
2006	895.7	683.8
2007	1,285.9	1,013.6
2008 estimated	1,415	975.3

Source: MFERIT

There is also a great deal of volatility in FDI figures and even more so for Uzbekistan because of the progress of the privatization programme just discussed. The variation in FDI inflows is influenced by the volume and value of state assets being sold. According to the Government foreign direct investment inflows were USD 1,013.6 million in 2007 (see Table VII.1). The sectoral breakdown for foreign investment in 2007 shows a concentration in hydrocarbons, IT and telecommunications, light industry and electrical engineering (see Table VII.2).

Table VII.2. Foreign investments in 2007 (USD million)

	Foreign investments	FDI
Oil and gas	574.3	565.4
IT and telecommunications	217.5	206.3
Light industry	95.33	95.3
Electrical engineering	94.7	94.7
Transport	87.5	-
Agricultural sector	76.6	31.8
Education	31.5	-
Public health services	24.1	1
Ferrous and non-ferrous metallurgy	7.0	-
Construction materials industry	6.9	-
Chemical industry	1.4	1.4
Others	68.9	17.7
Total	1,285.9	1,013.6

Source: MFERIT

The United Kingdom, the Republic of Korea, Turkey, the Russian Federation and the United States have been among the largest investors in Uzbekistan, with the FDI directed mainly to the mining, tobacco, automotive and oil and gas sectors. The most sizeable foreign investments

to date have been made by BAT (tobacco), Daewoo Corp (automobile manufacture, trading, textiles), Case New Holland (agricultural machinery), LUKOIL and Gazprom (oil and gas), and VimpelCom (telecommunications).

In addition the auto sector is also gaining new impetus for expansion. General Motors, the world's largest carmaker, established a joint venture with UzAvtosanoat to produce and distribute Chevrolet cars in Uzbekistan. The joint venture, called GM Uzbekistan, extends Chevrolet's rapid expansion in Eastern Europe and Asia. Under the terms of the joint venture, GM holds a 25% equity stake with the option of increasing this amount in the future. GM provides new technology, manufacturing expertise and training for the joint venture. In addition, senior GM managers hold key positions in the new joint venture, particularly in manufacturing, quality, and sales and marketing. The GM Uzbekistan manufacturing plant, situated in Asaka, Andijan Province, 350km from the Uzbek capital, Tashkent, has a total manufacturing capacity of 250,000 units, which over time will be fully utilized for producing Chevrolet cars – Epica (business class car), Captiva (jeep), and Tacuma (family minivan) models. Until now, the Asaka assembly plant, which started production in 1996, has been producing Daewoo Matiz, Nexia and Damas for sale in domestic and neighboring markets. Besides producing Chevrolet models, it is also planned to implement a number of localizations projects of component parts which will contribute to the development of the industry.

Thus, FDI is expected to increase significantly during 2008-2010. In 2009, Government estimates that FDI flow will be around USD 1.9 billion. Since almost all state enterprises in the post soviet area have been privatized in the early years of independence, Uzbekistan now can be viewed as one of the most attractive destinations for foreign investors.

7.2 Company case studies

The following success stories were chosen because the enterprises met almost all of the following criteria: a) in operation for at least 2 years; b) significant income and employment effects; c) source part of their inputs locally and have the potential to increase local sourcing.

Trading/Textiles

Daewoo International Corporation/Daewoo Textile Company

Based on many years of economic cooperation, the Republic of Korea enjoys a close relationship with Uzbekistan. The Republic of Korea is one of Uzbekistan's largest foreign investors and second largest trade partner.

In recent years, the two countries have especially benefited from third-party trade, in which Uzbekistan makes goods using its ample natural resources while Korean companies help sell them to a third country using their worldwide information, telecommunications and transaction networks. There is also a historical side to the relationship. The two countries are bound by the presence of 250,000 ethnic Koreans in Uzbekistan, a legacy of the Stalinist regime when Uzbekistan was part of the former Soviet Union.

At the center of increasingly solid ties between the two countries is Lee Tae-Yong, the President and CEO of Daewoo International Corp., who has spearheaded business in Uzbekistan and helped position the trading company as a major player in Uzbekistan's economy.

Since 2002 Daewoo International earned USD 70 million in trading profits involving Uzbekistan; USD 62 million of which was through third-party trade.

Uzbekistan has enlisted Daewoo International to help unprofitable textile enterprises. The Korean company has been given opportunities to open and to manage certain textile companies. In June 1997 it created Daewoo Textiles to produce cotton yarn, cotton fabric and double yarn. Daewoo International now operates three textile firms in Uzbekistan. Its exports to various parts of the world including to the Republic of Korea and Japan, exceeded USD 32 million.

"Uzbekyengilsanoat" (Uzbek Light Industry) and "Daewoo International" have recently signed a protocol to reorganize at least six textile enterprises in Uzbekistan.



Chevrolet Captiva produced by GM Uzbekistan
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Daewoo Textile company
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Spentex Industries Limited/ Spentex Tashkent Toytepa LLC

Spentex Industries Ltd. entered textile industry of Uzbekistan in July 2006 by acquisition of Tashkent-Toytepa Textile LLC (former Kabool Textile) for about USD 81 million, which provided the company with strategic positioning to East European markets and huge access to local raw material-cotton. The transaction comprised of acquisition of two manufacturing facilities located in the cities of Tashkent and To'yetpa. These two state-of-the-art plants are the largest yarn manufacturing facilities in Central Asia with an installed capacity of 220,000 spindles and a weaving capacity of 236 air jet looms.

The deal was considered as a first largest foreign investment by India and one of the largest in the textile industry of Uzbekistan. The government of Uzbekistan provided a number of incentives including 15% discount for raw cotton, corporate income tax, custom duty and VAT exemptions. Spentex Tashkent Toytepa LLC has recorded a turnover of USD 87.2 mln and profits after tax of USD 2.9 mln in 2007.

Spentex Industries Limited, an India-based largest yarn producer company, operates in three business segments: textile manufacturing, textile trading and other trading. The products include cotton yarn, fibre yarn, synthetic yarn, polyester cotton yarn and related products. The Group's operations are carried out in India, Netherlands, Mauritius, Uzbekistan, Cyprus and Singapore. With the total capacity of 570,000 spindles per year, Spentex surpassed Vardman Group (India) its closest and main competitor in the textile industry of India.

Telecommunications and Media

Mobile Tele Systems (MTS)/Uzdunrobita

Mobile TeleSystems (MTS) of the Russian Federation spent USD 121 million on the acquisition of a 74% stake in Uzdunrobita in July of 2004, the largest cellular operator of Uzbekistan. In June 2007 MTS purchased the remaining 26% of the stock for USD 250 million. The reason for paying such a high premium was because at the time of purchase only 1.5% of Uzbekistan's population used mobile telephones. The remaining 27 million people represent potential clients of MTS. Hence, experts approved the deal calling it an "investment in the future".

Commenting on the deal, Vasily Sidorov, the President of MTS stated, "Penetration of cellular communication is very low on the Uzbek market, about 1.5%; we are buying into a prospective market. The price includes the value of the future of this market". Vladimir Lagutin, General Director of Sistema Telecom (managing company for telecommunication assets of AFK Sistema, the major shareholder of MTS), said that this acquisition opened the gates to Central Asia for MTS. Lagutin added that "The benefit of such acquisition will be more obvious when the economies of the Asian republics of the CIS grow." According to Lagutin, Ericsson and Huawei, the world's largest suppliers of mobile communication equipment, evaluated the prospects of the region a few years ago and entered the Uzbek market through cooperation with Uzdunrobita.

The client base of "MTS-Uzbekistan" (Uzdunrobita) reached 4.32 million people at the end of July 2008, increasing more than twenty folds since the company was acquired by MTS in July of 2004. The share of MTS's Uzbek subsidiary made up 5% of its total subscriber base. Currently "MTS-Uzbekistan" is the leader among all subsidiaries of "MTS" in its rate of growth.

