Recommendations for a

National FDI Strategy and Roadmap for Uzbekistan

New Sources of Growth

June 2022

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REPUBLIC OF UZBEKISTAN
Government Fiscal Year: January–December

Currency Equivalents
(Exchange rate as of June 29, 2022)
Currency Unit = Uzbekistan Sum
USD 1.00 = UZS 10,800.55

Weights and Measures
Metric System

List of Abbreviations and Acronyms

BRI	Belt & Road Initiative	LAC	Latin America and the Caribbean
CAGR	Compound Annual Growth Rate	M&As	Mergers & acquisitions
CBA	Cost-Benefit Analysis	M&E	Monitoring & evaluation
EAP	East Asia and Pacific	MENA	Middle East and North Africa
ECA	Europe and Central Asia	MIFT	Ministry of Investment and Foreign Trade
EU	European Union	MNC	Multinational corporation
FD	Foreign Direct Investment	MNE	Multinational enterprise
FEZ	Free Economic Zone	NAM	Non-equity modes
FIC	Foreign Investors Council	OECD	Organization for Economic Cooperation and Development
GDP	Gross Domestic Product	OEM	Original equipment manufacturer
GVC	Global Value Chain	PPP	Public private partnership
IIA	International Investment Agreement	R&D	Research & development
IMF	International Monetary Fund	SAMA	State Assets Management Agency
IPA	Investment Promotion Agency	SEZ	Special economic zone
IPRR	Investment policy & regulatory review	SDA	Strategic Development Agency
ICT	Information & communication technology	UZIPA	Investment promotion agency of the Republic of Uzbekistan
IPA	Investment promotion agency	WDI	World Development Indicators
KPI	Key performance indicator	WTO	World Trade Organization

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Executive Summary

The development of a new Foreign Direct Investment (FDI) Strategy for Uzbekistan comes at an important moment to support Uzbekistan's new development objectives. Uzbekistan has recently launched the *Development Strategy of the New Uzbekistan for 2022-2026* (or New Uzbekistan Strategy), which outlines transformational priorities to advance the development of the country and increase economic growth. The New Uzbekistan Strategy calls for the attraction of US$ 70 billion of foreign investment over the next five years, highlighting the critical importance of developing and adopting an effective FDI strategy.

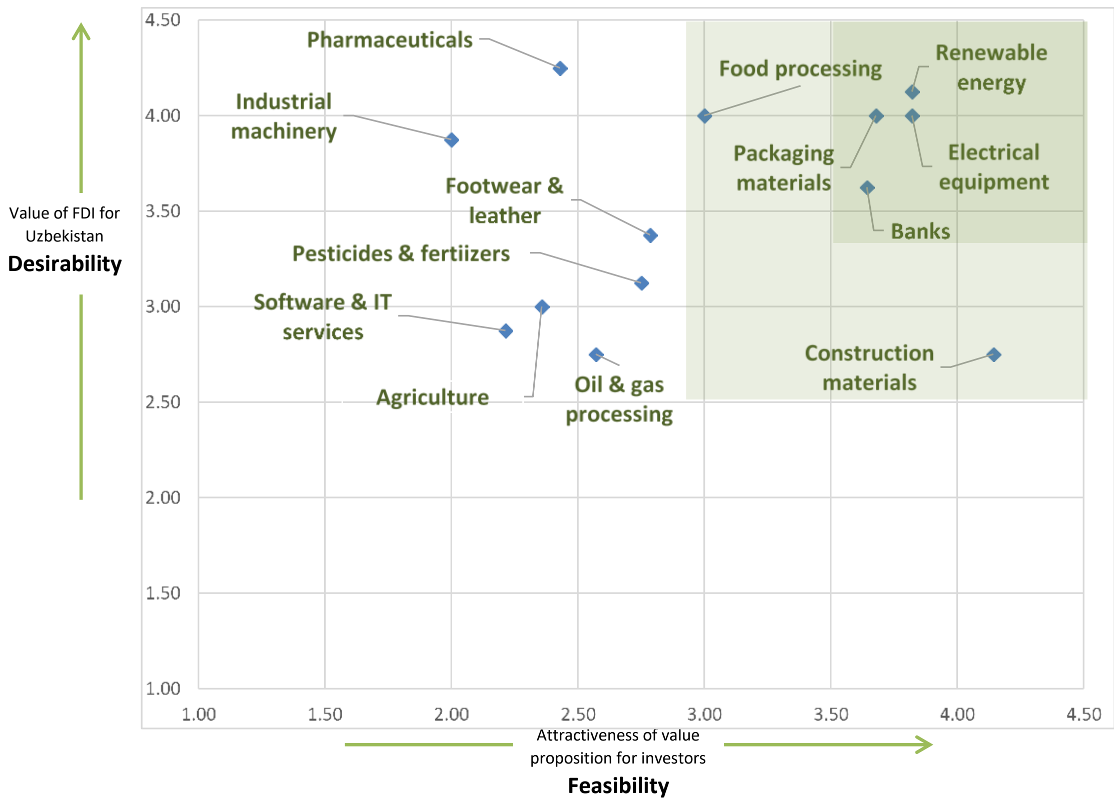
The following report provides core inputs and elements for the government of Uzbekistan to develop a new FDI strategy and roadmap to unlock new sources of growth. It leverages an assessment of Uzbekistan's historical FDI performance and policy context and provides an analysis of current megatrends affecting the global landscape for FDI to identify sectors with high growth potential for FDI attraction in Uzbekistan. It articulates a vision and specific objectives related to FDI attraction for Uzbekistan and proposes explicit, quantifiable objectives and targets to help maximize the contribution of foreign direct investment to Uzbekistan's overall economic development goals. It considers relevant historical FDI trends as well as regional and global FDI trends and provides in-depth analysis of the feasibility and desirability of key sectors for FDI attraction that were selected with guidance from the government. To support effective implementation, the proposed strategy should be underpinned by a detailed reform action plan and roadmap and a comprehensive monitoring and evaluation framework that can be applied by the government to monitor progress with implementing the FDI Strategy.

The analysis of Uzbekistan's historical FDI performance demonstrates the urgent need to attract more and higher quality FDI sourced from additional markets. Uzbekistan's past underperformance and ambitious forward-looking targets illustrate the importance of attracting additional FDI, particularly in more complex and knowledge intensive sectors. This would increase the performance of FDI firms and address critical gaps in innovation, global value chain (GVC) participation, and contribute to the creation of higher skilled employment opportunities. Despite showing an upward trend, Uzbekistan's FDI performance is still lagging behind regional competitors and global comparator countries. In particular, the country has a narrow FDI sectoral composition based mainly on natural resources with limited investment in knowledge sectors and a high reliance upon a small number of FDI source countries. Uzbekistan has seen more and more investment from China in recent years, which is now the number one source of FDI in the country. This position was previously held by Russia, which held over 60 percent in 2009. However, compared to peers, Uzbekistan has attracted relatively less FDI from high-income economies that tend to generate the largest benefits in terms of innovation and GVC linkages. Moreover, the Russia-Ukraine conflict demonstrates the importance of diversifying sources of FDI to avoid overreliance on any single market.

Global megatrends, including the COVID-19 pandemic, Russia's war in Ukraine, the reshaping of global value chains, Industry 4.0, and climate change, are expected to have wide-ranging effects on global FDI flows, with implications for Uzbekistan. Global FDI flows have been heavily impacted by the COVID-19 pandemic, with severe disruptions to global production and trade patterns. As a landlocked country, reliant on outside ports for trade, Uzbekistan is expected to be relatively more affected by overall declining FDI flows in the wake of the pandemic, as well as related supply chain disruptions. Russia's war in Ukraine will have wide-ranging negative impacts on the global economy's nascent recovery; especially the Central Asian region, with its many investment and trade links to a stressed Russian economy will be affected. Next to these disruptive events, Uzbekistan's FDI ambitions will also need to be aligned with gradual transition processes, including the redesign of industrial production processes through Industry 4.0, as well as the increased global focus on climate change and sustainability. Alignment of relevant policies and regulations will be important to help position Uzbekistan as a credible location for firms competing in a rapidly changing global environment. It will be important for the government to increase its efforts to create a compelling value proposition to foreign and domestic investors that not only enables, but actively supports the establishment and development of sustainable industries.

Achieving the ambitious economic development objectives and FDI attraction targets set out by the New Uzbekistan Strategy will require proactive investment promotion activities carefully targeted to the most promising sectors. The government's vision is that by 2026 Uzbekistan will attract US$ 5 billion of foreign direct investment on an annual basis, which represents a US$ 3.4 billion increase over the pre-strategy baseline. A sector competitiveness benchmarking exercise leveraging the World Bank Group's FDI Sector Scan methodology helped identify a set of sectors that is most closely correlated with ensuring that strategy objectives are being met. Priority sectors for FDI attraction are those that offer the most value to Uzbekistan and at the same time are most attractive to investors, as summarized in the visual below (Figure 1). The sector scan leveraged a combination of existing analytical reports (see Annex 9.2), an assessment of the potential viability of investment projects in the sector (see Annex 9.3), and inputs from in-depth private sector consultations (see Annex 9.4) to score potential sectors in two main dimensions: the desirability to attract investments in a certain sector to Uzbekistan (i.e. its 'value' for achieving the county's economic development objectives), and the feasibility to attract investment in those sector to Uzbekistan, based on the country's value proposition to investors. The sector scan also took into account the potential effects of global FDI megatrends examined in this strategy (Chapter 3).

Figure 1 Priority sectors identified for FDI attraction



Source: Author calculations based on sector assessments.

Sectors where Uzbekistan can offer a strong value proposition to investors and where investments offer significant benefits to the Uzbek economy include electrical equipment, packaging materials, banking, and renewable energy. These "ready-to-promote" sectors are sectors where FDI is possible to promote in the short- to medium-term, while sectors with slightly lower scores can be considered 'Aspirational', i.e., requiring additional policy reforms to unlock their full potential for investment attraction. This second category of priority sectors includes food processing and construction materials. The challenge for these sectors is to implement concrete policy reform actions that can help upgrade them to the 'Ready-to-promote' category within a short period of time.

The government of Uzbekistan has implemented an ambitious reform program to enhance the country's investment competitiveness over the last several years. Leveraging these achievements, this report outlines a new reform program to further enhance the country's competitiveness to attract high quality investments in light of the changing global environment for FDI. In 2019, Uzbekistan adopted a new Investment Law and improved the institutional structure for investment promotion by providing the Ministry of Investment and Foreign Trade (MIFT) with the mandate for investment policy, and restructuring the Uzbekistan Investment Promotion Agency (UzIPA). The Government also implemented key reforms allowing for the liberalization of the foreign exchange, efficiency enhancing improvements to business establishment procedures including through digitalization and streamlining, and improved access to information by publishing many laws, regulations, and Presidential and Cabinet of Minister decrees and resolutions online in a dedicated site. It also improved its market access by joining the EU's Generalized Scheme of Preferences (GSP+) in April 2021.

A comprehensive assessment of Uzbekistan's policy landscape for investment reveals key challenges and binding constraints to unlocking new sources of growth and higher levels of foreign direct investment in Uzbekistan. The assessment and identification of binding constraints is based on a combination of inputs including extensive private sector consultations, the Uzbekistan Investment Policy and Regulatory Review (provided in Annex 10), and a review of relevant existing analytical work from the World Bank Group and other key institutions (e.g., the Uzbekistan Systematic Country Diagnostic (2022), the Uzbekistan Country Private Sector Diagnostic (2019), and the Uzbekistan Country Economic Memorandum (2021), as well as the UNCTAD Report on the Implementation of the Investment Policy Review of Uzbekistan (2021), among others). These inputs allowed for a comprehensive assessment of key investment climate barriers and the identification of reforms needed to enhance the investment climate in support of FDI attraction. It is important to note that such reforms must build upon and be complemented by reforms strengthening the enabling environment for the private sector more broadly, including reforms aimed at improving the allocation of land, labor, and finance; increasing competition; enhancing the outward orientation of the private sector; creating better private sector support services; and accelerating agricultural market reforms as laid out in the recently published Systematic Country Diagnostic.[1]

[1] Toward a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/933471650320792872/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan

Reforms to enhance the country's investment competitiveness fall into three main categories:

(i) Improving the investment climate
(ii) Strengthening investment promotion, including related institutions and processes
(iii) Leveraging the full potential of privatization and PPPs for FDI attraction

A proposed strategy implementation action plan and roadmap sets out specific reform actions that the government of Uzbekistan can undertake over the next three to five years to address identified challenges. The action plan outlines a set of concrete policy reform actions aligned with the priority reform areas identified above; proposes timelines for implementation; and specifies responsible government bodies in charge of implementation of the proposed actions. The proposed reforms must build upon and be complemented by reforms strengthening the enabling environment for the private sector more broadly, including reforms aimed at improving the allocation of land, labor, and finance; increasing competition; enhancing the outward orientation of the private sector; creating better private sector support services; and accelerating agricultural market reforms, among others.

A practical monitoring and evaluation (M&E) framework will be essential for measuring progress towards reaching the targets and objectives set out in the FDI strategy. A detailed M&E framework is provided as part of this report, proposing a set of appropriate indicators to measure progress with strategy implementation. The report also outlines related data collection mechanisms and proposes frequency of data collection and responsibilities for progress monitoring and reporting.

An overview of the proposed priority reform actions outlined in the Implementation Action Plan and Roadmap is provided below. The table outlines key reform actions in the three main reform pillars identified, i.e. Investment Climate, Investment Promotion, PPPs and Privatization, and provides indicative timelines and priorities from implementation.

Table 1. Summary of Priority Reforms Identified

Reform Pillar	Reform Actions	Implementation timeframe	Priority
Investment Climate Reforms	**Strengthening the FDI strategic framework**		
	• Adoption of a new investment Strategy	Short term	High
	Modernizing Investment Legislation		
	• Adoption of a modernized Investment Law	Short term	High
	• Adoption and publication of a new model Bilateral investment treaty (BIT); development of a strategy to reform existing BITs	Short term	Medium
	• Creation of an online library of laws and regulations related to investment	Mid term	Low
	• Development and implementation of an action plan to enhance the inclusiveness of the law-making process	Mid term	High
	Making FDI entry and establishment more efficient		
	• Publication of a Negative List to harmonize and centralize restrictions on FDI	Short term	Medium
	• Publication of licensing policies and procedures related to investment	Mid term	Medium
	Strengthening investment protection and retention		
	• Establishment of an effective grievance management mechanism to enhance investment retention and expansion	Mid term	High
	• Strengthening regulations governing lawful expropriations	Short term	High
	Streamlining investment incentives		
	• Publication of an incentives inventory to increase transparency	Mid term	High
	Enhancing the investment climate in priority sectors		
	• Regular reviews of sector-specific investment constraints and investment policy barriers in the sectors targeted by this strategy	Long term	High
	• Alignment of customs tariffs for essential inputs and basic raw materials in the electrical & electronic equipment and packaging materials sectors	Short term	High
	• Enhancing access to electricity for production processes	Long term	High

	• Adoption of an action plan to foster greater competition in the supply of domestic raw materials in the electrical & electronic equipment, packaging materials, and construction materials sectors • Adoption of an action plan for technical skills development in the electrical & electronic equipment, packaging materials, and other sectors • Increasing strategic warehousing capacities in the food processing sector	Mid term Mid term Long term	High Medium Medium
Investment Promotion	**Strengthening investment promotion institutions**		
	• Strengthening UZIPA's strategic focus and alignment • Adoption of a coherent coordination framework for government institutions involved in investment promotion and facilitation • Strengthening UZIPA's governance and operational effectiveness • Strengthening UZIPA's investor service delivery	Short term Short term Mid term Mid term	High High High Medium
	Implementing proactive investment promotion programs to attract new investments in sectors targeted by this strategy		
	• Preparation and implementation of targeted investment promotion campaigns • Establishment of a systematic approach to competitiveness benchmarking	Short term Long term	High Medium
	Implementing targeted investor aftercare programs to increase reinvestments from Uzbekistan's existing investor base		
	• Preparation and implementation of targeted investor aftercare programs • Establishment of a framework to systematically track the perceptions of existing investors in UZB	Mid term Long term	High Medium
Leveraging opportunities from privatization and PPPs	**Privatization**		
	• Adoption of the Law on Privatization and the Law on State Property Management • Defining the role of FDI in the privatization process • Preparation and implementation of a dedicated FDI attraction program related to privatization	Mid term Short term Mid term	High Medium High
	PPPs		
	• Align PPP efforts with FDI strategic priorities, especially infrastructure development needs of FDI • Conduct a review of Uzbekistan's PPP framework and pipeline • Strengthen implementation capacity related to PPP	Mid term Short term Mid term	Medium High Medium

1. Context and Overview

Strategic priorities for Uzbekistan's development

Uzbekistan's strategic development ambitions are captured in a new development strategy called the *Development Strategy of the New Uzbekistan for 2022-2026* (or New Uzbekistan Strategy).[2] This overarching strategy document outlines seven transformational needs that form the basis for the development of the National FDI Strategy and Roadmap for Uzbekistan, including:

1. Build a people's state by ensuring the interests of all people and the further development of a free civil society;
2. Transform the principles of justice and the rule of law into the main and necessary condition for the development of the country;
3. Develop the national economy, ensuring high rates of growth;
4. Implement fair social policy, promote development of human capital;
5. Ensure spiritual development, bringing this area to a new stage;
6. Contribute to solving universal problems based on national interests;
7. Strengthen the country's security and defense capability, maintaining an open, pragmatic and active foreign policy.