The financial results of MTS-Uzbekistan have also been very encouraging. Net profit in the end of 2007 reached USD 90 million.

Table VII.3. MTS - Uzbekistan

	2006	2007	1h2007	1h2008	Change, %
Revenues, USD million	137	248	106	172	62.3
OIBDA, USD million	84	158	68	107	57.4
OIBDA margin, %	63.50	63.50	64.10	61.90	-2.2
Net Profit, USD million	37	90	-	-	-
Number of subscribers, mln	1.45	2.8	1.9	4.4	131.6

Source: Annual Financial Report, 2008



MTS in Uzbekistan

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Vimpel-Communications OJSC/Unitel

Russian OJSC Vimpel-Communications (VimpelCom) acquired 100% of Bakrie Uzbekistan Telecom LLC (Buztel) from Altimo (Alfa Group) and Unitel LLC from the consortium of foreign investors including Germanos S.A. and the European Bank for Reconstruction and Development in January of 2005. Both Unitel and Buztel hold licences to provide mobile services in GSM-900 and GSM-1800 standards.

The price paid for Buztel and Unitel was USD 60 million and USD 200 million respectively. In both cases VimpelCom also had to assume their debts. The deal became the largest merger and acquisition in Uzbekistan in 2006. The same year VimpelCom announced completion of the restructuring of the two companies, followed by merger of Buztel and Unitel and switch to the Beeline brand. The acquisition of Buztel provided VimpelCom with an access to the widest GSM frequency spectrum available to any GSM operator in Uzbekistan, which, in addition to the frequency resource of Unitel, provided significant savings on capital expenditures for the merged company. Also, the merger of two companies resulted in a market consolidation in Uzbekistan and an improved competitive position for the merged company.

The number of VimpelCom (Beeline) users in Uzbekistan rose by over 1.1 million users in the first quarter of 2008 to a total of 2.4 million subscribers. The financial results of the company's branch in Uzbekistan are presented in the table below.

Table VII.4. OJSC VimpelCom, Uzbekistan

	2006	2007	1h2007	1h2008	Change, %
Revenues, USD million	55.4	107.4	41.4	88.2	113
OIBDA, USD million	32.1	54.7	20.1	47.0	134
OIBDA margin, %	58	51	48.50	53.20	4.7
Net Profit, USD million	8.2	19.6	-	-	-
Number of subscribers, '000	0.4	1.3	1.2	2.8	133

Source: Annual Financial Report, 2008

TeliaSonera/COSCOM

Foreign enterprise Coscom was established in April 1996 as a joint venture between MCT Telecom Corp., US (99.2%) and local partner (0.8%). In July 2007 the major shareholder of JSC Coscom has become Swedish-Finnish company TeliaSonera by acquiring MCT Telecom Corp. for the total of USD 300 million (including USD 151 million for the shares of Coscom). The management of the company was transferred to Fintur Holdings B.V.

In 2007 the company started to increase the existing capacities and in 2008 rebranding was accomplished with introduction of the new trade mark "UCell". These both events contributed to successful operation of the company in the market. The number of subscribers has grown from 500,000 in the beginning of 2007 to more than 1.5 million in July of 2008.

TeliaSonera is one of the leading European player in telecommunications. It was one of the first companies to introduce GSM technologies in 1993. The company has 700,000 stockholders and 28,000 employees in 18 countries of the world. In 2007, the number of subscriptions reached approximately 115 million in the majority-owned operations and associated companies and operating income, excluding non-recurring items, totaled to SEK 27.5 billion.

Food Processing

Wimm-Bill-Dann Tashkent LLC

In April of 2004 Russian Wimm-Bill-Dann purchased 76.98% shares of OJSC "Toshkent-Sut", the largest dairy products producer in Uzbekistan. Subsequently, the Russian company bought the rest of the shares and became the sole owner of the company which was renamed into



Beeline in Uzbekistan
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Wimm-Bill-Dann in Uzbekistan
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Successful investment stories in Uzbekistan

“Wimm-Bill-Dann Tashkent” LLC. In January 2005 the investor received the government guarantee on its first project in Uzbekistan. In accordance with the official government resolution, the company was granted special customs and tax privileges. In December of 2005 the company started production of milk, curds, and cheese.

Currently, daily production capacity equals to 100 tons of milk with production including pasteurized milk, cream, sour cream and other dairy products of brands “Domik v derevne” and “Veseliy molochnic”. Total investments into the Uzbek dairy industry are expected to reach USD 7.3 million by 2009.



Nestlé dairies
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OJSC “Wimm-Bill-Dann” was established in the Russian Federation in 1992. Currently, the company owns 37 production sites in 10 countries with staff of around 19,000 employees serving 280 million consumers. Wimm-Bill-Dann has a developed regional network. The company’s distributors’ network extends to more than 40 cities and retail branches are open in 26 cities of Russia and countries of CIS. The company offers its customers 1,100 types of milk products and 170 kinds of juice drinks. Wimm-Bill-Dann occupies the leading position in the Russian and CIS market for dairy and baby food products.

Nestlé/Nestlé Uzbekistan MChJ

Nestlé established a representative office in Tashkent in 1996. In 1998 the company bought a 34.9% stake in Nafosat (formerly Namangan Dairy Plant, a division of Uzmyasomolprom) for USD 287 000 with setting up a joint venture Nestlé-Uzbekistan in 1999 with charter capital of USD 7 million. The same year the presidential decree authorized USD 30 million investment programme planned until 2005 for the construction of a dairy factory and a mineral water bottling plant.

The indicative annual turnover is USD 11-12 million. Nestlé’s long-term strategy in Uzbekistan is to focus mostly on the local market (27 million consumers) and on neighbouring countries, when possible.

Nestlé with headquarters in Vevey, Switzerland was founded in 1866 by Henri Nestlé and is today the world’s leading nutrition, health and wellness company. Sales for 2007 were CHF 107.6 bn, with a net profit of CHF 10.6 bn. It employ around 276 050 people

Carlsberg/Carlsberg Uzbekistan

In June 2006, a joint venture Baltic Beverages Holding (50% owned by Carlsberg, 50% by Scottish&Newcastle), invested in a new brewery in Tashkent, Uzbekistan, together with a local partner Sarbast Plus. The plant with total capacity to produce 10 million decalitres a year was built in Tashkent and financed through the direct investments of BBH (EUR 22.2 million) and loan financing (EUR 32 million). In 2008, as part of the acquisition of S&N by Carlsberg, the company gained an overall control of the business interests in the Baltic Beverages Holdings.

Currently, the brewery produces Sarbast® Original, Sarbast® Extra, Tuborg Green®, Baltica No.3 and Baltica No.9 beer brands.

Carlsberg Breweries is one of the leading brewing groups in the world, with over 31,000 employees, annual beer sales of around 8.3 billion litres and operations at 105 sites in 49 countries. Carlsberg Breweries’ primary focus is the production, sale and marketing of beer, with secondary activities in soft drink and water production. It concentrates its efforts on three key markets: Western Europe, Eastern Europe and Asia.



Carlsberg in Uzbekistan
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Chemical

MAXAM Corp. S.A.U./Maxam-Chirchik

One of the biggest deals of 2007 was acquisition of 49% shares in OJSC “Elektrokhimprom” by Spanish MAXAM Corp. S.A.U. for USD 22 million together with USD 50 million of investment obligations for the period of 5 years. The plant was renamed to OJSC “Maxam-Chirchik” and

the Spanish company has introduced three representatives in the Supervisory Board of the company. Also, Spanish specialists have started overseeing operating management of the company. By the results of 2007, the plant has posted significant growth of main production volume, as well as start of modernization program implementation.

MAXAM is an international company, leader in the development, manufacture and sale of civil explosives and initiation systems for the mining, quarry and infrastructure industries in addition to a leading producer of hunting cartridges and powders for sporting use, and products for the defence industry. Furthermore, MAXAM is a key supplier of raw materials to the Nitrochemical sector, both for MAXAM's internal needs and for sale to third parties. Likewise, MAXAM offers its clients a series of technologies associated with its experience as a supplier of high-energy products.