Under the economic development pillar of the New Uzbekistan Strategy, the country aims to increase GDP to US$100 billion over the next five years, increase industrial production by 1.4 times, and cut the current levels of poverty in half.[3] Uzbekistan also expects to increase its annual exports to US$30 billion and attract US$120 billion in investment in the economy, including US$70 billion of foreign investment over the next five years. Meeting the foreign investment target will require an average annual foreign investment inflow of US$14 billion, almost seven times more than in the pre-COVID-19 period.

Foreign direct investment (FDI) can play an important role in achieving Uzbekistan's economic development objectives. Empirical evidence shows that FDI can trigger technology transfer, assist human capital formation, contribute to international trade integration, help create a more competitive business environment and enhance enterprise development.[4] All of these benefits contribute to higher economic growth. Beyond the strictly economic benefits, FDI may help improve environmental and social conditions by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies.

The following report sets out a proposed strategy and roadmap for achieving Uzbekistan's ambitious foreign investment goals. The report includes an analysis of relevant global and regional

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[2] *Decree on "On the Development Strategy of New Uzbekistan for 2022-2026", signed by the President on 28 January 2022.*

[3] *The New Uzbekistan Strategy specifically states, "reducing poverty by at least two times by the end of 2026," which is assumed to mean it intends to half current levels.*

[4] *Relevant literature: (a) Javorcik, Beata S. 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages." American Economic Review 94 (3): 605–27; (b) Javorcik, Beata S. 2008. "Can Survey Evidence Shed Light on Spillovers from Foreign Direct Investment?" World Bank Research Observer 23 (2): 139–59; (c) Javorcik, Beata S., and Mariana Spatareanu. 2008. "To Share or Not to Share: Does Local Participation Matter for Spillovers from Foreign Direct Investment?" Journal of Development Economics 85 (1–2): 194–217; (d) Havranek, Tomas, and Zuzana Irsova. 2011. "Estimating Vertical Spillovers from FDI: Why Results Vary and What the True Effect Is." Journal of International Economics 85 (2): 234–44; (e) Irsova, Zuzana, and Tomas Havranek. 2013. "Determinants of Horizontal Spillovers from FDI: Evidence from a Large Meta-Analysis." World Development 42: 1–15; (f) Liu, Xiaming, Chengang Wang, and Yingqi Wei. 2009. "Do Local Manufacturing Firms Benefit from Transactional Linkages with Multinational Enterprises in China?" Journal of International Business Studies 40 (7): 1113–30.*

trends shaping the current landscape for FDI along with an assessment of Uzbekistan's historic FDI performance, to identify clear policy reform priorities that will help unleash the full potential of FDI to support the country's economic growth agenda. It sets out a framework for reforms, makes suggestions to boost national efforts at attracting and retaining FDI and serves as a road map for different ministries and government agencies to work collaboratively towards a common set of goals. The report establishes target sectors for investment attraction and retention and proposes clear roles and responsibilities of different government institutions during the implementation process. An appropriate Monitoring and Evaluation framework, including specific KPIs and monitoring mechanisms, is provided to help track implementation progress and impact.

2. Uzbekistan's FDI Performance[5]

Uzbekistan's FDI challenge – leveraging FDI for economic diversification and growth

Uzbekistan has significant untapped potential to attract FDI, especially from high-income countries and in non-extractive industries. The country is strategically located at the heart of Central Asia with convenient access to large markets including China, Europe, and South Asia. It is the second largest market in Central Asia in terms of GDP (after Kazakhstan) and leads in terms of total population. However, its inward FDI stock as a share of GDP is the lowest in Central Asia and significantly below developing countries at similar income levels. On average, in countries in Central Asia, the share of FDI stock from high-income partner countries is 87 percent, while in Uzbekistan high-income partners make up only 32 percent of its FDI stock. This illustrates the opportunity for Uzbekistan to attract additional FDI from high-income countries.[6] FDI from high-income countries can bring advanced technologies (technical and organizational), channels of output sales in advanced markets, which can be a key source of learning and innovation. Though average FDI inflows as a percentage of GDP improved from 0.6 percent between 2000 and2002 to 2.8 percent between 2017 and 2019, they are still below several comparator countries. Underperformance in FDI inflows during the past three decades has widened the gap between Uzbekistan and comparators on incoming FDI. By the end of 2019, inward FDI stock as a share of GDP was merely 17 percent in Uzbekistan, the lowest level among all developing country groups and significantly lower than countries at similar income levels (Figure 2).

Box 1 Sources of FDI data leveraged for this report

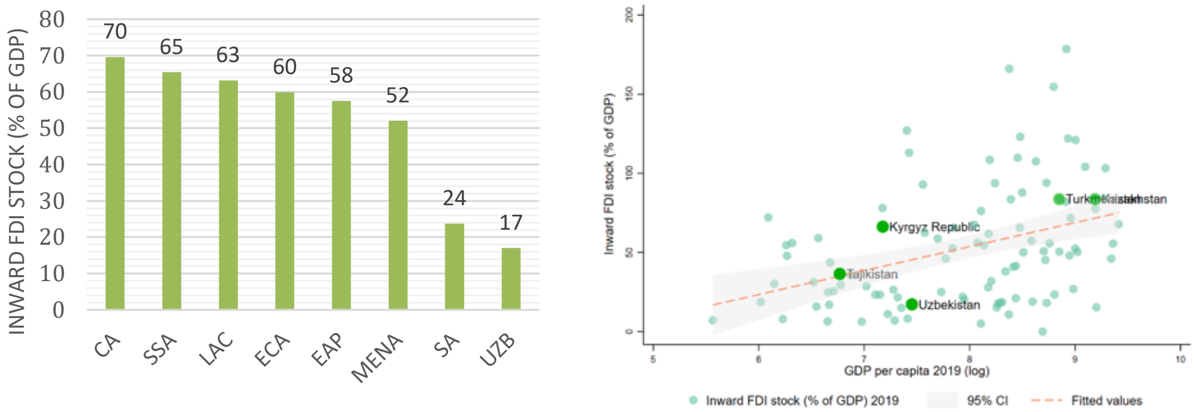
The analysis of FDI data presented in this report is based on numerous sources of data, including the State Statistics Committee of Uzbekistan, the Uzbekistan Central Bank, World Bank World Development Indicators (WDI), IMF Coordinated Direct Investment Survey (CDIS), The Financial Times FDI Markets Database, and UNCTAD.

FDI Markets collects unique information on greenfield FDI projects for all countries in the world, providing detailed statistics on time, sector, location of investment, as well as region of origin of the investing company and estimates on the investment value and jobs directly created over the 2003–2020 period. FDI Markets data allows for benchmarking of sector level data with other countries and provides useful insights on recent greenfield FDI trends and investor sentiments. However, FDI announcement data does not, by its nature, capture all greenfield FDI projects, and thus cannot be expected to correspond directly to FDI inflow amounts or equal the total number of new projects/firms established in a country during the time period covered.

IMF CDIS data includes reporter-based FDI data reported by the host country for inward FDI flows and stock, which is the home country for outward FDI flows and stock, and partner-based FDI, which are reported by the partner (home for inward FDI and host for outward FDI). Just like trade statistics, there can be discrepancies between reporter-based and partner-based bilateral FDI statistics. These discrepancies arise due to many factors such as exchange rate fluctuations, differences in statistical methodologies, and tax optimization activities by investors. Analyzing both reporter-based and partner-based statistics could provide a fuller picture of a country's FDI source and destinations. For Uzbekistan, total inward FDI stock from UNCTAD/Central Bank is 9.5 billion USD in 2019, but only 2.5 billion USD from IMF CDIS partner-based data with reporter-based data for Uzbekistan unavailable in the CDIS database (See Figure 4 for more details).

[5] *Please refer to Box 1 for an explanatory note on different data sources used for this section on Uzbekistan's FDI performance.*
[6] *2018 data according to the IMF CDIS database utilizing inward stock data as well as partner data on FDI outward stock.*

Figure 2 Inward FDI stock as a percentage of GDP



Source: Authors' calculations based on UNCTAD and WDI database.

FDI inflows to Uzbekistan have demonstrated robust growth since 2006, recording the strongest numbers in 2019, likely in response to supportive policies for FDI implemented by the government. From 2000 to 2006, annual FDI inflows never exceeded US$200 million despite modest growth. FDI inflows surged nearly ten-fold from US$170 million in 2006 to US$1.6 billion in 2011, then plummeted to US$600 million in 2012. From 2012 to 2017, they grew steadily again, and after another sharp drop in 2018, FDI inflows reached US$2.3 billion in 2019 (Figure 3). FDI inflows have slowed during the COVID-19 pandemic, yet the country has still been able to attract US$1.7 billion in 2020 and US$2.1 billion in 2021.[7] The strong growth rates in recent years were largely attributed to the loosening of regulations and increased incentives for investors. Uzbekistan offered visa-free access to investors from more than 45 countries, relaxed the rules for its foreign exchange market, and established seven special economic zones with generous tax breaks for investors.[8] In addition, Uzbekistan set up a new legal framework to protect investors' rights. The country also implemented a presidential advisory body focused on investment and in January 2020 it debuted a new mechanism for investor-state dispute settlements.

Figure 3 FDI inflows

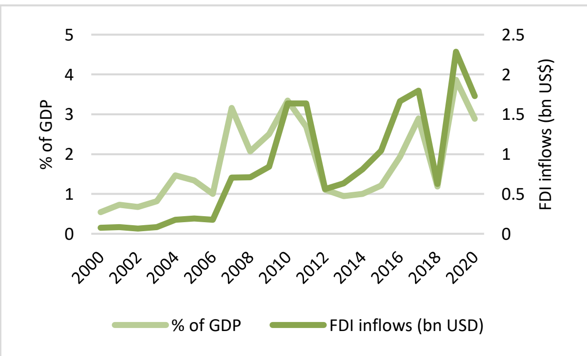
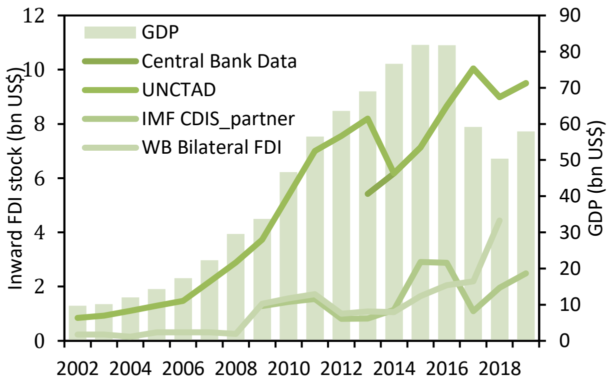


Figure 4 Inward FDI stock based on various sources



Source: Figure 3 uses WDI data. Figure 4 is the authors' calculations based on UNCTAD, IMF CDIS, WDI, WB bilateral FDI database, and Uzbekistan Central Bank data.

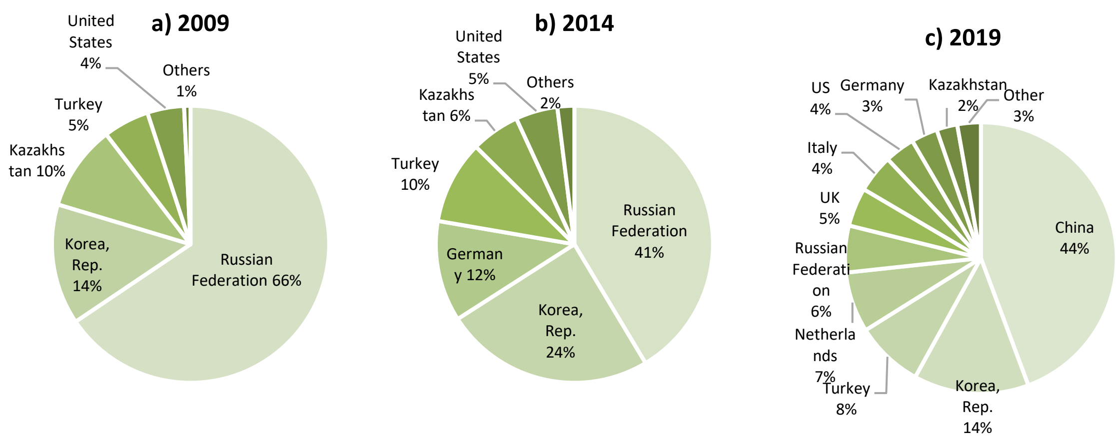
[7] *State Statistics Committee of Uzbekistan; Central Bank of Uzbekistan: Balance of payments, international investment position and external debt of the Republic of Uzbekistan for 2021.*

[8] *Strachan, Ruth. (2020, Dec 2). The state of play: FDI in Uzbekistan. Investment Monitor. https://investmentmonitor.ai/uzbekistan/the-state-of-play-fdi-in-uzbekistan*

FDI flows into Uzbekistan are limited to small number of home countries

Uzbekistan's source countries for FDI changed significantly during the past decade, as China replaced Russia as the top investor with its Belt and Road Initiative (BRI). In 2009, five countries contributed 99 percent of Uzbekistan's total inward FDI stock: Russia, Korea, Kazakhstan, the United States, and Turkey (Figure 5a). Russia alone invested US$841 million, making up two-thirds of Uzbekistan's total inward FDI stock. By 2014, investment from Russia had shrunk to US$472 million or 41 percent of total inward FDI stock. By 2019, Russia accounted for only 5 percent of total inward FDI stock. This downward trend is expected to continue in the years ahead, as the sanctions resulting from the Russian War in Ukraine will likely impose additional limitations upon Russia's outward FDI. FDI from Korea increased from US$181 million in 2009 to US$280 million in 2014. Germany became the third largest investor, with US$134 million invested in Uzbekistan (Figure 5b). From 2014 to 2019, China emerged as the top investor, followed by Korea and Turkey (Figure 5c). Driven by the BRI, Chinese investors proliferated in Uzbekistan. FDI stock from China exceeded US$1 billion in 2019, representing 44 percent of Uzbekistan's total inward FDI stock.[9] The number of Chinese-invested enterprises in Uzbekistan neared 1,800 by the end of 2020, second only to Russia. Chinese investments are predominantly in industry and trade, construction, oil and gas exploration, transport, infrastructure building, telecommunications, textiles, and chemicals.[10] The financing and support for building common cross-border transport networks provided by the BRI is a boon to Uzbekistan's transport connectivity.[11] Better connectivity will magnify the benefits of FDI and accelerate Uzbekistan's global value chain (GVC) integration.

Figure 5 Source countries of FDI



Source: IMF CDIS partner-based data

[9] *Reporter-based FDI data are reported by the host country for inward FDI flows and stock, which is the home country for outward FDI flows and stock. Partner-based FDI are reported by the partner (home for inward FDI and host for outward FDI). Just like trade statistics, there can be discrepancies between reporter-based and partner-based bilateral FDI statistics. These discrepancies arise due to many factors such as exchange rate fluctuations, differences in statistical methodologies, and tax optimization activities by investors. Analyzing both reporter-based and partner-based statistics could provide a fuller picture of a country's FDI source and destinations. For Uzbekistan, total inward FDI stock from UNCTAD/Central Bank is 9.5 billion USD in 2019, but only 2.5 billion USD from IMF CDIS partner-based data with reporter-based data for Uzbekistan unavailable in the CDIS database. Figure 3 provides an overview of what FDI stock amounts are indicated from the different FDI data sources.*

[10] *Xinhua. (2021, Jan 8). Around 1,800 enterprises in Uzbekistan backed by Chinese investment http://www.xinhuanet.com/english/2021-01/08/c_139652397.htm*

[11] *World Bank. 2020. South Caucasus and Central Asia: The Belt and Road Initiative Uzbekistan Country Case Study.*

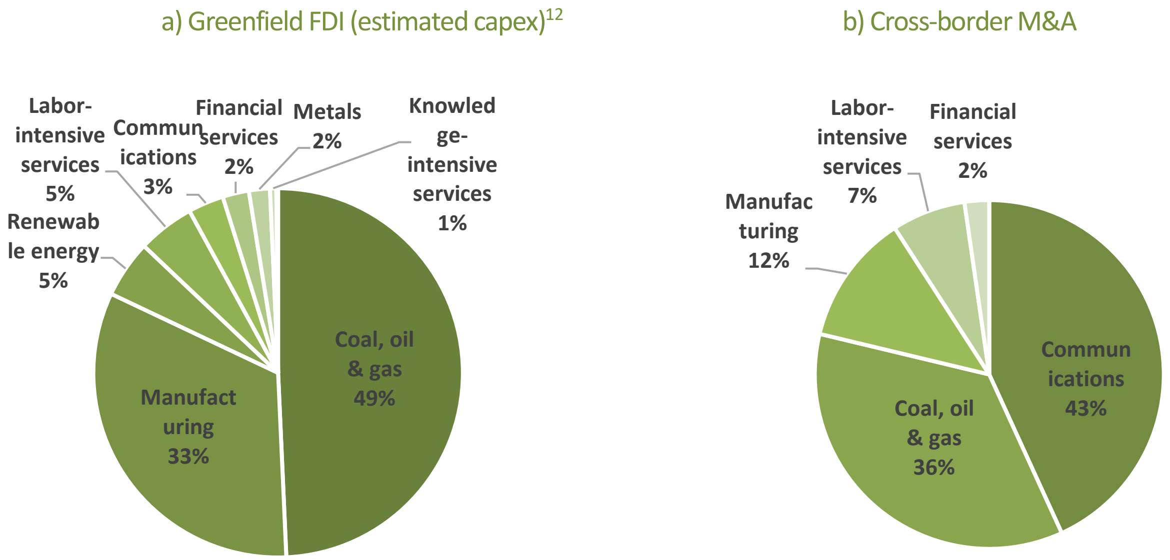
Sector composition of FDI diversifies slowly

As a country endowed with rich natural resources, Uzbekistan's FDI inflows have been concentrated in mining and quarrying. Official statistics on sectoral FDI inflows are only available for 2018. In 2018, mining and quarrying alone received US$540 million in FDI inflows, making up nearly half of the total FDI inflows recorded. The country ranked fourth in the world in terms of gold reserves, and it produces about 92 tons of gold annually. It also ranks tenth or eleventh globally in copper reserves, and eleventh or twelfth in the world in uranium reserves. Gold remains the single largest export, making up 33 percent of the country's total exports in 2018, followed by 14 percent from petroleum gases.