Electro technical

Deutsche Kabel AG Tashkent

Deutsche Kabel AG Tashkent was established on the basis of Scientific-Production Enterprise Elektrosignal, which produced special types of cable and wires for complex equipment used in underground and underwater exploration and development projects.

In October of 1998 during the process of privatization the German company West-Wostok-Techik GmbH purchased the controlling stake in the company. In May of 1999 Elektrosignal was reorganized into an Uzbek – German joint venture in form of joint stock company Deutsche Kabel AG Tashkent.

Currently, Deutsche Kabel AG Tashkent produces cable and wire products for a broad range of purposes. These are power and control cables with plastic isolation and envelopes for stationery construction, power and supply cables for mobile current collectors, cables for urban telephone networks, cables for radio sets, computers, adjusting wires, wires for airline electricity transmission, sinking pump wires for winding motors, wires and cords for different types of household electrical devices, other cable products, as well as plants for testing wire and cable lines with different voltage capacities. In 2005 the company started producing wire straps made from steel wire for bales of cotton and other goods.



Products of the Deutsche Kabel AG Tashkent
30 Economic Review Magazine

Appendices

1. Major foreign investment legislation

1. Law of the Republic of Uzbekistan "On foreign investments" # 609-I, 30.04.1998
2. Law of the Republic of Uzbekistan "On guarantees and means of protection of foreign investors' rights" # 611-I, 30.04.1998
3. Law of the Republic of Uzbekistan "On investment activities" # 719-I, 24.12.1998
4. Decree of the President of the Republic of Uzbekistan "On establishment of Free industrial and economic zone in Navoi region" # UP-4059, 2.12.2008
5. Decree of the President of the Republic of Uzbekistan "On additional measures for stimulation of the modernization, technical and technological re-equipment of the production process" #UP-3860, 14.03.2007
6. Decree of the President of the Republic of Uzbekistan "On additional measures for stimulation of attracting private foreign direct investments" #UP-3594, 11.04.2005
7. Decree of the President of the Republic of Uzbekistan "On additional means for stimulating creation and activities of enterprises with foreign investments" # UP-1467, 31.05.1996
8. Decree of the President of the Republic of Uzbekistan "On additional stimulus and incentives provided for foreign investments" # UP-1652, 30.11.1996
9. Decree of the President of the Republic of Uzbekistan "On additional means on stimulating increase of production of finished consumer goods by enterprises with foreign investments" # UP-3267, 20.06.2003
10. Decree of the President of the Republic of Uzbekistan "On additional means on stimulating export of goods produced by enterprises with foreign investments" # UP-1831, 26.08.1997
11. Provision "On economic norms of investment institutions activities" # 1280, 30.09.2003
12. Provision "On procedure on use of tax incentives for private foreign direct investments" registered in the Ministry of Justice # 1524, 28.11.2005
13. Provision "On procedures on implementation of guarantees set by part 4 of article 3 of the Law of the Republic of Uzbekistan "On guarantees and means of protection of foreign investors' rights." Annex #1 to the Resolution of the Cabinet of Ministers # 180, 02.08.2005
14. Provision "On procedures on conclusion and realization of investment agreements." Annex #2 to the Resolution of the Cabinet of Ministers # 180, 02.08.2005

There are also several legal acts, which are directed at regulation of foreign investors' activities in certain economic spheres.

1. Decree of the President of the Republic of Uzbekistan "On means on attraction of direct foreign investments in prospecting and oil and gas production" # UP-2598, 28.04.2000
2. Resolution of the Cabinet of Ministers "On means on improvement of activities of investment and privatization funds" # 410, 25.09.1998
3. Resolution of the President of the Republic of Uzbekistan "On Program of modernization and technical re-equipment of the enterprises in textile industry for the period of 2006-2008" # PP-510, 13.11.2006
4. Resolution of the President of the Republic of Uzbekistan "On measures for further reforming of silk industry of the country" # PP-512, 15.11.2006
5. Resolution of the President of the Republic of Uzbekistan "On measures of realization investment projects within the Mechanisms of clean development of Kyoto protocol" #PP-525, 06.12.2006
6. Resolution of the President of the Republic of Uzbekistan "On measures on improvement of foreign investments and loans attraction and development" #927, 24.04.2008
7. Provision on taxation of goods (works, services) imported and bought in the territory of the Republic of Uzbekistan at the expense of attracted and guaranteed by the Republic of Uzbekistan borrowed funds in the frame of investment projects with participation of international financial institutions and foreign governmental financial organizations #1366, 24.05.2004

2. List of foreign investment and foreign trade treaties of Uzbekistan

Countries/Organizations that signed international agreements on encouraging and protection of investments			
	State	Signing Date	Date of entering into force
1.	Austria	2 June 2000	19 August 2001
2.	Azerbaijan	27 May 1996	2 November 1996
3.	Bangladesh	18 July 2000	24 January 2001
4.	Bulgaria	24 June 1998	31 March 1999
5.	Czech Republic	15 January 1997	6 April 1998
6.	China	13 March 1992	27 March 1994
7.	Economic Union of Belgium and Luxembourg	17 April 1998	6 February 2001
8.	Egypt	16 December 1992	8 February 1994
9.	Finland	1 October 1992	22 October 1993
10.	France	27 October 1993	15 June 1996
11.	Georgia	4 September 1995	24 May 1999
12.	Germany	28 April 1993	23 May 1998
13.	Greece	1 April 1997	12 March 1999
14.	Hungary	28 October 2002	3 March 2003
15.	India	18 May 1999	28 July 2000
16.	Indonesia	27 August 1996	27 January 1997
17.	Iran	11 June 2000	Not entered into force yet
18.	Israel	4 July 1994	18 February 1997
19.	Italy	17 September 1997	17 September 1999
20.	Kazakhstan	2 June 1997	8 September 1997
21.	Republic of Korea	17 June 1992	20 November 1992
22.	Kuwait	19 January 2004	Not entered into force yet
23.	Kyrgyzstan	24 December 1996	6 February 1997
24.	Latvia	23 May 1996	29 January 1997
25.	Lithuania	18 February 2002	11 November 2002
26.	Malaysia	6 October 1997	20 January 2000
27.	Moldova	21 November 1995	17 January 1997
28.	Netherlands	14 March 1996	1 July 1997
29.	OPEC Fund	11 August 2000	23 July 2001
30.	Pakistan	13 August 1992	Not entered into force yet
31.	Poland	11 January 1995	29 April 1995
32.	Portugal	11 September 2001	Not entered into force yet
33.	Romania	6 June 1996	30 May 1997
34.	Russian Federation	22 December 1997	Not entered into force yet
35.	Saudi Arabia	18 November 1995	10 October 1996
36.	Singapore	15 July 2003	Not entered into force yet
37.	Slovakia	16 May 1995	4 February 1999
38.	Slovenia	7 October 2003	Not entered into force yet
39.	Spain	28 January 2003	19 December 2003
40.	Sweden	29 May 2001	1 October 2001
41.	Switzerland	16 April 1993	5 November 1993
42.	Turkey	28 April 1992	18 May 1995
43.	Turkmenistan	16 January 1996	2 August 1996
44.	Ukraine	20 February 1993	6 June 1994
45.	United Kingdom of Great Britain and Northern Ireland	24 November 1993	24 November 1993
46.	United States of America	16 December 1994	Not entered into force yet
47.	Vietnam	28 March 1996	6 March 1998
48.	United Arab Emirates	17 March 2008	26 April 2008
49.	Japan	15 August 2008	Not entered into force yet