Uzbekistan's manufacturing exports are primarily in textiles and chemicals. The manufacturing sector received around US$300 million in FDI in 2018, representing more than a quarter of FDI inflows. FDI in services sector flowed mostly to arts, entertainment, and recreation (US$94 million), wholesale and retail (US$72 million), and information and telecommunication (US$53 million). Agriculture also received US$28 million investment. Water supply, construction, utility, and real estate received US$13, 11, 10 and 6 million FDI respectively. FDI in other sectors were negligible.

Mining and quarrying, manufacturing, and telecommunications received the majority of greenfield FDI and cross-border mergers and acquisitions (M&A) in Uzbekistan. Greenfield FDI projects have grown steadily in Uzbekistan since 2003, albeit from a low base. Uzbekistan attracted 354 projects and US$40.2 billion greenfield investment from 2003 to 2019. The mining sector alone received US$22.1 billion from 2003- to 2019, predominantly in coal, oil and gas (Figure 6a). In more recent years, from 2009 to 2019, the manufacturing sector witnessed a 17 percent growth in greenfield FDI projects. Russia, China, South Korea, Germany, and the U.S. are the largest greenfield FDI investors in Uzbekistan. M&A FDI in Uzbekistan is confined to a few sectors, with the telecom sector attracting US$925 million from 2003 to 2019 (Figure 6b). Mining and manufacturing also attracted US$584 million and US$189 million respectively 2003 to 2019, and most of these investments happened in the 2000s. Russia is the biggest source country for cross border M&A, with US$1.3 billion invested from 2003 to 2019.

Figure 6 Sectoral distribution of FDI 2003-2019

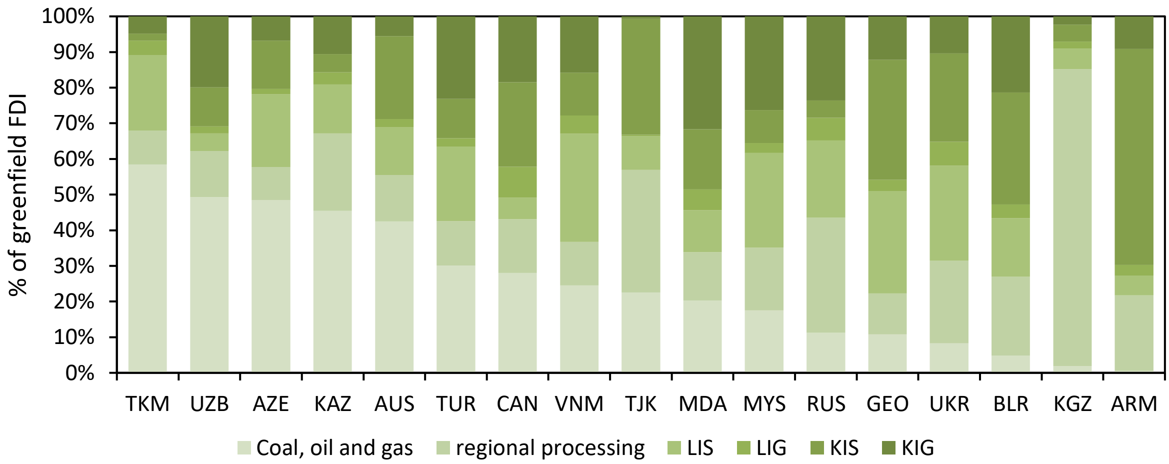


Source: Authors' calculations based on fDi Markets and Thomson Reuters database.

[12] *FDI markets data uses greenfield FDI project announcement data to estimate capital expenditure.*

A natural-resource-dominated FDI portfolio in Uzbekistan is comparable to other resource-rich countries, but Uzbekistan needs to diversify its economic base by attracting FDI in non-extractive sectors to drive economic transformation. From 2003 to 2019, coal, oil, and gas together received half of total greenfield FDI in Uzbekistan, which is comparable to other resource-rich countries including Turkmenistan, Azerbaijan, Kazakhstan, and Australia (Figure 7). However, Uzbekistan still has huge potential to attract more FDI in knowledge-intensive goods and knowledge-intensive services. While knowledge-intensive goods received one fifth of greenfield FDI in Uzbekistan, that level is still below Turkey, Moldova, Malaysia, Russia, and Belarus.

Figure 7 Sectoral distribution of greenfield FDI, Uzbekistan and comparators, 2003-2019



Source: Authors' calculations based on **fDi** Markets database
Note: LIS = labor-intensive services, LIG = labor-intensive goods, KIS = knowledge-intensive services, KIG = knowledge-intensive goods.

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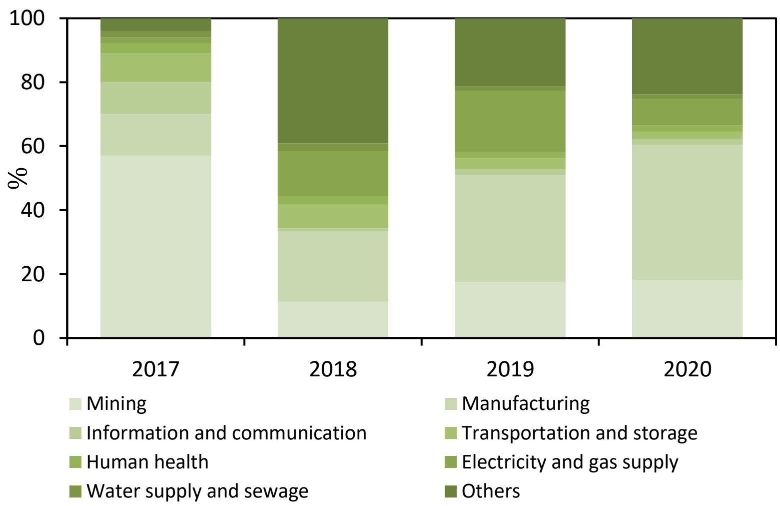
Fortunately, the sectoral composition of FDI has been shifting away from mining to manufacturing in recent years. While official time-series data on sectoral FDI is not available, data from Uzbekistan's statistics authority shows that the manufacturing sector is attracting an increasing share of foreign investment and loans in fixed capital. The share of mining has dwindled from 57 percent in 2017 to 18 percent in 2020, while the share of manufacturing more than tripled from 13 percent to 42 percent (Figure 8).

Figure 8 Foreign investment and loans in fixed capital by sector, 2017-2020



Source: State committee of the Republic of Uzbekistan on Statistics

The public sector share in the economy remains high

While the state still has a dominant presence in many sectors, Uzbekistan has announced plans to accelerate privatization from 2020 to 2025[13] to facilitate the transition to a market economy. Literature suggests that privatization alone does not guarantee positive outcomes, it requires cohesive policymaking and careful implementation. Domestic firms' capacity, ownership structure, corporate governance, access to experience and markets, complementary policies, and institutional framework all affect the outcome of any privatization initiative.

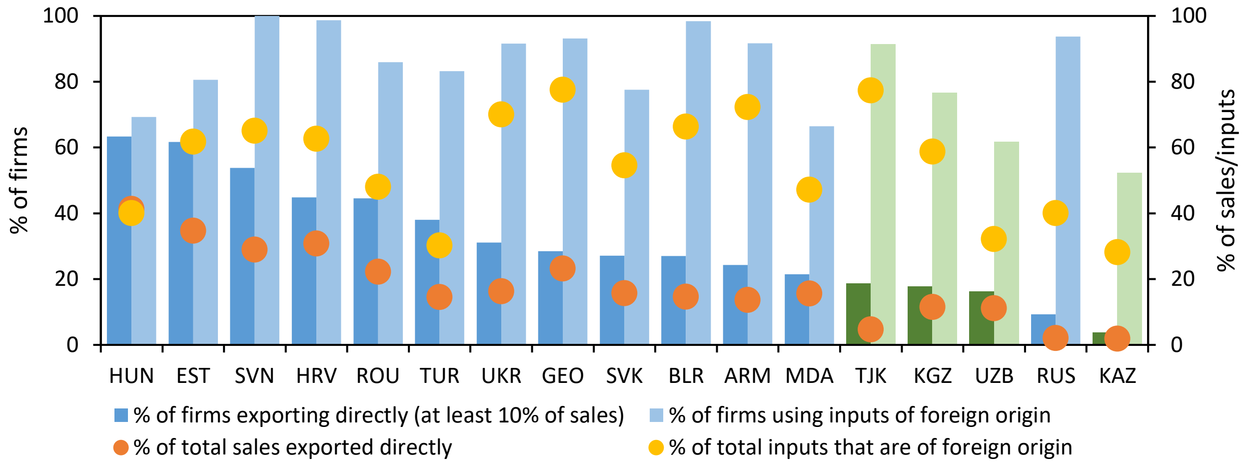
Recent success notwithstanding, Uzbekistan still needs to improve the quality of the FDI it attracts. Foreign firms in Uzbekistan perform better than domestic firms, but still underperform relative to those in comparator countries on multiple fronts, including technology adoption, innovation, GVC participation, employee training and skill intensity. Foreign firms in Uzbekistan are more involved in GVCs than domestic firms yet there is room to enhance that participation. Only four percent of foreign firms export directly and those exports only make up around two percent of their total output. Uzbekistan ranks close to the bottom among comparators in imports and exports by foreign firms. Only 16 percent of foreign firms export directly in Uzbekistan, compared with 40 to 60 percent in other countries (Figure 9).[14] Foreign firms in comparator countries often export 60 to 90 percent of their output, far higher than the 11 percent of output they export in Uzbekistan. Foreign firms in other countries are also more likely to use foreign inputs and use them more frequently. World Bank Enterprise Survey Data shows that about one third of foreign firms in Uzbekistan use foreign-licensed technology. This is more than the 19 percent of domestic firms using foreign technology, but less than firms in many comparator countries such as Armenia, Slovakia and Hungary. Over half of foreign firms in Uzbekistan have their own websites (55 percent). They are twice as likely to have their own websites as domestic firms in Uzbekistan, but less likely than firms in Kazakhstan, Kyrgyz Republic, and Tajikistan. Foreign firms in Uzbekistan are also less likely to spend on R&D or offer training, and they tend to employ a lower share of skilled workers.[15]

[13] Presidential decree # up-6096 of October 27, 2000 "On measures to accelerate the reform of enterprises with the state shares and the privatization of state assets". Cabinet of Ministers resolution #166 of March 29, 2021 "On approval of the strategy of reforms of enterprises with state shares for 2021-2025" that developed, among other things, the laws on privatization and on management of state assets, roadmap for privatization, targets for privatization process, etc. There were 2,965 enterprises with state shares as of end 2019, and their share in GDP was 55 percent. The privatization strategy envisages to privatize 1,115 enterprises or 37.6 percent of total, and state shares will remain in 554 enterprises, including in oil and gas, national air company, gold mining, and ferrous metallurgy. As a result of commercial banks privatization, by 2025 the share of private banks in total assets will grow up to 60 percent from 15 percent in 2020.

[14] More than 60 percent of foreign firms export directly in Hungary and Estonia, the share is also above 40 percent in Slovenia, Croatia, and Romania. Authors' calculations based on World Bank Enterprise Survey 2019.

[15] World Bank, 2021, Assessing Uzbekistan's Transition, Country Economic Memorandum, (Ch. 4 – Private Sector Development))

Figure 9 Foreign firms' trade performance, Central Asia vs. comparators



Source: Authors' calculations based on World Bank Enterprise Survey 2019.

Conclusion

To meet the ambitious economic development and FDI attraction targets set out in the New Uzbekistan 2022-2026 development strategy, Uzbekistan needs to attract more and higher quality FDI. This will require diversifying both sectors and source markets. Uzbekistan's past underperformance and ambitious forward-looking targets highlight the need to attract additional FDI, particularly in more complex, knowledge-intensive sectors. This has the potential to increase the performance of FDI and address gaps identified in terms of innovation, GVC participation, and higher skilled labor. Uzbekistan has seen more and more investment from China in recent years, but the Russia-Ukraine conflict has demonstrated the importance of having diversified sources of FDI to avoid overreliance on any single market. More investments from high income source markets are required to improve the quantity and quality of FDI attracted to meet Uzbekistan's economic development objectives.

3. Factors driving change in the global FDI landscape

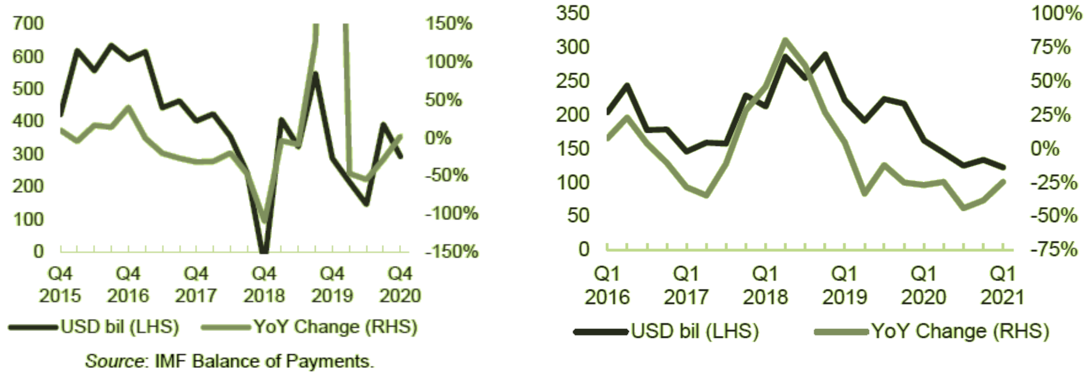
Global megatrends are driving change in the FDI landscape globally and in Uzbekistan. COVID-19, Climate Change and the accompanying focus on increased sustainability, Industry 4.0, reconfiguration of global value chains and shifts in global trade and investment policies will have major implications for global FDI flows. For it to be an effective roadmap to attracting more and higher quality FDI to Uzbekistan, the new FDI strategy will need to respond to these global megatrends. These megatrends present both opportunities and challenges for Uzbekistan and its FDI objectives.

3.1. COVID-19

COVID-19 has caused unprecedented shocks to the global economy and the flow of FDI, and it has accelerated many existing global trends. Most importantly, the pandemic caused significant declines in investor confidence and a largescale disruption in global FDI flows in 2020 and 2021. This included in particular a 42 percent reduction in FDI flows from an already declining basis prior to the pandemic (Figure 10).

Figure 10 Effects of COVID-19 on FDI inflows and FDI announcements

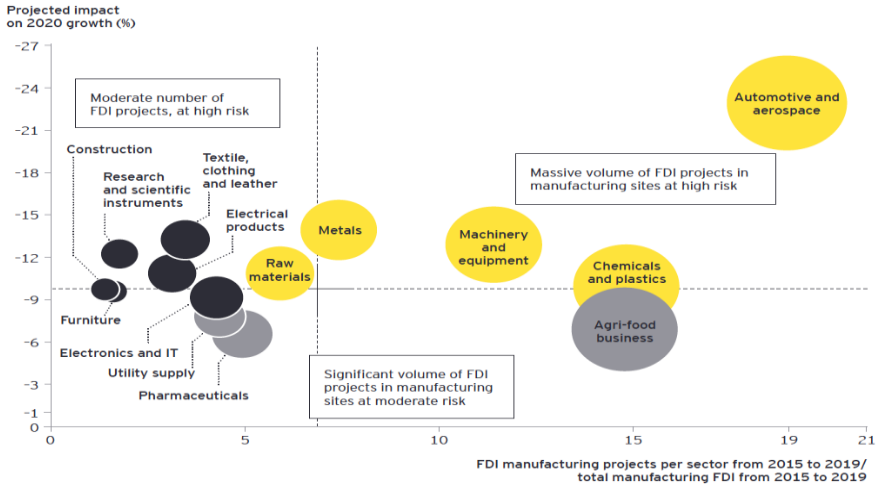
a. Global FDI Inflows (by quarter) b. Announced greenfield FDI, global (by quarter)



Source: World Bank. 2021. FDI Watch Quarterly Report. June 2021.

The economic impact of the COVID-19 pandemic is different across sectors. The pandemic caused severe disruptions to supply chains that are essential for the operation of global value chains (GVCs), however with varying effects across sectors. During the initial stages of the pandemic, many resource- and labor-intensive manufacturing sectors (e.g., aerospace and automotive, machinery and equipment or chemicals and plastics) were hit first, while others such as pharmaceuticals, IT services and electronics, or utilities were more resilient (Figure 11). By the first quarter of 2021, however, the impact of COVID-19 on FDI flows began to register in IT services, which were down 39 percent compared to 2020, and utilities, which were down 38 percent compared to 2020. At the same time, some sectors, including automotive manufacturing and pharmaceuticals, were beginning to see new FDI announcements and signs of recovery.

Figure 11 Projected sector growth and risk to manufacturing FDI projects



Source: E&Y European Investment Monitor (EIM), 2020

A recent study by the World Bank and IBM-PLI analyzed the way in which COVID-19 along with other emerging megatrends are anticipated to affect MNEs in key sectors. The exact effects of pandemic-related economic shocks on specific sectors and industries are still unfolding, but recent analysis shows that certain industries may be more resilient over the short- and long-term. The analysis conducted by the World Bank Group leverages investors' perspectives using key locational decision-making factors to assess the effects of transformation drivers on FDI projects and FDI job creation for developing countries over the short- and long-term (**Error! Reference source not found.**). While the results show different outcomes over the shorter-term and longer-term, they also point to a set of sectors that portray a consistent positive trend considering both time horizons. Sectors such as food processing, garments and textiles, medical supplies manufacturing, and IT-enabled services present the most promising opportunities for developing countries due to their relative resilience and potential for job creation and exports.[16]

Table 2. Sector-level FDI Effects for Developing Countries in the Short- and Long-term

a. FDI effects in the short term (1-2 yrs)

Sector segments	Short Term
Medical supplies manufacturing	3.4
IT-enabled services (BPO)	3.3
IT-enabled services (customer support)	3.3
Financial services	3.2
Food processing	3.2
Horticulture	3.1
Logistics services	3
Plastic products manufacturing	3
Wood products manufacturing	3
Metal products manufacturing	2.9
Fabricated chemical production	2.9
Clothing production	2.8
Electronic components assembly	2.8
Automotive components manufacturing	2.7
Hotels	2.4

b. FDI effects in the long term (+5 yrs)

Sector segments	Long Term
Logistics services	3.2
Hotels	3.2
Clothing production	3.1
Medical supplies manufacturing	3
IT-enabled services (BPO)	3
Financial services	3
IT-enabled services (customer support)	2.9
Food processing	2.9
Plastic products manufacturing	2.9
Fabricated chemical production	2.9
Electronic components assembly	2.9
Automotive components manufacturing	2.9
Horticulture	2.8
Wood products manufacturing	2.8
Metal products manufacturing	2.8

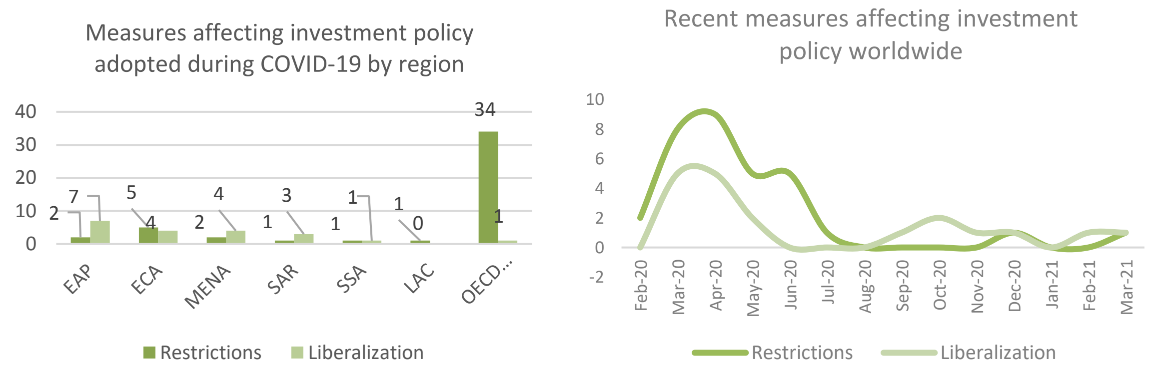
Source: IBM PLI assessment.
Note: Impact on FDI: decrease = 1.0 -> neutral = 3.0 -> increase = 5.0. The analysis defines short-term as 1-2 years, and long-term as 5+ years.

Source: World Bank. FDI Watch. Quarterly Report, Issue 1. December 2020.

[16] *World Bank. FDI Watch. Quarterly Report, Issue 1. December 2020.*

Protectionist measures toward investment have increased markedly since the onset of the COVID-19 pandemic, causing a decline in FDI flows. A significant number of new FDI restrictions have been introduced since the start of 2020, largely focusing on FDI screening measures, with a majority occurring in developed countries (Figure 12). These increasingly protectionist trends could also have effects on global FDI flows with certain countries and regions making themselves less open to potential investment.

Figure 12 Measures Affecting Investment Policy Worldwide and by region



Source: World Bank FDI Entry Measure Tracker.

The increased competition for declining FDI flows caused by the COVID-19 pandemic will impact Uzbekistan's FDI ambitions. The drop and then mid-term rebound to pre-pandemic levels of FDI in many sectors may lower the amount of potential FDI directed towards Uzbekistan, as many countries with more favorable investment climates have also intensified their promotional activities. Uzbekistan needs to catch up to these competitors in terms of investment climate enhancements. Such reform efforts could help increase Uzbekistan's appeal as an FDI destination at a time when many countries are also pursuing additional entry barriers for FDI such as investment screening and protectionist frameworks.

It will be important for Uzbekistan to consider the effects of the pandemic upon specific sectors when prioritizing sectors for FDI promotion. While the exact outcomes over the shorter-term and longer-term are not entirely clear, Uzbekistan should ensure its selected priority sectors for promotion are aligned with those that have exhibited more resilience, such as food processing and financial services. The potential effects of COVID-19 and potential future waves of the pandemic are taken into account in the prioritization of sectors for promotion in this report and noted in the detailed sector assessment matrices.

3.2. Sustainability and Climate Change

As a result of the COVID-19 pandemic, policy makers and firms are increasingly aware of actions that may impact climate change and sustainability. In recent years, the leaders of major economies pledged to act on Climate Change, with the Paris Climate Agreement adopted in 2015 outlining a framework to reduce global emissions based on key climate actions. In April 2021, the leaders of major economies pledged to take aggressive action to reduce carbon emissions and in July 2021, the EU announced its Green Deal committing the bloc to climate neutrality by 2050, calling it a lifeline out of the COVID-19 pandemic. Governments in countries across the globe have been adopting additional measures to promote sustainability especially in the areas of investment agreements and investor obligations**.** International Investment Agreements (IIAs) and trade agreements increasingly include clauses related to sustainable development, green investment, and environmental obligations.[17]

Investors have reported taking additional steps towards sustainability, driven largely by pressure from governments and policy makers. The World Bank's MNE Pulse Survey shows that almost half of MNE affiliates reported taking steps to increase sustainability and decarbonize their products and services, with a majority citing pressure from local governments as a key reason why. FDI has a role to play in limiting climate change by backing green projects that reduce carbon dioxide emissions and promote sustainable development. These corporate commitments will have effects on numerous sectors, including transport and energy. New opportunities for businesses and investors will be created, while also causing significant changes in existing sectors such as the automotive sector. Sustainability and pressure towards decarbonization will create opportunities and challenges for FDI, affecting site selection criteria as investors adapt to meet increasing sustainability obligations.

Investments in 'green' sectors are on the rise. In 2020, for the first time since FDI Markets began recording FDI data, renewable energy replaced coal, oil, and gas as the top sector by capital investment, accounting for US$87.2 billion.[18] **This represents an opportunity for Uzbekistan.** Investment in clean energy infrastructure will need to be scaled up significantly in the coming years to support the broader economic development and climate agenda. Given the strain on public finances, engaging the private sector, including foreign investors, will be critical. The challenge for governments seeking to catalyze investment flows in clean energy will be to design and implement straightforward domestic policy frameworks to support those investments.[19] Although the basic potential of renewable energy sources such as photovoltaics is high in Uzbekistan and the domestic demand for reliable energy is constant, the country´s current policies have not been effective to encourage investment into renewable energy generation and its transmission.

The fundamental trend towards more sustainable solutions for production poses a challenge for economies like Uzbekistan that rely heavily on natural resources. Their economic structure does not inherently link to sustainability and the potential for introduction of new processes is limited. In Uzbekistan, the current system of incentives does not encourage the use of resource saving and highly efficient processing technology. The challenge is further exacerbated by the relatively low complexity of products currently produced in Uzbekistan, which limits the impact of any sustainability measures.

In conclusion, Uzbekistan's current sectoral and economic structure requires strengthening to attract FDI in sustainable technologies and renewable energy sources. There are a number of key policy enhancements that could be undertaken to improve the country's value proposition, including the redesign of basic regulations including laws governing energy generation; the introduction of specific market design instruments such as guaranteed offtake power purchase agreements; or the introduction of incentives for the use of highly efficient production technologies. Market structure reforms would also be necessary to realize the full potential of these measures. Even with these impediments, which do require broader reform activities, sectors like renewable energy generation can serve as a catalyst for increasing the sustainability of Uzbekistan's industrial base. By leveraging Uzbekistan's excellent natural endowments for renewables and the global demand for cleaner and

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[17] OECD (2021). The future of investment treaties - potential avenues. 6th Annual Conference on Investment Treaties, March 2021.

[18] The fDi Report 2021, Global greenfield investment trends, the Financial Times Group, available at https://report.fdiintelligence.com

[19] See, for instance, OECD Policy Guidance, available at https://read.oecd-ilibrary.org/finance-and-investment/policy-guidance-for-investment-in-clean-energy-infrastructure_9789264212664-en#page9

more reliable energy sources, Uzbekistan could partake in the global push for sustainability and the solutions countering climate change.

3.3. Shifts in Global Production Patterns

Over the past three decades, the globalization of production has resulted in the expansion of GVCs as multinational companies were able to utilize production fragmentation, offshoring, and outsourcing to lower production costs. Global trade in components increased significantly during this period, particularly in the early 2000s. This period of hyper-globalization was accompanied by large surges in FDI, rapid increases in the share of trade in global GDP, as well as new opportunities for firms to participate in GVCs.

The COVID-19 pandemic brought severe disruptions to global production networks and heightened the importance of resilient GVCs. Bottlenecks in global supply chains, particularly those that rely upon semiconductors, resulted in increases in capital goods and consumer goods prices. Disruptions in international shipping have been severe with significant increases in the cost of shipping. The cost to ship a standard container on a container ship for instance was four times greater in 2021 than in 2020.[20] The pandemic also motivated renewed debate on the topic of GVC resilience and supplier diversification. While some economists anticipate more unexpected shocks and argue for a rethinking of GVC strategies, emphasizing the importance of holding more inventory, diversifying suppliers, and shortening supply chains[21], some business executives find that such prescriptions oversimplify the problem.

Firms could turn to extensive GVC reconfiguration as a way to address supply chain disruptions, but survey results paint a mixed picture. The 2020 World Bank Pulse Survey of MNEs reported that around 40 percent of firms considered to move their manufacturing closer to final markets (nearshoring) as a means to diversify production locations or to source more inputs from suppliers in their host country (re-shoring).[22] Identical surveys conducted a few months later in the first quarter of 2021, found that only 15 percent of investors were considering nearshoring or reshoring, and only 2 percent were changing the countries from which they sourced inputs.[23] This suggests that companies may prefer to avoid potentially disruptive and costly relocations at this stage. However, the AHK World Business Outlook survey conducted by the German Chambers of Commerce in Spring 2021 shows that 40 percent of companies were experiencing problems with their supply chains or logistics, up from 31 percent in Fall 2020. Among companies with supply chain problems, 71 percent are diversifying their supply chains.

As the pandemic continues, other global events like the war in Ukraine bring additional uncertainty, so it is difficult to forecast the extent of potential GVC reconfigurations. Many companies prefer to avoid disruptive and costly relocations, however, there may also be stronger appetite to reduce dependence on single or dominant source countries. Such trends must be watched closely to determine potential opportunities or challenges for Uzbekistan.

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[20] *Data from Drewry, a consultancy, as cited by the Economist. https://www.economist.com/finance-and-economics/a-perfect-storm-for-container-shipping/21804500*

[21] *Javorcik, Beata. 2020. "Global Supply Chains Will Not Be the Same in the Post-COVID-19 World." Chapter 8 in COVID-19 and Trade Policy: Why Turning Inward Won't Work, edited by R. Baldwin and B. W. di Mauro. London: CEPR Press.*

[22] *World Bank. 2020. The Impact of COVID 19 on Foreign Investors: Evidence from the Quarterly Global Multinational Enterprise Pulse Survey for the Third Quarter of 2020.*

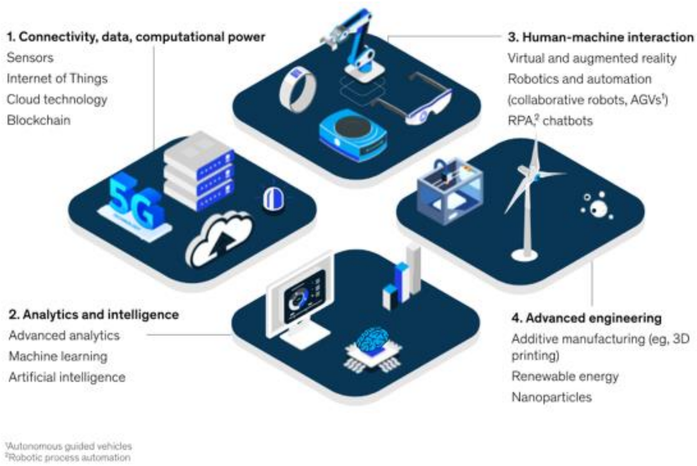
[23] *World Bank. 2021. The Impact of COVID 19 on Foreign Investors: Evidence from the Quarterly Global Multinational Enterprise Pulse Survey for the First Quarter of 2021.*

As GVC structures are rethought globally and basic commodities become harder to come by, Uzbekistan's broad availability of basic resources and interconnection with two of the world's biggest demand centers in Europe and Asia presents an advantage. For Uzbekistan, the reconfiguration of global production networks presents an opportunity to leverage the strong interest of China to connect its economy with Europe to establish itself as a destination for FDI and the production of goods that are required in both markets. This is especially relevant for sectors like electric equipment or construction materials manufacturing, which depend upon a reliable flow of basic but scarce inputs like copper or certain types of minerals, the likes of which are available within Uzbekistan. Using this fundamental competitive advantage, a deepening of integration into higher value adding manufacturing segments of global value chains could be triggered.

3.4. Industry 4.0

Industry 4.0 describes the organization of production processes based on technology and devices autonomously communicating with each other along the value chain. A model of the 'smart' factory of the future where computer-driven systems monitor physical processes, create a virtual copy of the physical world, and make decentralized decisions based on self-organization mechanisms.[24] The concept takes account of the increased computerization of the manufacturing industry where physical objects are seamlessly integrated into the information network (Figure 13). As a result, the distinction between industry and services is less relevant as digital technologies are joined with industrial products and services into hybrid products which are neither goods nor services.

Figure 13 Four foundational technologies apply along the value chain in Industry 4.0



Source: McKinsey (2020), Industry 4.0: Reimagining manufacturing operation after COVID-19.

In the Industry 4.0 investment environment, the key to attracting FDI projects is to develop agile economies that embrace innovation. Foreign investors who are creating new technologies require investor-friendly regulations that foster rather than stifle innovation. Economies can adapt to the digital economy under 4.0 by providing investors with tax credits and other incentives that help technology start-ups. While it may be difficult to convince elected officials to focus on medium- to long-term goals, host countries that develop a regulatory framework which encourages innovation will be the most coveted host countries for FDI in 4.0. This will require a multidimensional approach

[24] *Industry 4.0, Study for the ITRE Committee, European Parliament, 2016, available at www.europarl.europa.eu/RegData/etudes/STUD/2016/570007/IPOL_STU(2016)570007_EN.pdf*

to regulatory reform that encompasses different segments of the overall business environment: from intellectual property rights and their effective enforcement; to regulation for the fostering of new legal cooperation forms like clusters as semi-public entities; to including data security regulations on top of the technical and legal basis for new infrastructure like 5th generation mobile campus networks; to changes in civil law allowing for new forms of contracts (hybrids of ownership and rental) but also addressing liability questions in the context of increasing automatization of production and consumer products.

Industry 4.0 presents a challenge for Uzbekistan because of weak enabling conditions and therefore lower appeal to foreign investors looking for Industry 4.0 environments. The adoption of Industry 4.0 technologies is likely to be gradual in Uzbekistan and will require technological and labor skills upgrading and new support services for domestic and foreign private sector to meet the necessary requirements for increased interoperability and interlinking with global production and demand trends. Sectors such as transport and logistics are likely to be the entry points for Industry 4.0 which could serve as a catalyzer and accelerator for Industry 4.0 in Uzbekistan. Renewable energy is an example of another sector where Industry 4.0 technologies could be transferred to Uzbekistan faster than in other manufacturing sectors given the sector's inherent use of advanced technologies and connectivity.