Countries that signed agreements on avoidance of double taxation and prevention of tax evasion		
State	Signing Date	Date of entering into force
Austria	14 June 2000	01 August 2000
Azerbaijan	27 May 1996	2 November 1996
Armenia	-	-
Bangladesh	-	-
Belarus	22 December 1994	11 November 1997
Belgium	14 November 1996	8 July 1999
Bulgaria	24 October 2003	21 October 2004
Canada	17 June 1999	14 September 2000
China	3 July 1996	3 July 1996
Czech Republic	2 March 2000	15 January 2001
Egypt	21 September 1999	-
Finland	9 April 1998	7 February 1999
France	22 April 1996	1 October 2003
Germany	7 September 1999	14 December 2001
Greece	1 April 1997	15 January 1999
Georgia	28 May 1996	20 October 1997
Hungary	17 April 2008	-
Israel	15 September 1998	9 March 1999
India	29 July 1993	25 January 1994
Indonesia	27 August 1996	11 November 1998
Iran	26 April 2002	18 January 2005
Italy	21 November 2000	26 May 2004
Japan	18 January 1986	27 November 1986
Kazakhstan	12 June 1996	21 April 1997
Republic of Korea	11 February 1998	25 December 1998
Kuwait	19 January 2004	3 May 2006
Kyrgyzstan	24 December 1996	17 March 2000
Latvia	3 July 1998	23 October 1998
Lithuania	18 February 2002	11 November 2002
Luxembourg	2 July 1997	2 September 2000
Malaysia	6 October 1997	10 August 1999
Moldova	30 March 1995	28 November 1995
Mongolia		
Pakistan	22 May 1995	12 September 1996
Poland	11 January 1995	29 April 1995
Portugal	14 September 2001	-
Russian Federation	2 March 1994	27 July 1995
Romania	6 June 1996	17 October 1997
Saudi Arabia	18 November 2008	
Singapore	24 July 2008	-
Slovakia	6 March 2003	20 October 2003
Switzerland	3 April 2002	15 August 2003
Tajikistan	-	-
Thailand	23 April 1999	21 July 1999
The United Kingdom of Great Britain and Northern Ireland	15 October 1993	10 June 1995
The Netherlands	18 November 2001	27 May 2002
Turkmenistan	16 January 1996	27 November 1996

Turkey	8 May 1996	30 September 1997
UAE	26 October 2007	-
Ukraine	10 November 1994	13 July 1995
Vietnam	28 March 1996	16 August 1996

Countries that signed trade treaties providing most-favored-nation treatment (MFN)

1. Austria	12. Israel	23. Lithuania	34. USA
2. Bangladesh	13. India	24. Malta	35. Turkey
3. Belgium	14. Iran	25. Luxemburg	36. Finland
4. Bulgaria	15. Ireland	26. Netherlands	37. France
5. United Kingdom	16. Spain	27. Portugal	38. Czech Republic
6. Hungary	17. Italy	28. Pakistan	39. Switzerland
7. Viet Nam	18. Jordan	29. Poland	40. Sweden
8. Germany	19. Cyprus	30. Slovenia	41. Estonia
9. Greece	20. Rep. Of Korea	31. Romania	42. Japan
10. Denmark	21. China	31. Singapore	43. Saudi Arabia
11. Egypt	22. Latvia	33. Slovakia	44. Malaysia

Note: Uzbekistan enjoys GSP regime in trade with EU, USA and Japan

3. Fund for Reconstruction and Development activities

Investment projects included in the investment program of the Fund for Reconstruction and Development (FRD) in 2008-2009, in million USD					
Company	Project	Investments by source			
		FRD	Own funds	Foreign banks' loans	Total
Uzbekneftgaz	Booster station construction at the Pamuk deposit	20.6	49.6	15.4	85.6
	Propane-butane blend plant construction at Mubarek Gas Processing Plant	35.4	45.4	140.8	221.6
	Reconstruction of Dengizkul Gas Refining Plant and construction of compression booster station	22.8	56	17.1	95.9
	Gas pipeline Ahangaran-Pungan construction	65	140.4	0	205.4
Uzkimyosanoat	Construction of "Dehkanabad" potassium fertilizers factory	18.8	20	84.9	123.7
	Reconstruction and modernization of the high-capacity ammonia assembly at JVC "Maxam-Chirchik"	12	21.6	0	33.6
	Reconstruction of ammonia production at JVC "Ferganaazot"	10	2.9	11.8	24.7
Ministry of Agriculture and Water Resources	Overhaul reconditioning of Kashkadarya cascade pumping station	24.9	2.4	0	27.3
Uzbekenergo	Modernization and reconstruction of Navoi-Angren thermoelectric power station	60	164	81.1	305.1
	Guzar-Surhan High-voltage line construction	39.3	29	24.7	93
Tashkent Tractor Plant	Tractor transmission production launching	11.8	0	11.7	23.5
Uzbekistan Airways	Reconstruction and modernization of Navoi international airport (II-III stage)	26	17.7	0	43.7
Total		346.6	549	387.5	1,283.1

4. Legal forms of ownership and their features

Organization of legal form	Number of founders	Minimum capital	Charter Document	Application for registration	Management of the business	Liability	Participants and founders
Limited Liability Company	1-50	50MMW	Charter and Charter Agreement	City and Region Administration Offices	Stockholders meeting	Participants are not liable for the responsibility of organization and act at a risk limited to their shares	Natural and legal persons
Double Liability Company	1-50	50MMW	Charter and Charter Agreement	City and Region Administration Offices	Stockholders meeting	Participants are equally liable for responsibility of organization with their property at amount proportionally to their shares	Natural and legal persons
Open Joint Stock Company	unlimited	USD 400,000	Charter	City and Region Administration Offices	Either Director or Board of Director, or both (whereas Director as a Chief of the Board)	Stakeholders are not liable for the responsibility of joint stock company and act at a risk limited to their shares	Natural and legal persons
Closed Joint Stock Company	3-50	USD 400,000	Charter	City and Region Administration Offices	Either Director or Board of Director, or both (whereas Director as a Chief of the Board)	Stakeholders are not liable for the responsibility of joint stock company and act at a risk limited to their shares	Natural and legal persons
Sole proprietorship	1	none	No charter document	City and Region Administration Offices	By the founder	Personal unrestricted liability of the owner	Natural person
Full Partnership	-	50MMW	Charter Agreement	City and Region Administration Offices	Partners' meeting, but every partner has a right to act on behalf of Partnership	Partners are jointly (equally) carry secondary liability with their property for the responsibility of Partnership	Individual entrepreneurs and commercial organizations

5. List of activities subject to licensing and state agencies involved

State agencies	Activities subject to licensing
The Cabinet of Ministers	<ul style="list-style-type: none"> • Development, production, repair and sale of arms and ammunition, protective devices, military equipment and components and instruments (unless used for other purposes) as well as special materials and equipment for their manufacture • Development, production, transport and sale of explosives and toxic substances or articles using the above • Production and sale of protective devices against military poisons • Research and development activities in the area of the use of radioactive materials, including design, construction, production and servicing of technological equipment for radioactive materials and means of protection against radiation • Extraction, production, excavation, processing, use, storage, service, transport, neutralization, utilization and disposal of radioactive materials • Design, construction, operation and repair of oil and gas pipelines and exploration sites • Design, construction, operation and repair of bridges and tunnels • Design, construction, operation and repair of defense installations • Transportation of passengers and cargo by local and international rail lines • Transportation of passengers and cargo by local and international airlines • Service of aircrafts engaged in rendering air services • Airline services • Sale of gasoline and other crude oil products • Production of electric power connected to the integrated power system • Liquidation (destruction, recycling, discharge) and processing of surplus military equipment • Production, refining and sale of oil, gas and gas condensate • Production of rare metals and precious stones • Production and processing of recycled resources and waste containing rare metals and precious stones • Construction and operation of high-risk and potentially dangerous projects • Production of films and TV programs related to documentaries, popular science or animation • Copying and sale of cinema and video programs • Video rentals • Production, repair, sale and operation of encryption equipment

	<ul style="list-style-type: none"> • Geoseismic and cartographic activity • Activities of non-state and religious educational institutions • Manufacture of jewelry from precious metals and stones • Tourism • Production of ethyl alcohol and alcoholic products • Publishing • Processing of raw tobacco and production of tobacco products
Ministry of Internal Affairs	<ul style="list-style-type: none"> • Production, repair and sale of various hunting and sports arms • Design, repair, manufacturing, adjustment and servicing of fire control and protection devices and alarm systems • Cultivation of crops containing drugs
Ministry of Public Health	<ul style="list-style-type: none"> • Storage, sale (distribution), transportation, development, production and destruction of drugs, psychotropic substances (including use of drugs, psychotropic substances in scientific and training purposes, for production needs, as well as for medical and veterinary purposes) • Medical activity • Pharmaceutical activity
Ministry of Finance	<ul style="list-style-type: none"> • Insurance and insurance brokerage services • Auditing services • Organization of gambling houses and lotteries • Tax consulting services
State Property Committee	<ul style="list-style-type: none"> • Valuation services • Commodity exchanges
Center on coordination and control over functioning of securities market	<ul style="list-style-type: none"> • Professional activity of all investment institutes
State Customs Committee	<ul style="list-style-type: none"> • Establishing customs warehouses • Establishing duty-free shops • Establishing warehouses under "free warehouses" customs regimes
Central Bank	<ul style="list-style-type: none"> • Banking activity • Foreign currency operations, issuance of securities • Activity of pawnshops • Activity of credit unions • Activity of micro-credit organizations
Agency on Communication and Informatization	<ul style="list-style-type: none"> • Design, construction, operation and rendering service of local, intercity and international telecommunication lines • Design, construction, operation and rendering services of mobile and personal radiotelephone communication • Design, construction, operation and rendering services of data-transmission networks and TV and radio transmission networks
State Inspection on control of electric power	<ul style="list-style-type: none"> • Conducting special research and development works using electricity
Chief State department on Veterinary medicine of the Ministry of Agriculture and Water	<ul style="list-style-type: none"> • Veterinary medicine activity (mainly in the agricultural sector)
Ministry of Justice of the Republic of Karakalpakstan, Regional and Tashkent City Departments of Justice	<ul style="list-style-type: none"> • Lawyers • Notaries • Wholesale trade of consumer commodities conducted by Republican specialized wholesale warehouses-organizations, territorial warehouses included in the Association of entrepreneurs of wholesale trade and also regional stock companies of Matlubotsavdo
Agency "Uzbeknavo"	<ul style="list-style-type: none"> • Concert touring in and outside Uzbekistan • Concert service provided at weddings, jubilee and other celebrations
State Committee on Architecture and Construction	<ul style="list-style-type: none"> • Development of documentation for architecture and construction • Expert examination of construction projects • Construction work at high altitudes
Uzbek Agency of Automobile and River Transportation	<ul style="list-style-type: none"> • City, commuter, inter-city and international transportation of passengers and cargo by automobile transportation • Transportation of passengers and cargo by river transportation
Agency "Uzstandard"	<ul style="list-style-type: none"> • Production, sale and lease of measuring devices
Council of Ministers of the Republic of Uzbekistan, regional and Tashkent city khokimiyats	<ul style="list-style-type: none"> • Design, production, copying and sale of records, audio cassettes and CDs • Sale of oil products through gas and oil stations
District (city) khokimiyats	<ul style="list-style-type: none"> • Wholesale trade except that conducted by Republican specialized wholesale warehouses-organizations, territorial warehouses included in the Association of entrepreneurs of wholesale trade and also regional stock companies of Matlubotsavdo

6. Travel regulations

Rules of entrance and stay in Uzbekistan



Dedeman Silk Road Hotel, Tashkent
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Entry visa can be obtained in the consular missions of the Republic of Uzbekistan abroad. In Tashkent Airport visas can only be issued to those persons, who are arriving from the countries where the Republic of Uzbekistan does not have permanent diplomatic or consular missions.

The Republic of Uzbekistan has diplomatic missions in following countries: Afghanistan, Austria, Azerbaijan, Belgium (Luxemburg), United Kingdom, Germany, Egypt, Italy, India, Indonesia (Vietnam), Iran, Israel, Kazakhstan, Kyrgyzstan, China, Rep. of Korea, Latvia, Malaysia, Pakistan, Russian Federation, Saudi Arabia, USA (Canada), Tajikistan, Turkmenistan, Turkey, Ukraine, France, Japan; and consular departments in following cities: Athens (Greece), Dubai (UAE), Jeddah (Saudi Arabia), New York (USA), Bangkok (Thailand), Istanbul (Turkey), Frankfurt-am-main (Germany), Mazari-Sharif (Afghanistan).

Due date of visa issue for persons wishing to visit Uzbekistan upon invitation by legal entities or permanent missions of foreign countries, international organizations accredited in the Republic of Uzbekistan and private persons is not to exceed 4 working days after application submission day.

Tourist visas are issued by consular departments of Uzbekistan abroad, due date for issuing such visas is also not to exceed 4 working days after application submission day.

Prior to obtaining business and tourist visas one should fill out appropriate visa application forms and present documents, the list of which is to be provided by diplomatic or consular missions of the Republic of Uzbekistan.

To obtain transit visa one should fill out visa application form and present passport with the visa of the destination country, and travel documents with the confirmation of departure date from Uzbekistan.

Foreign citizens visiting Uzbekistan can stay in hotels or take different housing at their option.

Foreign citizens must obtain a temporary residence permit upon arrival in Uzbekistan within 3 working days if they are staying more than 15 days. Registration is done by internal affairs officials according to visa expiration date depending on the type of visit. Registration of foreign citizens is also done in hotels.

Heads of parliamentary and government delegations, members of their family, technical staff of the delegation, persons arrived in Uzbekistan with UNO passports are exempt from visa requirement.

Currently, the Government of Uzbekistan is liberalizing the visa regime and creating more favorable conditions for visiting the country by business people and tourists. In particular, for citizens of Austria, Belgium, United Kingdom, Germany, Spain, France, Switzerland and Japan, simplified rules of visa obtaining have been established. They provide opportunity to apply for a visa directly to the diplomatic and consular departments of the Republic of Uzbekistan that issue a visa within 2 working days.

Foreign citizens entering the Republic of Uzbekistan for professional activity can work in Uzbekistan only with the permission of the Ministry of Labor of the Republic of Uzbekistan which has been obtained by the employer. Permission to employ foreign labor can be given to Uzbek legal entities and enterprises with foreign capital.

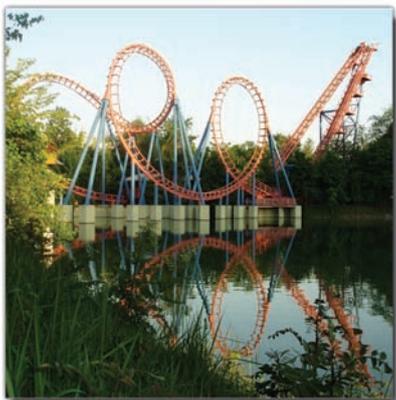
Visa-free entrance

The states with which the Republic of Uzbekistan has established a visa-free regime with the following states of the CIS: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyz Republic (up to 60 days), Moldova, Russian Federation, Turkey and Ukraine.

Tajikistan - for citizens with diplomatic and service passports for the period of 30 days, and also for inhabitants of frontier areas - for the period of 5 days;

Turkmenistan – citizens with diplomatic and service passports for the period of 30 days, and also for inhabitants of frontier areas - for the period of 5 days.

Citizens with diplomatic and service passports from some European countries: Hungary - for the period of 30 days, Slovakia and Romania - for 90 days.