3.5. Russia's War in Ukraine

Russia's war in Ukraine is having devastating effects upon people in Ukraine and it is expected to have major global economic implications as well. The timing of the invasion, as the global economy is still attempting to recover from the COVID-19 crisis, corresponds with a challenging period as inflation is on the rise in many countries and disruptions to investment flows, trade and global production are still in the midst of recovery. It is expected that the war will have acute impacts on commodity markets, particularly energy and food, global logistics, supply chains, FDI flows, and specific sectors to varying degrees.[25]

Increases in food and energy prices are causing an acceleration in inflation which, paired with heightened global uncertainty, could have wide-ranging effects upon global investment. In periods of heightened uncertainty and volatility, it is common to see wealth shift to perceived safe havens and away from assets perceived as high risk. UNCTAD notes that global increases in energy prices could also cause a shift in investment back towards extractive industries and indicates that these potential trends could pose a serious risk of divestment from greenfield FDI projects in not only conflict countries but other economies as well.[26]

Russia and Ukraine have a limited presence in global FDI networks, yet Russia's strong role in many areas of global production means there are significant potential risks for countries reliant on Russian inputs. An analysis of the IMF Coordinated Direct Investment Survey (CDIS) database shows that Russia and Ukraine are not major players in global FDI networks.[27] Russia's inward and outward FDI stock represented only 1 percent of global inward and outward FDI stock in 2020, with network analysis of global FDI stock showing it is a second-tier node in the global and regional FDI network, clearly below par given the size of its population (Figure 14). Ukraine only accounted for 0.1 percent

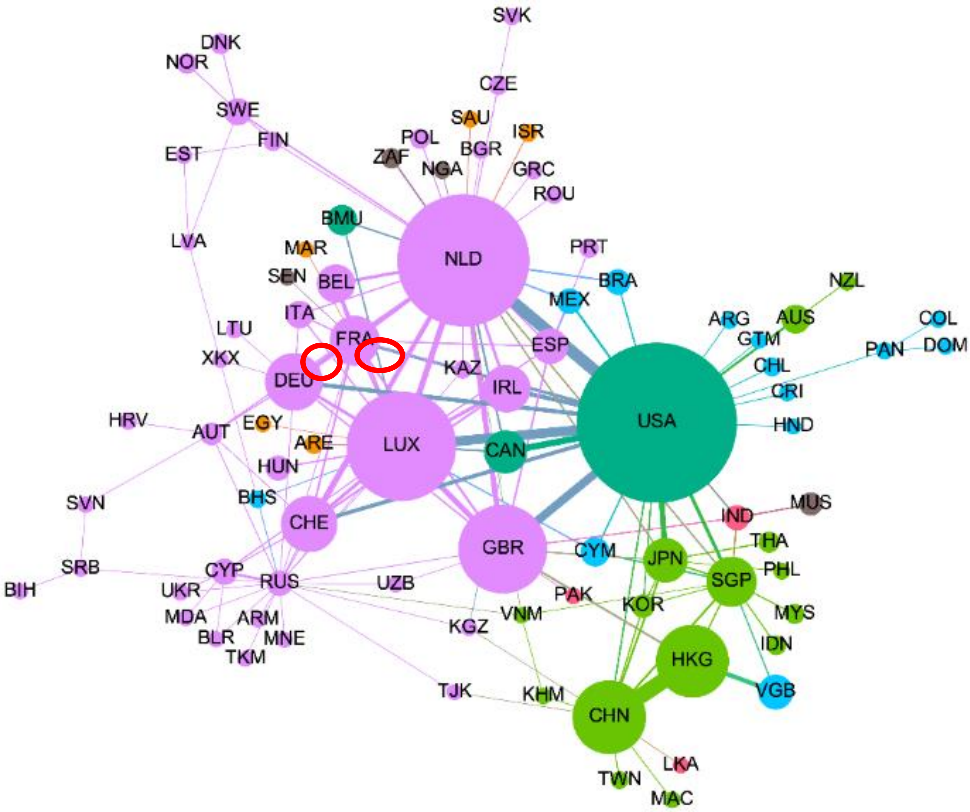
[25] *World Bank. 2022. The Impact of the War in Ukraine on Global Trade and Investment. Edited by M. Ruta.*

[26] *UNCTAD. 2022. The Impact on Trade and Development of the War in Ukraine. UNCTAD Rapid Assessment. 16 March 2022. https://unctad.org/system/files/official-document/osginf2022d1_en.pdf*

[27] *Liu, Yan. Implications of the war in Ukraine on Global FDI. March 16, 2022. Trade, Investment and Competitiveness Notes on the War in Ukraine. World Bank.*

of global inward FDI stock in 2020, and its outward FDI stock is negligible. Yet, Russia is a major supplier of commodities making it a key player in many aspects of global production.[28] It is one of the largest suppliers of energy, metal, chemical products, and upstream GVC products (inputs used earlier in GVC processes). China, Germany, and the US are among Russia's largest trading partners, as importers of commodity inputs and also as exporters. GVCs that are particularly reliant on Russian commodity inputs and could face disruption include transport equipment, machinery, electronics, chemicals, transport, and business services. In addition, potential disruptions of Russian energy supplies go beyond GVCs and could have wide ranging economic impacts.

Figure 14 Russia and Ukraine are marginal players in global FDI networks



Source: Liu, Yan. Implications of the war in Ukraine on Global FDI. March 16, 2022. Trade, Investment and Competitiveness Notes on the War in Ukraine. World Bank

Node size represents the sum of a country's total inward and outward FDI stock in 2020. Node color by World Bank region. Thickness of connecting lines represent bilateral FDI value (absolute value of inward stock plus absolute value of outward stock). Countries with stronger FDI ties are positioned closer.

Emerging market and developing economies in the Europe and Central Asia region are expected to bear the brunt of the economic impact of the war in Ukraine.[29] It is now expected that the ECA region's economy will shrink by 4.1 percent in 2022, while prior to the onset of the war it was forecast to have 3 percent growth. This would represent a shock twice the size of that felt by the COVID-19 pandemic. All the top 10 exporting countries that are most dependent upon Russia include Eurasian Economic Union countries, among them Georgia, Moldova, Uzbekistan, and Tajikistan. Their sectors with the largest Russian exports shares include apparel and food and beverage, which are likely to see

[28] *World Bank ECA Economic Update Spring 2022.*
[29] *World Bank ECA Economic Update Spring 2022.*

declines due to lowered consumer demand in Russia, which will in turn affect exports from these countries.[30]

Uzbekistan is expected to see slower investment growth as a result of its heavy reliance on Russian capital imports and financing from Russian banks for public and private investment projects.[31] The World Bank's most recent ECA Economic Update also expects foreign investment from Russia in Uzbekistan to fall and for FDI inflows in general to be subdued over 2022 and beyond as the region recovers from the conflict.

Uzbekistan's significant hydrocarbon reserves could represent a potential opportunity as many countries, including the entire EU, have planned to ban imports of Russian oil and gas. Yet, Uzbekistan's reliance on trade routes through Russia could prevent this opportunity from being fully realized in the short term. The slow down and decreased availability of inputs from Russia as well as decreased demand from Russia as a key export market could dampen the attractiveness of some sectors for FDI, which highlights the importance of assessing and analyzing sectors for targeted FDI promotion.

[30] *World Bank ECA Economic Update Spring 2022.*
[31] *World Bank ECA Economic Update Spring 2022.*

4. Prioritizing Sectors for Promotion

4.1. Rationale for sector targeting

Empirical evidence, as well as the World Bank Group's extensive operational experience, shows that successful investment attraction efforts must involve some degree of sectoral prioritization. Proactive investment promotion is most effective when focusing on a manageable number of sectors or subsectors, usually no more than 5-6, as each sector requires extensive preparation and execution activities. It is important to maintain the ability to respond to investment opportunities that may arise in other sectors, but greater focus promises greater rewards. [32]

Targeting sectors for FDI promotion should not be interpreted as 'picking winners,' [33] but rather as a way of prioritizing promotion related activities. Given the impracticality of pro-actively promoting all sectors simultaneously for FDI and the fact that not all sectors need pro-active promotion, sector prioritization has an important role to play. Countries and their investment promotion agencies have finite resources available, so it is important for them focus on the sectors most closely correlated with ensuring their strategy objectives are being met.

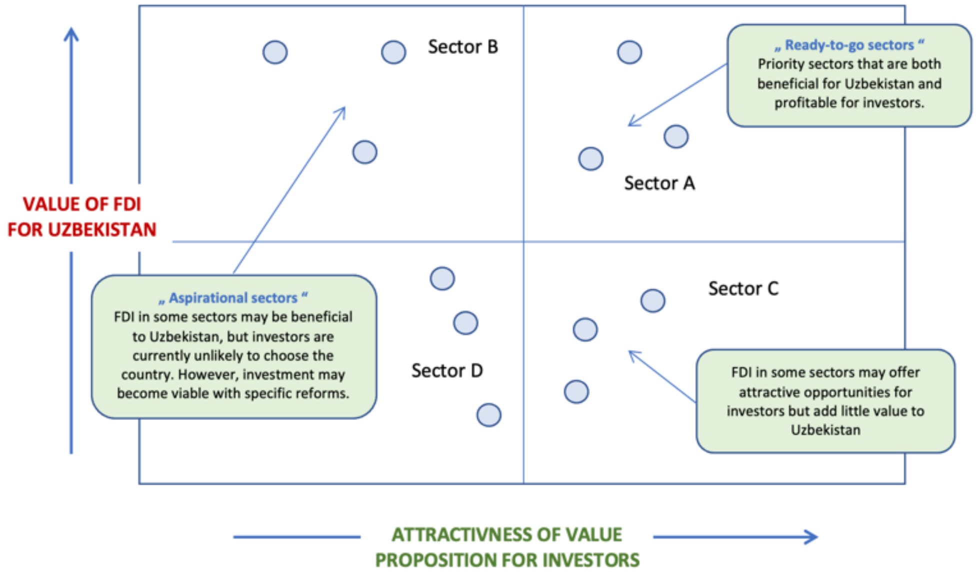
Proactive investment promotion has a key role to play in supporting the attraction of more diverse and higher quality FDI to Uzbekistan. Proactive investor targeting requires identifying competitive sectors and subsectors that might be best placed to attract new investments, which highlights the importance of conducting an FDI sector scan to identify priority sectors for promotion based on their competitiveness. In the long term, Uzbekistan can strengthen the country's competitiveness by improving its investment climate, and addressing specific areas like infrastructure, workforce, and the necessary policy actions required to enhance the attractiveness of specific sectors. In the short term, Uzbekistan can improve its chances by making sure that the country makes it onto potential investors' lists of possible investment locations and ensuring that potential investors have access to the most complete and positively framed information possible. Targeting seeks to accomplish these two tasks by seeking out and directly engaging investors identified as having high potential interest in a particular location. Without well planned and proactive targeting, Uzbekistan will have little influence over investors' site selection decisions.

4.2. Sector Prioritization Methodology – FDI Sector Scan

When prioritizing sectors for FDI promotion, the challenge is to identify sectors in which FDI attraction is both feasible and desirable. An FDI sector scan serves as a diagnostic tool to develop a framework for evaluating sectors or subsectors according to those dimensions. First, it assesses the feasibility of attracting investment in the sector, which is based on the attractiveness of Uzbekistan's value proposition in that sector to international investors ('Feasibility'). Second, it considers the desirability of such investment for Uzbekistan, which aims to examine the potential benefits of investment in that sector for the country based on select criteria aligned with its strategic objectives, e.g., job creation potential, ability to increase exports, etc. ('*Desirability') (*see Figure 15*).*

[32] *See, for instance, Harding, T. and Javorcik, B. S. (2011), Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows. The Economic Journal, 121: 1445–1476.*
[33] *This report refers solely to the selection of sectors for proactive FDI promotion, without implying interventionist policies at enterprise level that the term 'picking winners' often means. Sectors for FDI promotion must be already competitive at the international level to be successful, and no protectionist policies (e.g. import-substitution) are advised for sectors that would shield them from the international competition.*

Figure 15 Illustrative example of framework for selecting priority sectors



4.2.1. Feasibility

The FDI sector scan begins with a thorough assessment of the country's competitiveness factors in order to better understand the attractiveness to investors of its value proposition across sectors. Factors affecting a sector's feasibility are relatively standard and include those that demonstrate whether Uzbekistan can offer a competitive proposition for investors, such as its market size and growth, cost factors, natural endowments, presence of relevant infrastructure, the business environment, etc. The following illustrative list of data points demonstrates the kind of detailed considerations and analysis required for assessing a sector's feasibility:

- **Market size and growth:** with a population of over 35 million as of April 2022, Uzbekistan has the largest consumer market in terms of individual consumers among the five Central Asian countries.[34] Uzbekistan is a member of the free trade agreement signed between CIS countries,[35] which offers access to a large and growing regional market. The country is also a participant of the Economic Cooperation Organization Trade Agreement which establishes significant reduction of tariffs among member countries. The country is, however, not a member of WTO and the size of the economy is restricted by the purchasing power parities-based household consumption per capita. Low household consumption per capita in neighboring countries including Turkmenistan, Kyrgyzstan, and Tajikistan,[36] also limits export opportunities for Uzbekistan-based producers and export-seeking FDI.

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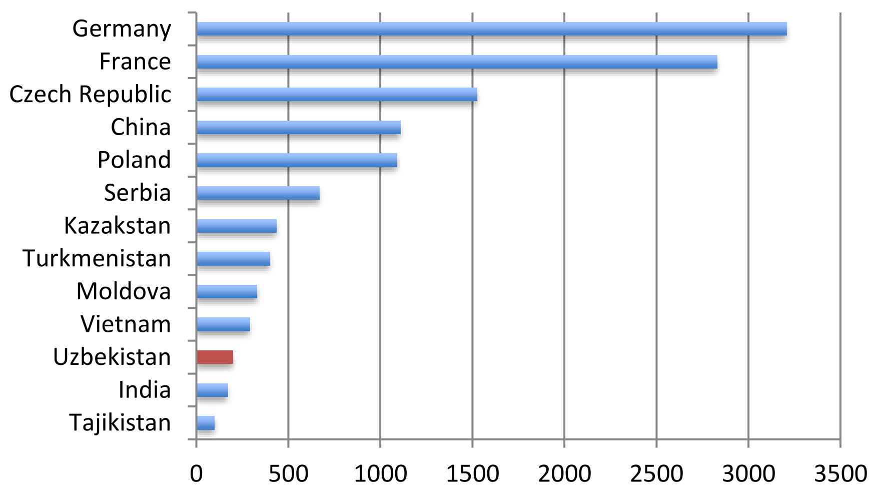
[34] *Worldometers.info (https://www.worldometers.info/world-population/uzbekistan-population). In terms of GDP, Uzbekistan is second to Kazakhstan within the region.*
[35] *Commonwealth of Independent States Free Trade Area (CISFTA) is a free-trade area between Russia, Ukraine, Belarus, Uzbekistan, Moldova, Armenia, Kyrgyzstan, Kazakhstan and Tajikistan. Uzbekistan parliament ratified by the law #ZRU-362 of December 27, 2013 the Protocol "On application of the 'Agreement on the CIS free trade zone of October 18, 2011' between the sides of Agreement and the Republic of Uzbekistan". For Uzbekistan this Protocol was enacted in force from May 16, 2014.*
[36] *Purchasing Power Parities for Policy Making. World Bank Group 2021 (https://openknowledge.worldbank.org/handle/10986/35736)*

- **Cost competitiveness:** while Uzbekistan's labor costs are rising,[37] they remain competitive in the global context (Figure 16).[38] Energy costs are among the lowest in the region. However, being a double-landlocked country, increases logistics and transport costs considerably. Long distances, high transportation costs and low regional integration limit Uzbekistan's access to economic centers in China and Western Europe.[39]

Figure 16 Nominal wages in selected countries (in USD/month, 2019 data) *



Source: Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19, International Labor Office, Geneva
Note: * 2019 data, except for India, Moldova, Tajikistan, and Turkmenistan (2018 data)

- **Natural endowments:** oil, natural gas, gold, copper, zinc, lead, and uranium are among the most significant natural resources that attract extractive investors. Downstream refining and processing industries present both investment opportunities as well as a source of value added and profitability gains.

4.2.2. Desirability

The FDI sector scan entails a thorough assessment of the policy and development goals that Uzbekistan is trying to achieve. Desirable sectors will be those which can help Uzbekistan achieve these goals. Desirability is defined by the overall economic development objectives for a country, in the case of Uzbekistan the New Uzbekistan Strategy 2022-2026. When considering where FDI might be desirable, priority should be given to those sectors that will add most value to the Uzbek economy in line with the objectives set out in this strategy. Against this background, desirability factors include the ability of FDI to improve the performance of the sector value chain within Uzbekistan; create additional jobs; increase export revenues/reduce imports; improve economic wellbeing outside of urban areas; and provide opportunities for linkages.

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[37] *ILO data shows that average monthly wages in Uzbekistan (before taxes) were 220 USD in 2019, 222 USD in 2020, and 284 USD in 2021, showing a slight increase but still low overall figures compared to other countries (Figure 16).*
[38] *Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19, International Labour Office, Geneva*
[39] *Yusufkhonov, Zokirkhon & Ugli, Mirzaev & Dilmurod, Akhmedov & Shokhjakhon, Masodikov. (2021). Freight Flows And Transport Costs On The Logistics Corridors Of Uzbekistan. International Journal of Progressive Sciences and Technologies (IJPSAT), August 2021*

4.2.3. Sector Scan Matrix and Scoring

The resulting sector scan assessment matrix for the Uzbekistan FDI strategy is configured to assign scores to each sector or subsector based on its potential contribution to Uzbekistan's economic development outcomes and its attractiveness to investors. The different factors and questions along the desirability and feasibility dimensions were developed and calibrated in close consultation with the government (Table 2). All 13 sectors included in the FDI Sector Scan exercise were assessed against the criteria summarized in the assessment matrix. The individual scores were assigned leveraging a combination of existing analytical reports (see Annex 9.2), an assessment of the potential viability of investment projects in the sector (see Annex 9.3), as well as inputs from private sector consultations conducted with existing investors in the sector (see Annex 9.4). The individual scores provided in the assessment matrices also take into account the potential effects of global FDI megatrends, as examined in greater detail in chapter 3 of this strategy. For this exercise, the following sources of information were consulted:

i. **Qualitative, based on primary and secondary information:**
    - Review of existing relevant analytical work, including sectoral studies and information produced by different authorities, consulting firms, research institutes, sectoral associations and international chambers of commerce.
    - Interviews and workshops with key public or private actors, as well as established investors, business associations and chambers, government counterparts, donors, embassies of key FDI source countries and international institutions.

ii. **Quantitative, data-driven approaches, including:**
    - National and international databases, to shore up and complement the qualitative side of competitiveness assessment to inform decision-making, including: analysis of investment flows in sectors; national and regional performance FDI; analysis of external sector performance and trends in domestic industry (to the extent available).