Tashkentland – popular recreation and amusement place
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7. Useful contacts

MINISTRY OF FOREIGN ECONOMIC RELATIONS, INVESTMENTS AND TRADE OF THE REPUBLIC OF UZBEKISTAN - REGIONAL OFFICES			
Region	Address	Area code	Telephone number
Andijan region	126, Navoi street, Andijan city andmfer@mail.uz	374	222-25-81
Bukhara region	1, Muminov street, Bukhara city infobfer@mail.ru	365	224 37 81
Djizak region	63, Rashidov street, Djizak city gvtia@intal.uz	372	226 36 68
Ferghana region	22, Marifat street, Fergana city fer_mfer@simus.uz	373	224 76 88
Karakalpakstan Rep.	96-a, "Doslik Guzari" street, Nukus city aferrk2004@mail.ru	361	222-55-50 222-14-79
Kashkadarya region	2, Mustakillik square, Karshi city kdaves@uzpak.uz	375	221 07 42
Khorezm region	23, Al-Khorezmiy street, Urgench city khorezmuz@rambler.ru	362	226 40 59
Namangan region	9, Navoi street, Namangan city ngmfer@mail.ru	369	226 29 04
Navoiy region	77, Halklar Dustligi, Navoi city navoives@mail.ru	436	223 63 62
Samarkand region	21, Kuk Saroy square, Samarkand city samafer@mail.ru sher-zod1@yandex.ru	366	231 03 76
Syrdarya region	1, Hero alley, Gulistan city sirdmves@yandex.ru	367	224 08 37
Surkhandarya region	Hakim At Termezi street, Termez city mfer.surkhan@mail.ru	376	227 22 63
Tashkent city	1, T.Shevchenko street, Tashkent secretary@mfer.uz	371	238 50 00
Tashkent region	17, Movaraunnahr street, Tashkent city tashvesit@mfer.uz	371	233 70 07

THE INFORMATION SUPPORT & FOREIGN INVESTMENTS PROMOTION AGENCY "UZINFOINVEST"

1, Taras Shevchenko st., 100029, Tashkent, Uzbekistan
 Tel.: (99871) 2389100
 Fax: (99871) 2389200
www.investuzbekistan.org, www.uzinfoinvest.uz
 e-mail: info@uzinfoinvest.uz

CHAMBER OF COMMERCE AND INDUSTRY OF THE REPUBLIC OF UZBEKISTAN - REGIONAL OFFICES			
Region	Address	Area code	Telephone number
Andijan region	122, Navoi street, Andijan city	374	298 11 02, 222 17 37
Bukhara region	1a, Mustakillik street, Bukhara city	365	770 11 02, 770 11 03
Djizak region	63, Rashidov street, Djizak city	372	771 71 02
Ferghana region	58, M. Kosimov street, Fergana city	373	229 71 02
Karakalpakstan region	112a, Amir Timur street, Nukus city	361	770 71 02, 222 01 46
Kashkadarya region	3, Mustakillik square, Karshi city	375	221 06 40, 525 08 28
Khorezm region	30, Al-Horezmi street, Urgench city	362	770 51 02, 226 52 44
Namangan region	7, Nasir street, Namangan city	3692	23 11 02, 23 11 06
Navoiy region	33, Memorlar street, Navoi city	436	770 31 02, 222 05 59
Samarkand region	148, Mirzo Ulugbek street, Samarkand city	366	234 27 59, 234 26 73
Surkhandarya region	14, F.Hodjaeva street, Termez city	376	770 81 02, 770 81 05
Syrdarya region	35, Mustakillik street, Gulistan city	367	221 11 02, 225 47 87
Tashkent city	14, Movarounnahr street, Tashkent city	371	150 31 02
Tashkent region	68/4, Lisunova srt., Tashkent city	371	150 91 02, 150 91 04

Ministry of Justice of the Republic of Uzbekistan, Department for protecting the rights of foreign investors – Regional offices			
Region	Address	Area code	Telephone number
Andijan region	13, Rashidov street, Andijan city	374	224 24 92
Bukhara region	28, Muminiv street, Bukhara city	365	223 21 20
Djizak region	63, m-v Rashidov street, Djizak city	372	226 35 81
Ferghana region	149, M. Kasimov street, Fergana city	373	224 46 33
Karakalpakstan Rep.	m-v Sarvinoz, Nukus city	361	223 93 94
Kashkadarya region	2, Mustakillik street, Karshi city	375	221 19 52
Khorezm region	90, Samarkand street, Urgench city	362	226 65 50
Namangan region	6, Lutfiy street, Namangan city	369	226 36 62
Navoiy region	4, Matvienko street, Navoi city	436	223 01 38
Samarkand region	21, Kamol Otaturk street, Samarkand city	366	233 13 59, 233 52 31
Syrdarya region	24, Al-Khorezmi street, Gulistan city	367	225 09 69
Surkhandarya region	40, A.Ikramov street, Termez city	376	227 57 98
Tashkent city	5, Sayilgoh street, Tashkent	371	233 13 05
Tashkent region	93, U. Nosir street, Tashkent city	371	363 50 98
Telecommunication service providers			
Name	Services	Address	Telephone number (+99871)
Fixed line operators			
Uzbektelecom	National telecom operator	24, A.Timur street, Tashkent	233 42 59 www.uzbektelecom.uz
East Telecom	Digital telecom operator	28/18, Afrosiyab street, Tashkent	150 01 02 www.easttelecom.uz
Buzton	Digital telecom operator	Khamid Olimjon, Tashkent city	120 77 20 www.buztel.uz
Sharq Telekom	Telecom operator	39/41, Zarkaynar street Tashkent	113 00 00 www.st.uz
Unitech	Telecom operator	107a, A.Timur street, Tashkent	238 90 09 www.unitech.uz
Mobile telecom operators			
MTS Uzbekistan (Uzdunrobota)	GSM/D-AMPS operator	16, Shayhontohur, Tashkent city	130 09 09 www.mts.uz
Beeline (Unitel)	GSM operator	1, Buhara 1street, Tashkent city	233 33 30; 185 00 55 www.beeline.uz
Coscom	GSM operator	118, Vahidov street, Tashkent city	120 72 65 www.coscom.uz
Perfectum Mobile	CDMA NMT 2000 operator	34, Shevchenko street, Tashkent city	305 11 11, 127 00 77 www.cdma.uz
Uzbektelecom Mobile	CDMA NMT 450 operator	24, A.Timur street, Tashkent city	233 42 59
Internet service providers			
UzNET	Internet provider	24, A.Timur street, Tashkent city	214 63 14 www.uznet.net
Sharq Telekom	Internet provider	39/41, Zarkaynar street, Tashkent city	113 00 00 www.st.uz
Sarkor Telekom	Internet provider	7, Shahrizbskaya street, Tashkent city	122 00 00 www.sarkor.com
TPS	Internet provider	28/18, Afrosiyab street, Tashkent city	150 00 00 www.tps.uz
ROL	Internet provider	m-v Hamid Alimdjan, Tashkent city	120 99 99 www.start.rol.uz
Platinum Connect	Internet provider	107a, A.Timur street, Tashkent city	238 90 09 www.platinum.uz
COMNET	Internet provider	2, Borovskiy street Tashkent city	233 33 35 www.comnet.uz
Ars-Inform	Internet provider	29, Katartal street, Tashkent city	273 55 51 www.ars.uz