Table 2. Sector scan assessment framework for Uzbekistan

To what extent:	Evidence
1. Desirability: Will additional FDI in sector X add value to Uzbekistan?	
Will new investors help to **improve the performance of the sector value chain** as a whole?	• Potential impact on other parts of the value chain (improved inputs or improved sales opportunities for domestic suppliers) • Quantity and quality of existing producers, SMEs, and investors already operating in the sector; impact of new investors on local SMEs in the sector
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	• Sector labor intensity • Potential jobs generated by new investments in the sector (skilled vs. unskilled) • Potential to tap into labor force in the regions, outside traditional urban settlements
Will new investors create **increased export** revenues or **reduce imports**?	• Potential export revenues – market vs. efficiency seeking FDI • Potential for import substitution
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	• Sector dependence on advanced physical infrastructure • Sector labor and skills intensity • Potential to tap into labor cost differential between major urban areas and regions
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	• Improved opportunities for domestic firms to supply their goods/services to foreign investors and improved incomes generated by new investments in this sector • Potential for spillover effects into domestic economy • Potential for deepening integration into GVC • R&D spending by industry, sector links with academia
SUBTOTAL	
2. Feasibility: Does investment in sector X offer an attractive proposition for foreign investors?	
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	• Demand, supply, and price trends in Uzbekistan and neighboring countries • Market growth, market access, degree of competition • FDI track record in Uzbekistan and FDI regional trends in the sector
Is the **global market** attractive? Can goods/services be exported globally?	• Demand, supply, and price trends in major global markets and their relevance to Uzbekistan (can goods / services be exported to global markets?) • Market growth, market access, degree of competition • FDI global trends in the sector
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	• Availability and quality of key production inputs (sector specific site selection factors) and suitable raw materials critical to the sector, proximity to key markets, access to funding, etc.
Does Uzbekistan have **competitive infrastructure**?	• Availability, quality and cost of sector critical infrastructure and backbone services (e.g., power, transport, manufacturing sites, office space, internet connectivity, etc.).
Does Uzbekistan have **competitive skills and support services**?	• Availability and productivity of suitable workforce and support services • Labor market efficiency • Ability to continuous skills supply in case of growth
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	• Absence of regulatory of institutional barriers that might deter investors or hinder their performance. • Regulatory transparency and predictability. • Absence of corruption and red tape. • Openness of investment policy and protection of property (incl. intellectual property) rights. • Sector level playing field (sector monopolies, oligopolies, competition with SOEs, access to inputs, etc.)
SUBTOTAL	

It should be noted that the scoring methodology used as part of a sector analysis is not an exact science, but involves judgement on the part of the experts completing the sector scan matrices. To minimize potential distortions and biases, the scoring matrix for the sector scan was developed and calibrated in close consultation with government counterparts. This approach contributes to enhancing the relevance and alignment of the factors constituting the resulting sector scores with the government's economic development objectives. In addition, the quantitative exercise of assigning scores to sectors has proven to be a highly effective way to engage stakeholders, as well as to extract and distill information comparatively across sectors. Visual representation of results in tables and graphs helps the process of understanding and facilitates discussions. The aggregate score matrices provided in Annex 9.2 evaluate sector performance across the two dimensions ('desirability', 'feasibility') over a simple ordinal scale: 1 (lowest performance) to 5 (highest performance). The combination of private sector inputs through targeted focus groups with research and analytical work assessing relevant global and country specific industry trends allows for a comprehensive assessment of the sectors' desirability and feasibility[40].

4.2.4. Short-listing sectors for the FDI sector scan

A shortlist of sectors was generated prior to conducting the detailed FDI sector scan analysis. The sector selection process starts with the identification of an initial longlist of potential sectors for investment promotion defined based on the Global Industry Classification Standard (GICS®) sector classification.[41] In the context of this strategy, the longlist was narrowed down to a shortlist of 13 specific sectors (Table 3) by applying the following filters: track record in FDI attraction to Uzbekistan, export orientation, share of value-added in total output, numbers of FDI projects in the broader ECA region, and resilience in the face of COVID-19. The filters and shortlist were developed and calibrated in close consultation with the government.[42]

Table 3. Selected target sectors for FDI sector scan

Oil & gas	**Industrial machinery**	**Software & IT services**
Pesticides & fertilizers	**Leather & footwear**	**Renewable energy**
Packaging materials	**Food processing**	**Banking**
Construction materials	**Pharmaceuticals**	
Agriculture	**Electrical & electronic equipment**	

[40] It should be noted that the approach comes with certain caveats related to the quality and availability of data across sectors, and on national / regional level, selection biases related to the factors constituting the assessment matrix, etc.
[41] https://www.msci.com/documents/1296102/11185224/GICS+Methodology+2020.pdf/9caadd09-790d-3d60-455b-2a1ed5d1e48c?t=1578405935658
[42] *During a series of discussions with the government using a set of filters, a longlist of 13 sectors was identified for inclusion in a detailed sector scan. The longlist was validated with the government during a joint workshop in October 2021 (see Annex 9.1).*

4.3. Sector Scan Results - Priority sectors identified for FDI promotion

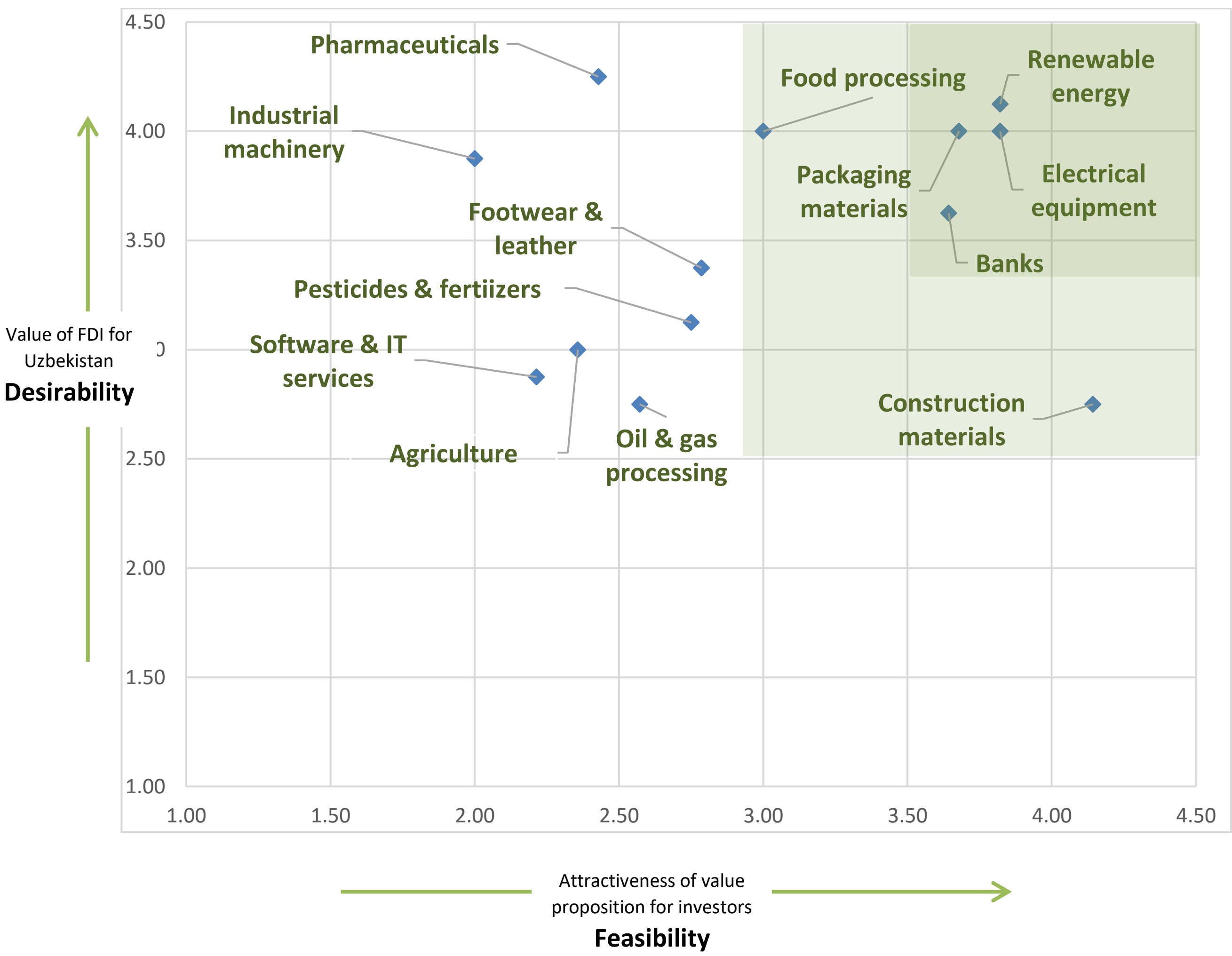
The FDI sector scan revealed a set of tier I sectors that are 'ready for promotion', as well as a set of 'aspirational' sectors (tier II) that require targeted policy reforms to fully unlock their potential. The results of the FDI sector scan including the 13 shortlisted sectors are summarized in

Figure 17 below. The detailed assessment profiles summarizing the desirability and feasibility ratings for each of the sectors are provided in Annex 9.2 of this document.

Overall, the priority sectors for FDI attraction selected are those that offer the most value to Uzbekistan and are most attractive to investors. Those are sectors where Uzbekistan can offer a strong value proposition to investors, and at the same time, investments in those sectors offer significant benefits to the Uzbek economy. Those 'Ready-to-promote' or tier I sectors are the highest scoring sectors located in the top right quadrant of

Figure 17 in the darker green box. Tier I is constituted by sectors where FDI is possible to promote in the short to mid-term, which includes electrical equipment, packaging materials, banks, and renewable energy. Sectors with slightly lower scores can be considered 'Aspirational' or tier II, i.e., those requiring additional policy reforms to unlock their potential for investment attraction (lighter green box), which includes food processing, construction materials. The challenge for these sectors is to identify concrete policy reform actions that can help them to become sectors that can be considered ready for the investment promotion efforts.

Figure 17 FDI Sector Scan Assessment Outcome Scoring



Source: World Bank Group Calculations

- **Tier I 'ready-to-go-sectors': Electrical Equipment, Packaging Materials, Banks, and Renewable Energy.** Tier I is constituted by sectors where FDI is possible to promote in the short to mid-term. These are sectors where Uzbekistan can offer a strong value proposition to investors, as elaborated in the detailed sector profiles in Annex 9.2. These sectors will attract a mix of FDI – some geared towards the domestic market, some using Uzbekistan as a production base for export. These sectors should be proactively targeted in the investment outreach efforts led by UZIPA (or SAMA / PPP Development Agency), while the government will continue improving the quality of the investment climate.
- **Tier II 'aspirational sectors': Food Processing, Construction Materials**. Tier II is constituted by aspirational sectors where FDI may show interest in the medium- to long-term. These sectors show a strong global demand for new investment. Provided that Uzbekistan strengthens its competitiveness position in these sectors and removes critical investment climate barriers (e.g., unrestricted access to production inputs), these sectors could show a strong potential for investment attraction to Uzbekistan. These sectors could potentially provide high value to Uzbekistan; however, they currently do not offer a sufficiently strong value proposition to foreign investors. In the case of food processing, limited capacities of refrigerated warehouses present a major obstacle. For FDI in construction materials, the ease of access to input materials is significantly limited through high imports duties making manufacturing expensive. Both sectors need proactive policy reform efforts before they become marketable to foreign investors.

4.4. Articulating the Uzbekistan value proposition in priority sectors

For Tier I and Tier II sectors, it will be critical for the government to recognize the importance of articulating Uzbekistan's value proposition to investors. This involves the need to differentiate the country's competitive offering from key competitors, including from the region and especially the Eurasian Economic Union members (Russian Federation and Kazakhstan) who share the preferential market access within.

Articulating compelling value propositions for investors in the sectors proposed by this report is essential for the implementation of targeted investment promotion efforts. Private sector consultations and the FDI sector scan assessments were used to identify the key competitiveness factors that make up Uzbekistan's value proposition to investors in the targeted sectors.

Figure 18 summarizes the main competitiveness drivers for Uzbekistan in each of the identified priority sectors. They are based on strong human resources, cost competitiveness or market opportunities, a proven track record in specific sectors, and a strong future growth potential.

Figure 18 Main sources of target sectors' competitiveness

	Electrical Equipment
Human Resources:	• Solid knowledge base in the production of electrical equipment with specializations into transformers, more and more relevant for AC/DC conversions from PV to national grids etc. • Good availability of labor with solid potential of capacity increases in electrical engineering through universities and other higher education institutions.
Cost Competitiveness:	• Raw materials, like copper, are domestically available and help to maintain a low input cost profile for many electrical equipment products. • Already established, historically grown capacities for transformers and switchboards allow for lower cost in production.
Proven Track Record:	• Lower complexity electrical equipment manufacturing has a long history in Uzbekistan. • Automotive and higher complexity suppliers for electrical equipment already established. Potential to grow in higher complexity segments is high.
Future Growth Potential:	• Current low levels of manufacturing and product complexity leave a lot of room for increased value added. • Basic infrastructure needs and specifically demand by renewable energy projects will increase demand for electrical equipment in Uzbekistan and the region.

	Packaging Materials
Human Resources:	• Sufficient supply of unskilled / semi-skilled workforce required for certain aspects of the packaging materials sector, with workforce available in the regions.
Cost Competitiveness:	• Cost-efficient workforce with labor costs lower than in many comparator countries. • Energy costs are among the lowest in the region.
Proven Track Record:	• Uzbekistan has foreign firms already operating within the sector, particularly within bottling.[43]
Future Growth Potential:	• The packaging materials sector globally has strong growth and increases in delivery services of goods and online ordering has served to further increase demand for packaged supplies. • Asia is a key demand market for this sector, and there is also demand in the broader Central Asia region for exports of packaging materials.[44] Uzbekistan's strategic location is beneficial for both markets.

[43] Private sector consultations with foreign investors in the sector revealed this. FDI Markets does not have data on FDI projects in this sector in Uzbekistan.
[44] As revealed by private sector consultations.

	Food processing
Human Resources:	• Sufficient supply of unskilled / semi-skilled workforce commonly employed in the food-processing sector. • Workforce available in the regions.
Cost Competitiveness:	• Cost-efficient workforce with labor costs lower than in many comparator countries. • Energy costs are among the lowest in the region.
Proven Track Record:	• There were 13 FDI projects in the food processing sector in the past decade, mostly in primary processing (generated almost 3000 new jobs).
Future Growth Potential:	• Growing domestic market with changing consumer preferences in terms of quality and branded products. • Proximity to large consumer markets of Russia and China.

	Construction materials
Human Resources:	• Relatively high levels of unemployment and low levels of general education to support labor-intense manufacturing of lower complexity bulk products. • Rural areas have sufficient workforce.
Cost Competitiveness:	• Cost-efficient workforce with labor costs lower than in many comparator countries. • Energy costs are among the lowest in the region for energy intense production of construction inputs.
Proven Track Record:	• Solid inflow of FDI into the construction materials sector, also into higher complexity products. • Due to the availability of basic raw material, the construction materials sector has an established history of production in Uzbekistan.
Future Growth Potential:	• Domestic market highly attractive by size and demand for new housing. • New public and private infrastructure developments will further increase demand for construction materials, see also renewable energy prospects.

	Banking sector
Human Resources:	• Existing state-owned banks earmarked for privatization have enough sector skilled specialists.
Market access:	• The largest consumer market in terms of individual consumers among the five Central Asian countries; also, the leader in terms of absolute demographics growth. • Ongoing privatization allows immediate market access.
Proven Track Record:	• Although there is very limited FDI track record in the financial sector in Uzbekistan, the ongoing privatization of state-owned banks provides unique investment opportunity for foreign investors to tap into the second largest market in Central Asia.
Future Growth Potential:	• Strong growth of banking assets (more than twofold increase since 2018). • Large untapped demand for new financial services and fintech solutions.

	Renewable energy
Location endowments:	• Good location endowments for construction of solar and hydro renewable energy generation – there are several solar energy potential rich regions (Karakalpakstan, Navoi, Bukhara and Surkhandarya). • There are also good conditions for development of small and mini hydro-plants in the country.
Cost Competitiveness:	• Government power purchase agreements and PPP projects contracts provide predictable framework for business profitability calculation.
Proven Track Record:	• Uzbekistan recently registered interest from foreign investors in the renewable energy sector (e.g., ACWA Power / Saudi Arabia, Mubadala Investment Company / UAE).
Future Growth Potential:	• Significant potential for future growth – power production is set to increase 1.5 times by 2025 in Uzbekistan, the government has embarked on comprehensive programs to boost power generation capacity and modernize transmission and distribution lines. • The government has also adopted a concept note for sector development that includes provisions for improvement of the sector regulatory framework.

The above sketched out value propositions are based on stylized facts collected in the context of the preparation of this report and need to be substantiated with additional evidence and competitive benchmarking data with relevant comparator locations for use in proactive investment promotion efforts to targeted investors.

To further enhance Uzbekistan's investment competitiveness in the targeted sectors, it will be important for the government to adjust and upgrade its sectoral policies and regulatory frameworks to remove existing investment constraints. The formulation of sector specific policies needs to be based on a concerted effort of various stakeholders leading to continuous improvement of Uzbekistan's sector value proposition. For each of the target sectors, it is necessary for the government to establish a mechanism for identification of sector-specific constraints and investment policy barriers, involving representatives of state agencies, local governments, sector associations, private businesses, professional advisors, regulatory bodies, and educational institutions. The objective is to regularly review target sectors' international competitiveness and adopt measures and policies that will help Uzbekistan to remain an attractive investment destination. Improvement of Uzbekistan's sector value propositions is critical, particularly in Tier II sectors where the country currently faces several competitiveness constraints.

The key reform proposals to remove sectoral investment constraints that have been identified through the strategy formulation process and that must be addressed by the government include:

- **Electrical equipment:** ensure unrestricted and market-based access to domestic raw materials like copper; increase of private-to-private alternatives to state owned electricity supply to ensure uninterrupted production; increase in competition in the supply of basic inputs for the industry; lowering or completely abolishing of customs on basic raw material imports for higher value-added products.

- **Packaging materials:** lower the import duties specifically on inputs that currently cannot be substituted by domestic production; avoid unexpected regulatory changes which cause additional obstacles for firms.
- **Fresh fruits, vegetables, and food processing:** increase the strategic warehousing capacities of Uzbekistan and introduce regulation fostering high quality food production in accordance with regulation and standards of big demand centers like the EU.
- **Construction materials:** lower the basic cost of inputs for manufacturing through adjustments to the import duty system.
- **Tier I and II sectors:** accelerate WTO membership process to improve access to larger export markets.

Access to consumer markets, ease of transport, customs procedures and logistical performance are essential for export-oriented, efficiency-seeking investment across sectors. It will be important for the government to prioritize measures that have the highest impact in these areas. Annex 9.4 contains a summary of the main investment impediments identified during the sector focus groups with the private sector.

5. Strategic vision

The government's vision is that by 2026 Uzbekistan will attract US$ 5 billion of foreign direct investment on an annual basis. This represents a US$ 3.4 billion increase in annual new gross FDI and reinvestments over the pre-strategy baseline.

Increasing the impact of FDI for economic growth

The overall goal of Uzbekistan's new FDI strategy should be to increase the economic impact of FDI in the country by increasing FDI inflows and diversifying the composition of the investment attracted. FDI has already been an important contributor to Uzbekistan's economic performance over the past decade. It has supported GDP growth, employment creation and contributed to the government's revenue base. FDI has been instrumental in helping Uzbekistan take advantage of its mineral wealth and can play a central role in further growing and upgrading the country's economy.

The new FDI strategy should target high-quality investments in new sectors and from new sources in order to increase the competitiveness and diversification of Uzbekistan's economy over the next decade. The type of FDI targeted by the new strategy should provide new sources of capital, technology, skills and market connectivity. It should support the development of the country's human capital and the generation of high-quality jobs. In parallel, Uzbekistan remains a natural target for resource seeking FDI and related services and will continue attracting investors in the natural resource extracting industries and related downstream sectors, particularly if the government reduces the share of state participation in these sectors.

To achieve the government's economic development objectives, annual FDI inflows will need to increase to US$ 5 billion by 2026. By a recent International Monetary Fund (IMF) estimate, in the near term, FDI inflows are expected to remain modest and could reach US$ 3.5 billion by 2026 (excluding FDI inflows from privatization).[45] Through the implementation of the ambitious reform program set out in this report, enhanced efforts in investment promotion, and a focus to increase participation of foreign investors in the upcoming privatization and PPP processes, the government can aim to increase annual FDI inflows to US$ 5 billion by 2026.

To reach these ambitious targets, the new strategy will need to leverage three different, yet connected approaches:

- ✓ **Attracting new types of FDI**, including in more complex and knowledge intensive sectors and from a more diversified set of source countries;
- ✓ **Increasing the benefits of existing FDI**, in particular through increasing reinvestments; and
- ✓ **Maximizing the economic impact of privatization and PPPs** by effectively involving FDI.

To implement these approaches, the strategy should propose a comprehensive reform program aimed at removing investment climate impediments and improving Uzbekistan's competitiveness in sectors that will be targeted for increased FDI. Chapter 7 of this report sets out a detailed reform action plan aimed at improving the investment climate for foreign investors in Uzbekistan. Together

[45] *2021 Article IV Consultation, IMF Country Report no. 21/85), April 2021, International Monetary Fund (IMF)*

with ongoing reforms to strengthen the overall business environment for the private sector in Uzbekistan, this reform program can contribute to achieving the specified FDI targets.

A phased build-up of impact

As the investment strategy will launch a qualitatively new approach to FDI attraction and retention in Uzbekistan, it will require economy-wide reforms that address existing investment climate impediments and sector constraints. Strengthening the country's investment promotion institutions will be critical and a careful sequencing of investment promotion activities will be important to be efficient. The impact envisaged under the new strategy will build up gradually and can be fully achieved during a 5-year period as outlined in Table 4.

Table 4. FDI annual inflows phased build-up

FDI Flows into Uzbekistan – Modest Scenario Projections[46] *(figures in US$ bln)*								
Year	**Baseline** *(avg: '16 - '20)*	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**CAGR** *('21 -'26)*
Total FDI	1.6	2.1	2.8	3.5	3.9	4.5	5.0	**20.91%**

Note: The compound annual growth rate (CAGR) of an investment over a period of years measures the growth of an investment as if it had grown at a steady rate on an annually compounded basis.

Focus on implementation

Implementation of the proposed strategy should be underpinned by a dedicated institutional mechanism to manage the process of strategy implementation and oversee all stakeholders' contributions. It will be important for the government to appoint a high-level inter-ministerial council ("Council") composed of the appropriate authorities with the task to regularly update and monitor progress on the strategy implementation. The Council would publish reform progress and investment results under each reform area, identify corrective measures as needed while continuously ensuring strategic alignment of reforms with Uzbekistan's economic development objectives. The Ministry of Investment and Foreign Trade (MIFT) could fulfill the role of a secretariat to the high-level council, ensuring its efficient and effective operation. Alternatively, this role can be taken by Strategic Development Agency (SDA) provided it is given appropriate mandate and executive powers to oversee the strategy implementation progress. The monitoring and evaluation framework set out in chapter 8 represents an integral part of this strategy and lays out the basis for program management and overview.

[46] *Based on IMF net FDI inflows estimate (ibid)*

Adhering to fundamental principles underpinning the strategy

The new strategy should be anchored in four fundamental principles which will be critical to its success. These principles will be manifested in various ways in the different program areas and will be relevant for all stages of investment generation, i.e., attraction, facilitation, retention, and linkages.

1. ***Transparency and evidence-based decision making in government***: It will be important for the government to enhance the degree of transparency in its operations, particularly in its interface with investors. This will include, for example, sharing of information on:

    a) policy, legal and regulatory plans, as well as their enactment;

    b) criteria for decision-making in specific regulatory or promotional areas;

    c) results of important decisions; and

    d) progress in implementing reform programs.

    Government actions should also be evidence-based; for example, investment promotion efforts should be informed by good sectoral diagnostics and important new regulations will be subject to impact assessment.

2. ***Engagement of the private sector:*** The government should explore deeper, and more inclusive engagement with the private sector in both the design and implementation of policies, programs, and rules. Formal public-private dialogue platforms (economy-wide or sectoral) would be effective tools in conjunction with instilling a culture of dialogue and participatory decision-making in government. For example, the government could not only share information on proposed laws and regulations but also actively solicit comments from the private sector. Where relevant, dialogues could also be broadened to bring in other stakeholders in society.

3. ***Strong orientation toward results***: To ensure proper monitoring and evaluation of this strategy, the government can adopt a robust set of Key Performance Indicators (KPIs) and Monitoring and Evaluation framework, which will be critical for the strategy implementation. In addition, policy actions, programs and reforms often do not have the desired impact due to implementation gaps. For different program areas related to the strategy action plan, the government could put in place feedback loops to get timely alerts from investors on the quality of implementation of specific actions, followed by corrective actions wherever needed. The government is also advised to emphasize evaluations of policies and programs to improve their effectiveness.

4. ***Good coordination within central and regional government***: Inadequate coordination and information-sharing between different parts of the government is often the cause of poor policy or regulatory design as well as implementation. Inconsistency between policies or between regulations can be a major source of unpredictability for investors. The efficiency of individual regulatory interfaces is often reduced by lack of coordination and information sharing among agencies that have a say in the enforcement of such regulations. Mechanisms must be put in place or strengthened to improve intra-governmental coordination, both horizontally, between different ministries/agencies, as well as vertically, across various tiers of government. Particular attention will need to be paid to the coordination between the central government and the regions to ensure consistency in decision making.

6. Policy Reform Program

Over the last several years, the government of Uzbekistan has implemented an ambitious reform program to enhance the country's investment competitiveness. In 2019, it adopted a new Investment Law – the Law on Investments and Investment Activity, which helped provide increased transparency and predictability. The GoU also improved the institutional structure for investment promotion by providing the Ministry of Investment and Foreign Trade (MIFT) with the mandate for investment policy and restructuring the Uzbekistan Investment Promotion Agency (UzIPA), which reports to MIFT in 2019. Prior to these reforms, in 2017, the Government implemented key reforms allowing for the liberalization of the foreign exchange regime by approving convertibility of the currency and allowing foreign investors to open accounts in foreign currency, as well as including the conditions for repatriation of capital and profits in the new Investment Law. The GoU also undertook efforts to improve the efficiency of business establishment procedures including through digitalization and streamlining, and improved access to information by publishing many laws, regulations, and Presidential and Cabinet of Minister decrees and resolutions online in a dedicated site. It has also improved its market access by joining the EU's Generalized Scheme of Preferences (GSP+) in April 2021, which allows it to benefit from a special system of preferences of the EU.[47]

Leveraging these achievements, this report outlines a new reform program to further enhance the country's competitiveness to attract high quality FDI in a changing global environment. A series of priority reforms will be required to further enhance Uzbekistan's investment competitiveness and achieve the Government's ambitious development objectives as laid out in the New Uzbekistan Strategy. Addressing the key policy constraints for all types of investment, but in particular for investments targeted by the new strategy, will require an ambitious reform program that aims to:

- **(i) improve the investment climate;**
- **(ii) strengthen investment promotion as well as related institutions and processes; and**
- **(iii) leverage the full potential of privatization and PPPs for FDI attraction.**

A country's policy landscape is an important factor for investors and it plays a key role to support, attract, and retain investments. Looking at the current policy context in Uzbekistan, certain binding constraints for attracting and retaining more and higher quality foreign direct investments to the country have been identified. These constrains have been identified based on a combination of findings from existing analytical reports and investment climate reviews, as well as inputs from in-depth private sector consultations conducted with existing investors in Uzbekistan. This assessment is aimed at identifying specific reforms to enhance the investment climate in Uzbekistan to attract FDI. The proposed reforms must build upon and be complemented by reforms strengthening the enabling environment for the private sector more broadly, including reforms to improve the allocation of land, labor, and finance, increase competition, enhance the outward orientation of the private sector, create better private sector support services, and accelerate agricultural market reforms. These additional reforms are laid out in the recently published Systematic Country Diagnostic.[48]

[47] https://www.eeas.europa.eu/delegations/uzbekistan/uzbekistan-joins-european-union-special-agreement-gsp_en?s=233

[48] Toward a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/933471650320792872/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan

6.1. Investment climate

The following assessment of Uzbekistan's Investment Climate is based on three main sources of information:

i. **Uzbekistan FDI policy diagnostic (IPRR)[49]:** A comprehensive review of the main legal instruments for foreign direct investment, the institutional landscape for investment promotion, the entry and establishment rules, the level of investment protection and the investment incentive regimes.

ii. **Private Sector Consultations[50]:** a series of sector-based focus groups with selected domestic and foreign investors based in Uzbekistan.

iii. **Additional analytical reports and studies**, including a number of key World Bank Group reports like the Uzbekistan Systematic Country Diagnostic (2022), Uzbekistan Country Private Sector Diagnostic (2019), and the Uzbekistan Country Economic Memorandum (2021), as well as the UNCTAD Report on the Implementation of the Investment Policy Review of Uzbekistan (2021), among others.

Strengthening Uzbekistan's investment climate for more investment

This proposed strategy seeks to create an investment climate that is designed to attract and retain investment, which will ultimately contribute to an economically vibrant, industrialized and diversified Uzbekistan. Improvements can be made in all areas of the country's framework for investment, including policies, laws and regulations, and institutions. Reform actions in these areas will be critical to establish an appropriate environment for all investment, particularly efficiency-seeking, export-oriented investment.

Over the past several years, the government of Uzbekistan has set out to implement large scale policy initiatives to improve the investment climate and business climate as a whole. These include the improvement of the policy, legal and institutional framework affecting investment and the development of entrepreneurship. Closely aligned with the country's development objectives, these actions are targeting an increase in value added of production, including through high-technology activities, and an improvement in the attractiveness of the country for FDI by easing investments into Uzbekistan. Reforms and changes to the investment policy framework for private investment and FDI thus far have translated into the adoption of many new laws, regulations and processes enhancing and strengthening the investment and business climate. As recently completed investment policy reviews and assessments show,[51] Uzbekistan has created a legal and regulatory framework, that *de jure* is supportive of FDI and overall private sector investment.

However, further challenges remain to unlock the full potential of FDI to contribute to economic growth, upgrading and job creation. The main remaining challenges are summarized below and combine the insights gained from legal and regulatory reviews by the World Bank and other international institutions, as well as from a series of in-depth and fully confidential consultations with private sector representing foreign and domestic companies operating in Uzbekistan in several

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[49] The full assessment report is provided as Annex 10to this strategy.
[50] A comprehensive summary of the main findings from these private sector consultations can be found in Annex 9.4
[51] UNCTAD IPR, 2021; World Bank IPRR, 2021; World Bank CEM, 2021;

sectors. The combination of these approaches allows for the identification of *de jure* and *de facto* impediments to investment.

Investment Policy Framework

Without the adoption of a new FDI strategy, Uzbekistan lacks a strategy framework for FDI linked with its national development strategy goals and objectives. Having an FDI strategy that prioritizes sectors, reforms and activities according to the country's value proposition and economic and social development goals is important for the effective promotion and attraction of FDI.

Uzbekistan's new Investment Law of 2019 streamlined investment legislation, but there are still important areas that must be strengthened to provide additional clarity and further align its domestic and international legal framework for investment. The Investment Law should be reviewed and benchmarked with international good practice. Targeted amendments to the Investment Law should be adopted related to modernizing investor protections and guarantees and aligning the legislation with bilateral investment treaties (BITs) and international investment agreements (IIAs) that it has ratified. Uzbekistan also has a large number of 'old-style' investment treaties in place, which include unqualified definitions and ambiguous formulations that expose the country to a high risk for investor state disputes. Developing and officially adopting a new model BIT aligned with modern standards of investment treaty making and developing a strategy for upgrading and re-negotiating 'old style' BITs would reduce its exposure and enhance its investment legal framework.

Transparency in legal and regulatory processes must be enhanced, particularly relating to the publication of and access to laws and regulations, and the effectiveness of public consultation processes. While the online portal www.lex.uz provides information on many laws and regulations, it does not represent a comprehensive database of all laws and regulations, and there are few official portals that provide English language translations of local laws and regulations relevant to investors. In terms of public consultations, the Law on Normative Legal Acts provides for public and stakeholder consultations before a new bill is enacted into law, but it does not mandate such consultations. The law also states that the drafting organization will post draft bills on the joint portal of interactive government services of the Republic of Uzbekistan with the aim of holding public discussions, however, no timeline or statutory period is prescribed for which laws, regulations, or other measures are required to be made publicly available for comments prior to their passing. Further, a lack of specific information and transparency can inhibit public engagement. The majority of laws also take the form of by-laws and ministerial rulemakings and only a small percentage of the primary legislation being passed undergoes public consultation processes. The heavy reliance on secondary law-making leads to effectively circumventing any requirement for public consultation.

Investment entry and establishment

While Uzbekistan's Investment Law does not expressly prohibit or otherwise restrict foreign participation in any business activities, there are certain restrictions on FDI that are scattered across various laws, making it difficult for foreign investors to identify applicable rules upfront. Examples of these different relevant laws include those on insurance, mass media and banking sectors. Excluded areas of investment include centralized investments, concessions, the conclusion, execution and termination of production sharing agreements, regulation of the capital market, including operations with securities, public-private partnership, and special economic zones, which are regulated by separate laws. Further, the Investment Law generally states that laws may, in accordance with the country's international treaties and generally recognized principles and norms of international law, restrict foreign investment in certain areas of the economy and for the protection of public health, animal and plant life, the environment, as well as protection of the country's national security interests. Certain sector specific federal laws and regulations issued by the relevant ministry or government agencies may also prescribe restrictions on FDI. The development and publication of a Negative List would provide greater clarity to investors about any applicable restrictions to foreign investments in Uzbekistan and would help align with international best practices related to transparency standards for investment entry and establishment.

Foreign investors are generally not required to form a joint venture with a local partner in order to establish a business in Uzbekistan with the exception of certain restricted sectors, in which a certain threshold percentage of Uzbek participation is mandated. In such sectors, a foreign investor must by default form a joint venture with a local partner in order to meet the Uzbek participation requirements. Similarly, mergers and acquisitions by foreign investors are not restricted in the country but they may be subject to clearance from the Uzbek antimonopoly regulator if they meet certain thresholds. However, certain restricted sectors impose local participation requirements for shareholding that must be complied with.