Banks		
Name	Address	Telephone number (+99871)
Central Bank of Uzbekistan	6, Uzbekiston street, Tashkent city	233 68 29, www.cbu.uz
ABN Amro Bank NB Uzbekistan	7, Nosirov street, Tashkent city	120 61 41, www.abnamro.com
Aloqa Bank	30, Oybek street, Tashkent city	252 75 40, www.alokabank.uz
Alp Jamol Bank	21, Ataturka street, Tashkent city	232 16 00, www.alpjamolbank.com
Asaka Bank	73, Kahhar street, Tashkent city	120 81 11, www.asakabank.com
Credit Standard Bank	25, Kunaev street, Tashkent city	140 12 00, www.credit-standard.uz
Davr Bank	Navoi Zaikarnar str, blokA, Tashkent city	244 90 42, 244 95 01
Galla Bank	36, Shahrisabzskaya street, Tashkent city	233 42 55, www.gallabank.com
Halq Bank	46, Katartal street, Tashkent city	273 89 52, www.xalqbank.com
Hamkor Bank	57, Usman Nosir street, Tashkent city	244 79 19, www.hamkorbank.uz
Invest Finance Bank	18, Navoi street, Tashkent city	140 50 60, www.infinbank.com
Ipak Yuli Bank	12a, Farhadskaya street, Tashkent city	120 00 09, 120 38 99 www.ipakyulibank.com
Ipoteka Bank	17, Pushkin street, Tashkent city	233 11 22, 150 48 88 www.ipotekabank.uz
Kapital Bank	48, Matbuotchilar street, Tashkent city	232 07 03 www.kapitalbank.uz
Mikrokredit Bank	14, Lutfi street, Tashkent city	273 28 11, 273 05 90
NBU	101, Amir Timur street, Tashkent city	233 60 70, 234 90 60 www.nbu.com
Pahta Bank	43, Mukimi street, Tashkent city	120 88 33, www.pakhtabank.com
Parvina Bank	49, Uzbekistanskaya street, Tashkent city	231 05 07
Ravnaq Bank	2, Furkat street, Tashkent city	244 90 10, www.ravnakbank.uz
Saderat Bank	10, Chehov street, Tashkent city	252 11 61
Savdogar Bank	78, Farid Baraka street, Tashkent city	254 19 91, 252 72 21 www.savdogarbank.uz
Turkiston Bank	6, Timur street, Tashkent city	232 09 34
Trast Bank	7, Navoi street, Tashkent city	244 76 22, www.trustbank.uz
Turon Bank	4a, Abay street, Tashkent city	244 35 85, www.turonbank.uz
Uktam Bank	35, M Kosimov, Fergana city	+998 6522 24 87 94
Universal Bank	32, Matbuotchilar street, Tashkent city	233 79 11
UT Bank	15a, Halqlar Dustligi avenue, Tashkent city	273 83 24, 273 83 25 www.utbk.uz
UzKDB	1, Pushkin street, Tashkent city	120 80 00
Uzpromstroybank	5, Pushkin street, Tashkent city	233 34 26 www.uzpsb.uz

Audit and consulting companies		
Name	Address	Contacts (+99871)
Avesta Investment Group	25, Amir Temur street, Tashkent city, (Uzin-com-center, 2nd floor)	Tel: 244 33 63 Fax: 244 36 67 www.avestagroup.uz
Baho-Konsalt	24, A.Timur street, Tashkent city	241 98 14
Deloitte & Touche LLC	Inconel Business Center 75 Pushkin street, Tashkent city	Tel: 120 44 45, 120 44 46 Fax: 120 44 47
Donaev Management Consulting	2, Uzbekistan Avaziy street, Tashkent city	Tel: 239 89 39, 239 11 83 Fax: 239 45 15 www.donaev.com

Audit and consulting companies		
Name	Address	Contacts (+99871)
Ernst & Young	Inconel Business Center 75 Pushkin street, Tashkent city	Tel: 140 64 82 www.ey.com
Holis Guruh	36, Shakhreizabs street, 6th floor, Tashkent	Tel: 236 10 96, 233 30 56 www.holisguruh.uz
KPMG	41, Bolshaya Mirabadskaya 1 street, Tashkent	Tel: 133 88 47, www.kpmg.uz
MS Consult Ltd	2, Afrosiyab street, Tashkent city	Tel: 120 55 35, 237 25 84, Fax: 234 26 34 www.ms-consult.uz
PricewaterhouseCoopers	5, Ivlev street, Tashkent city	Tel: 120 61 01 Fax: 120 66 45, www.pwc.com
SKS Consulting	85, Shakhreizabs street, Tashkent city	Tel: 233 87 97, www.sks-consult.com
Tsiar-Ekspert	85, Shakhreizabs street, Tashkent city	Tel: 233 53 39, 232 07 12 Fax: 233 9334

Insurance companies		
Name	Address	Contacts (+99871)
Alfa Invest	10, Shayhontohur street, Tashkent city	Tel.: 120 68 00, 120 68 01
Alliance insurance	35, Mirabadskaya street, Tashkent city	Tel.: 710 30 00, www.a-insurance.uz
Alskom	24, Amir Timur street, Tashkent city	Tel.: 232 09 64, www.alscom.uz
Ark Sugurta	88, Mustaqillik avenue, Tashkent city	Tel.: 140 03 69, www.arksugurta.uz
Asia Inshurance	18, Navoi street, Tashkent city	Tel.: 300 00 11, www.asia.uz
Asko-Vostok	38, Oybek street, Tashkent city	Tel.: 281 30 47, www.asko-vostok.uz
Ingosstrah	12b, Afrosiab street, Tashkent city	Tel.: 252 28 98
Ishonch	1a, Hodjaev street, Tashkent city	Tel.: 238 69 65, 238 69 66, www.ishonch-iic.uz
Kafolat	5, Mustaqillik square, Tashkent city	Tel.: 233 38 49, www.kafolat.uz
Kapital Sugurta	44, Gandi street, Tashkent city	Tel.: 232 02 33
Madad	53b, Nosir street, Tashkent city	Tel.: 253 40 11
Sayyoh-Sugurta	46, Drujba Narodov avenue, Tashkent city	Tel.: 273 55 75
Standart insurance group	1b, Musakhanov street, Tashkent city	Tel.: 150 01 01, www.sig-insurance.uz
Sugurta Life	13a, Hamid Alimjan square, capital business complex, Tashkent city	Tel.: 120 88 47
Toshkent Sugurta	42a, Drujba narodov avenue, Tashkent city	Tel.: 150 26 81, www.toshkent-sugurta.uz
Transinsurance	21, Bozbozor street, Tashkent city	Tel.: 120 51 09, www.transinsurance-plus.com
Temir Yullari Sugurta	30, Movarounnahr street, Tashkent city	Tel.: 236 01 68, www.tysugurta.sk.uz
Unipolis	7, Navoi street, Tashkent city	Tel.: 241 31 10, 241 31 82
Universal Sugurta	1, Niyozbek Yuli street, Tashkent city	Tel.: 234 67 89
UVT-Inshurance	53, Buyuk Ipak Yuli street, Tashkent city	Tel.: 268 56 65, 268 94 22
Uzagrosugurta	13, Movarounnahr street, Tashkent city	Tel.: 233 32 31, 233 34 8
UZAIG	1, Turab Tula street, Tashkent city	Tel.: 120 67 45, www.aig.com
Uzbekinvest	43a, H.Suleimanov street, Tashkent city	Tel.: 233 49 39, www.uzbekinvest.uz
Uzbekinvest Hayot	4-68, Lisunova street, Tashkent city	Tel.: 252 78 48, www.hayot.uzbekinvest.uz

Law companies		
Name	Address	Telephone / Fax (+99871)
Azizov & Partners	40/2, Musakhanov street, Tashkent city	Tel: 233 23 76 Fax: 236 08 46 www.azizovpartners.uz
Baker and McKenzie – CIS, Limited Tashkent Project Office	Room 705, Floor 7 Inconel Business Center 75 Pushkin street, Tashkent city	Tel: 233 36 43 Fax: 120 61 40 www.bakernet.com
BBM	45, Usmon Nosir street, Tashkent city	Tel.: 255 62 80, 254 15 49 Fax: 254 46 18
Chadbourne & Parke LLP	1, Turab Tula street, 3d floor, Tashkent city	Tel: 120 66 27 Fax: 120 63 29 www.chadbourne.com

Law companies		
Name	Address	Telephone / Fax (+99871)
Council	54, S. Azimov street, Tashkent city	Tel: 233 33 99 Fax: 232 22 00 www.advocate.uz
Denton Wilde Sapte Uzbekistan Co. Ltd."	90, Vakhidov str, Tashkent city	Tel: 120 69 46 Fax: 120 61 85 www.dentonwildesapte.com
Dina Prim	29, Halqlar Dustligi avenue, Tashkent city	Tel: 279 15 48, 333 32 44
Fides	1, Kodjaev street, Tashkent city	Tel: 235 39 89, 235 66 15, 235 89 19
Fikon Advokat	16a, Navoiy street, Office 420, Tashkent city	Tel: 244 34 32 Fax: 241 54 53
Grata	56, Buyuk Turon street, Tashkent city	Tel: 120 47 78 Fax: 120 47 79 www.gratanet.com
Gravamen Fidelis & Fides	45, Musakhanov street, Tashkent city	Tel: 120 77 77, 120 22 05, 120 22 20 Fax: 120 57 13 www.gff.uz
Himoya	13, A. Ikramov street, Tashkent city	Tel: 233 11 13 Fax: 237 13 43
Leges Advokat	1, Turab Tula street, Tashkent city	Tel: 232 62 24, 232 62 21 Fax: 239 15 92 www.leges.uz
Tolegro	21, Buzbozor-7 street, Tashkent city	Tel: 120 51 35 Fax: 120 51 48

Leasing companies		
Name	Address	Telephone number (+99871)
Baraka	1, Khodjaev street, Tashkent city	238 69 23
Business Leasing	37, Askarova street, Tashkent city	150 18 34
Kommunallizing	1, Niyozbek Yuli street, Tashkent city	233 05 42
Poytaxt-Lizing	13a, Hamid Olimjon square, Tashkent city	120 46 62
Qurilish-Lizing	29a, Oltin Vodiy, Tashkent city	250 85 91
Uzavializing	1, Hasanova street, Tashkent city	296 23 80
Uzbek Leasing International A.O.	1, Tarab Tula street, Tashkent city	232 61 73 www.uzbek-leasing.com
UzCaseAgrolizing	2, Ahangaran highway, Tashkent city	120 70 02
Uzselhozmashlizing	4a, Abay street, Tashkent city	244 61 98
Uztranslizing	35, Kadiri street, Tashkent city	244 08 20

Airlines		
Name	Address	Telephone number (+99871)
Aeroflot	1a Abdulla Kadiri street, Tashkent city	120 05 55
Asiana Airlines	16, Afrosiab street, Tashkent city	140 09 00
China Southern Airlines Co, Ltd	12, Afrosiyab avenue, Tashkent city	252 65 57
Domodedovo	9a/1 Kunaev street, Tashkent city	256 83 02, 256 77 54
IMAIR	43, Usman Nasir street, Tashkent city	253 96 59
Iran Air	1, Toy-tepa street, Tashkent city	233 81 63
KrasAir	9a/1, Kunaev street, Tashkent city	256 77 14
Lufthansa	107a, Amir Timur street, Tashkent city	120 74 01; 137 60 65
Perm Airlines	77, Babur street, Tashkent city	255 75 55
Pulkovo	406, Babur street, Tashkent city	232 44 14
Sibir	24, Taras Shevchenko street, Tashkent city	256 83 93
Transaero	6a Besh-Agach street, Tashkent city	233 99 35; 233 27 45
Turkish Airlines	11a, Navoi street, Tashkent city	236 79 89; 236 79 90; 236 79 92;
UM Air Ukrainina Mediterranean Air	4, Movarounnahr street, Tashkent city	236 23 80
Ural Airlines	59, Nukus street, Tashkent city	281 44 43
Uzbekiston Havoyuluri	41, Movarounnahr street, Tashkent city	140 48 10

8. Useful information

Public Holidays

1 January	New Year's Day
8 March	International Women's Day
21 March	Navruz
9 May	Remembrance Day
1 September	Independence Day
1 October	Teachers' Day
8 December	Constitution Day
Floating holiday	Ramazan Khait (Eid Al-Fitr)
Floating holiday	Kurban Khait (Eid Al-Adha)

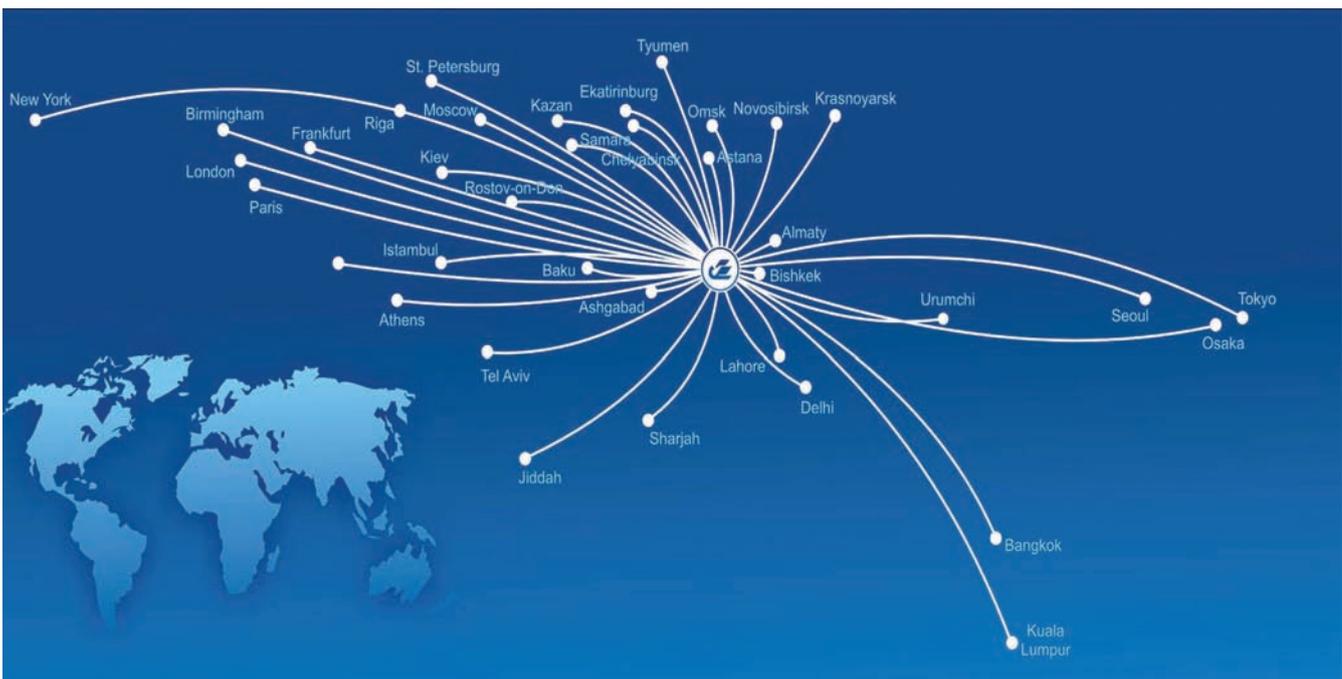


Tea-house in Japanese garden, Tashkent
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Historical currency exchange rates of the Central Bank of Uzbekistan for the period of 1996-2007 (as of December 31), UZS

Year	1 US Dollar	1 Euro	1 UK pound sterling	1 Swiss franc	10 Japanese yen
1996	54.70	-	91.53	41.00	4.76
1997	80.17	-	134.50	56.02	6.16
1998	110.00	-	184.18	80.15	9.42
1999	140.00	141.72	226.31	88.38	13.64
2000	325.00	300.11	479.34	197.59	28.81
2001	686.90	609.56	988.45	416.25	53.02
2002	970.00	1,012.58	1,555.49	697.79	80.90
2003	980.00	1,219.81	1,738.42	782.44	91.59
2004	1,058.00	1,431.90	2,035.27	926.20	102.06
2005	1,180.00	1,395.94	2,044.11	897.20	101.39
2006	1,240.00	1,625.89	2,426.06	1,015.64	104.35
2007	1,265.03	1,744.19	2,510.77	1,066.94	109.11

Flight destinations of national air company Uzbekistan Airways



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