A number of areas of the economy are also prohibited from denationalization and privatization according to the Law on Denationalization and Privatization. This Law and several decrees and regulations govern the scope of specific privatization programs in Uzbekistan, as well as related regulatory and administrative frameworks. In recent years, the government has undertaken several measures via specific decrees to simplify the privatization process and privatize SOEs in certain non-strategic sectors.

The privatization of Uzbekistan's banks will present opportunities for investment and improvement of the regulatory framework in the banking sector. The banking sector currently consists of 33 banks, of which twelve are state-owned and account for 81 percent of total assets and 86 percent of total credit as of the end of 2021. The six largest state-owned commercial banks (SOCBs) account for 68 percent of total sector assets. The government directly and indirectly controls over 90 percent of the shares of the SOCBs via the Ministry of Finance, various state agencies and public companies. According to the "Strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025", adopted by the Presidential Decree #up-5992 of May 12, 2020, the authorities planned to increase the share of banks without state shares from 15 percent in 2019 to 60 percent in 2025 and to attract at least three strategic foreign investors into shares of banks before 2025.

The privatization of the banks is planned to be conducted in two stages. The institutional reorganization (transformation of the activity) within 2020-2021; and the sale of the government shares to strategic investors through tenders. Specifically, this will affect the following banks:

- JSMB "Ipoteka-bank" and JSCB "Uzpromstroybank" – in cooperation with the International Finance Corporation;
- JSC "Aloqabank" – in cooperation with the European Bank for Reconstruction and Development and the Asian Development Bank;
- JSCB "Asaka" – in cooperation with the European Bank for Reconstruction and Development;
- JSCB "Qilshoq qurilish bank" and JSCB "Turonbank" – the merger of the banks will be achieved through the involvement of international financial institutions and consulting companies;
- JSC "Xalq bank" and JSCB "Asia Alliance Bank" – a sale of a controlling stake to foreign investors.

The Project Office on the Transformation and Privatization of Commercial Banks with a Government Share was created for the privatization of the banks listed above. It is led by the First Deputy Minister of Finance, who is authorized to conduct negotiations and enter into agreements with international consultants invited for consulting on the transformation of the banking system.

Privatization of banks can have a greater positive effect when banks are sold to strategic and reputable investors through an open and competitive bidding processes. Several studies have shown that the most successful method of privatization is sale of a state-owned bank to strategic and reputable investors[45] through open and competitive bidding processes that are accessible to all investors, including foreign investors. A recent study by Bertay et. al (2020), covering about 500 bank privatizations in 70 countries in emerging and advanced economies during the 1995-2017, shows that majority of bank privatizations involved governments selling their equity publicly in their domestic capital markets, which brings significant state revenues. Less than 5 percent of privatization of banks in lower-middle income countries occurred through private sales. The adopted Banking Sector Reform Strategy of Uzbekistan has also stressed the need to reduce the state ownership through the competitive sale of shares to strategic investors[52].

By law, foreign investors are permitted to participate in the privatization process much in the same way as local investors without any discriminatory limitations. However, the scope of such efforts remains limited and, for the most part, sectors dominated by state-owned enterprises may not present a permissive environment for FDI. In most cases only up to 49 percent of shares in the charter capital of SOEs are offered for privatization. As a result of this approach, the expansion of the private sector in key sectors of the economy remains constrained. Investments in certain areas of national security, public health and safety, natural resources, financial services, broadcasting, education, tourism and power plants also require investors to obtain a license. As a consequence, SOEs dominate the key sectors of the country's economy, such as energy, metallurgy, mining, telecommunications, and transportation, and this is likely to continue in the near future.

There is wide discretionary authority in the implementation of the licensing approval requirement for investment in strategic non-banking activities; this process would benefit from increased transparency. There is no standard or transparent screening mechanism for granting of individual licenses[53]. The conditions for granting of an approval are also not pre-determined and well defined

[52] *Other key lessons learned from privatization reforms include the following: a) in transitions, privatization of state-owned banks had a greater positive impact when it was total rather than partial, b) privatization in certain cases (such as Hungary and the Czech Republic) required prior cleanup of state-owned bank balance sheets and operational restructuring, making the privatization as the last and not the first step in the transformation process, c) the benefits of privatization are the weakest for countries where it was rushed the most, such as in Eastern Europe and where it was not paired with institutional strengthening of regulatory and supervisory framework, and d) the success of banking sector reform is dependent on and supports the reform of the state-owned enterprise (SOE) sector. – See Project appraisal document on a proposed credit in the amount of US$15 million to the Republic of Uzbekistan for a Uzbekistan financial sector reform project., May 3, 2022.*

[53] *The licensing of non-banking activities in Uzbekistan is regulated by the Law "On licensing, permissions and notification procedures" #ZRU-701 of July 14, 2021 and Article 29 lists potential reasons for refusal to issue a license and a document of a permissive nature. One of the reasons for refusing an application for a license or a document of a permissive nature is "non-compliance of the applicant with licensing and permitting requirements and conditions". The licensing of banking and other financial sector activities is regulated by the Law "On the Central Bank of the Republic of Uzbekistan" and "On Banks and Banking Activity" (Article 17) #ZRU 580 of November 5, 2019. The requirements for foreign investors when they create a bank or participate in the authorized capital of the bank in Uzbekistan are specified in "Provision on the procedure and conditions of admission to banking activities" (#3252 of June 30, 2020). One of the limitations include: "The aggregate share of non-residents - individuals and legal entities that are not international financial institutions, foreign banks and other credit*

and can in fact be imposed on a case-by-case basis. The approval process itself is time consuming and is known to have lasted even up to a year or longer. The government has implemented measures to reduce the number of activities requiring licensing and permits, but the regulatory landscape continues to be quite complex and opaque for foreign investors. Publishing administrative provisions related to the screening mechanisms and granting of licenses would help increase the transparency of regulatory procedures, decision criteria and timelines.

Investment protection and retention

Investors currently lack an effective recourse mechanism, and the resolution of disputes relies heavily on State authorities. Uzbekistan's Investment Law prescribes the dispute resolution mechanism for disputes relating to foreign investment in the country or involving a foreign investor, which indicates that the parties to the dispute must first try to resolve the dispute through negotiations, and if negotiations are unsuccessful, then mediation, and only then through an economic court in Uzbekistan. If the dispute is "impossible" to be resolved after exhausting the foregoing remedies, the parties may resort to international arbitration but only if the corresponding international treaty or an investment agreement concluded between the foreign investor and the Republic of Uzbekistan includes a valid arbitration clause. The lack of clarity regarding when a dispute be deemed "impossible" to settle could raise challenging issues for foreign investors, and it is unclear whether this would include cases when a foreign investor is not satisfied with the decision of the local court or whether dissatisfaction may yield a right to the investor to submit the dispute to international arbitration.

Currently, there is no independent investor grievance mechanism that would help identify investor grievances and concerns before they reach local courts or international arbitration. Establishing such a mechanism should be high on the government's priority list, on one hand, to prevent and avoid costly international investor arbitration procedures, but also to resolve investor grievances early and enhance the retention of existing investment projects in Uzbekistan. Testimonials from satisfied existing investors in a country can be very a very powerful tool to attract new investments.

Investments in Uzbekistan are protected against nationalization and expropriation; however, local courts tend to agree with state-assigned compensations and reject investor claims. Investors are protected against nationalization and expropriation under the Civil Code of Uzbekistan and the Investment Law as well as under various laws and bilateral investment treaties and international treaties to which Uzbekistan is a signatory. Yet, in recent years, many lower level court rulings have been in favor of local governments and companies which failed to compensate foreign plaintiffs for the full market value of expropriated property, as required under the law. Thereby, in practice, the remedy to appeal in local courts on compensation amount for expropriation is ineffective.

In conclusion, despite strong legal protections formally provided by the law, actual enforcement of such provisions depends mostly on the current political environment and the State authorities responsible for their implementation. Thus, the de-facto implementation of investor protections in practice, including through the establishment of an effective investor grievance mechanism represent the main priority areas for government reform in the area of investment protections.

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organizations - shall not exceed fifty percent of the authorized capital of the bank". It should be noted that the banking and financial sector regulations describe in more detail the requirements and reasons for refusals in granting a license.

Chapter 7 provides an action plan of suggested measures to address the key investment climate constraints identified in this section based on insights from private sector consultations and extensive desktop research.

6.2. Investment promotion

This section is based on three main sources of information:

i. **Institutional Review of UZIPA (World Bank, 2021):** A comprehensive review assessing strategic, operational, and institutional strengths and weakness of the Investment promotion agency under the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan (UZIPA) from the perspective of global investment promotion best practices.

ii. **Assessment of the Investment Promotion Agency of Uzbekistan (Japan International Cooperation Agency (JICA), 2022):** An assessment of the capabilities and mandates of the Investment Promotion Agency of Uzbekistan (UZIPA) under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan (MIFT), including a needs assessment and identification of areas of further cooperation between UZIPA and JICA for the technical assistance in the capacity development of UZIPA.

iii. **Stakeholder Consultations:** foreign investors, UZIPA and MIFT staff.

Enhancing Uzbekistan's investment promotion

To achieve the ambitious goals outlined in this report, the efficiency and effectiveness of the country's investment promotion efforts must be improved. By definition, high value-added market and efficiency-seeking investors, which are vital to investment attraction and retention efforts under the proposed strategy, have a choice of locations. They can choose between many competing countries. Unlike resource-seeking investors which are "pulled" into the country by its natural endowments, market and efficiency seeking FDI must be "persuaded" into considering Uzbekistan as a location for their investment project, and the country must be strongly proactive in its approach to successfully attract and retain such investors.

The attraction of high value-added FDI will require a concentrated effort to articulate Uzbekistan's competitive advantages for export-oriented investment in sophisticated, higher value-added sectors. It will also require highly targeted investment promotion efforts led by a world-class investment promotion agency, and it will require renewed and strengthened efforts to unlock more reinvestments from Uzbekistan's existing base of investors.

Strengthening the operations of the Investment Promotion Agency of Uzbekistan (UZIPA)

Support will be needed to strengthen the operational effectiveness of UZIPA so that it becomes a world-class IPA matching the parameters of the best performing investment promotion agencies. Based on a detailed assessment of the operational effectiveness of UZIPA carried out as part of the preparation of this report, reform efforts aimed at strengthening the institutional and operational framework of UZIPA should include the following:

- Well defined mandate and governance structure, competent, motivated, and well-trained staff
- Board members come from both private and public sectors – the board's role is not just to provide operational oversight over the agency's operation but also to provide support in investor servicing and advocating for investment climate improvements
- Internal processes are aligned to investors' needs
- Strong client relationships and provide value to its clients
- Staff has deep sector/market knowledge and clear promotional focus
- Knowledge management supported by rigorous use of an investor tracking system (CRM)
- Project management system in place for investor servicing allowing investors to access various state institutions through "one door"
- A compelling online presence managed by the agency
- A framework for clear measurement of key priorities
- A mid-term promotional plan endorsed by the Board and annual operational plans with a set of well-defined and monitored KPIs are used in managing the operation of the agency.

Two focus areas for enhanced investment promotion

UZIPA is central to the government's investment promotion efforts. In line with the broad strategic directions provided by this report, these efforts should be focused around two main pillars:

- ✓ Proactive investment promotion targeted at a small number of sectors to attract more efficiency seeking and high value-added investment to the country; and
- ✓ Targeted investor aftercare services aimed at investors with a high probability for expansions to unlock more investment from Uzbekistan's base of existing investors.

Attracting investment in targeted sectors through proactive investment promotion

Proactive investment promotion will be geared toward attracting investments in the sectors targeted by the new strategy. The investment strategy should focus on two tiers of sectors for proactive promotion. The detailed process and methodology for identifying the target sectors for the strategy is provided in Chapter 4.

Increasing reinvestments through targeted investment aftercare services[54]

FDI is not a one-time transaction between a country and a foreign firm. Investments entail an ongoing relationship with many stakeholders at different stages of a foreign investor's lifecycle. Assistance must be provided to foreign investors starting from the time of their entry into Uzbekistan and establishment of their operation, continuing with supporting their expansion and growth in the country, providing adequate levels of protection, and finally helping with the development of sustained linkages with the local economy (Figure *19*).

[54] *Aftercare services can be defined as "comprising all potential services offered at the company level by governments and their agencies, designed to facilitate both the successful start-up and the continuing development of a foreign affiliate in a host country or region with a view towards maximizing its contribution to the local economic development". Source: UNCTAD (2007): Aftercare: A Core Function in Investment Promotion, Investment Advisory Series, Series A, number 1.*

Figure 19 Support to reinvestment and FDI expansions

The ultimate goal is to ensure that foreign investors stay in the country and continue to grow, expand, and upgrade their operations to higher levels of valued added. The government through MIFT and UZIPA should encourage and support the development of new, upgraded, higher value-added products and services of strategic value to the foreign investor's network. The government's support to local firms can help ensure they develop product, technological and management capacities to international standards and become suppliers to foreign investors.

Uzbekistan is already host to several large international companies, mainly in resource- and market-seeking sectors such as oil and gas, extractive sector services, and communications. The government's ambition is to maximize the economic benefits of these foreign companies' presence in the country, expanding their operations and fostering their embedding in the local economy. This will mainly be achieved through the provision of world-class investor facilitation and aftercare services.

Firms must be encouraged to grow and expand their operations so that they can remain successful international players. This will require commitment to provide support to foreign investors in the country during the entire investment lifecycle of their project. The government's ability to respond to client needs efficiently, effectively, and ahead of competitors is what will give Uzbekistan a competitive advantage in promoting FDI. UZIPA will be a partner not only to prospective but also existing companies in the implementation of their strategic objectives. Getting investors' feedback on their experience in doing business in Uzbekistan will need to become a regular component of the agency's operation.

While the ultimate decision about business models and supply chains rests with each foreign investor, it will be important for the government to support greater embedding of FDI in the local economy. By supporting linkages between foreign investors and domestic companies, the government would aim to help companies to take a full advantage of the cost-efficient, customer-centered supply base of Uzbekistan's indigenous business.

As part of its commitment to supporting foreign investors in country, UZIPA is advised to launch a new aftercare service that will provide a wide range of services to foreign investors in close cooperation with regional branches of MIFT:

- Administrative services enabling operation of companies in Uzbekistan;
- Operational services supporting the effective and efficient operation of foreign investors; and
- Strategic services impacting on the future direction of the foreign investment in Uzbekistan, the development of new capabilities and development paths.

Understanding the investor community

It will be important for the government to develop a more comprehensive understanding of the business needs and experiences of established investors in Uzbekistan. To achieve this, the government will need to employ different tools, including FDI barometers, field and customer satisfaction surveys, an investor tracking system and partnership programs with the Business Ombudsman, Foreign Investors' Council and Strategic Development Agency.

6.3. Privatization and Public-Private Partnership

Leveraging FDI for privatization and public private partnerships (PPPs) may hold significant potential for Uzbekistan's economic diversification agenda. FDI has the potential to generate benefits beyond the objective of increasing the role of the private sector in the national economy. As the experience of many countries shows, privatization opportunities for strategic foreign investors in both competitive industries and regulated markets can unleash additional greenfield FDI, above and beyond the original entry of the strategic foreign investor. Similarly, PPPs, if successfully executed, can provide a much-needed financial boost to strategic projects, such as in transport, power, municipal services and social infrastructure.

Measures that increase the participation of FDI in critical services and infrastructure projects can boost Uzbekistan's attractiveness for efficiency-seeking FDI in the medium-term. Efficiency seeking investment depends on access to world class services as well as to infrastructure enabling an effective integration into global value chains, both of which can be facilitated through targeted privatization and PPP efforts.

Aligning Privatization with FDI attraction priorities

In order to increase the role of the private sector in Uzbekistan's economy and attract FDI into Uzbekistan, the government must continue privatization efforts as earmarked by Presidential decree no. UP-6096 of October 27, 2020. The privatization strategy envisages to privatize 1,115 enterprises or 37.6 percent of total SOEs between 2020 and 2025. Planned privatization will include metallurgy, oil and gas, energy and power generation, chemical, communications and post, transport and logistics, financial and food processing among other sectors.

To ensure success of these efforts, the government will need to focus on the following priorities:

- (i) Adopt two foundational laws, the Law on Privatization and the Law on State Property Management;
- (ii) Estimate and disclose the fiscal costs of SOEs;
- (iii) Launch large-scale privatization under clear and legislated procedures; and
- (iv) Continue establishing proper corporate governance, financial reporting, and performance management mechanisms in the largest SOEs that will remain in state ownership.[55]

To maximize the potential benefits of this large-scale privatization, the government should initiate the following priority actions to ensure that privatization is aligned with the new FDI strategy and is directed towards the longer-term national economic development objectives of Uzbekistan. The government should:

[55] *World Bank, 2021, Assessing Uzbekistan's Transition, Country Economic Memorandum (Ch. 7 – State-Owned Enterprises)*

- **Clarify the role it foresees for FDI, even though there are no obvious restrictions for foreign participation in privatization.** It should determine which sectors and projects are open for FDI and proactively market these sectors through privatization agency. The government should seek to provide the same level of access to privatization for foreign and domestic firms and to evaluate offers on a competitive basis and without any consideration of the nationality of the company. In case certain sectors are restricted for FDI, the government will need to state this clearly.
- **Ensure that privatization encourages more competition in previously monopolistic sectors instead of merely replacing public with private monopolies.** It should spell out transparency principles that will be adhered to in the privatization process and modes of privatization.
- **Commit to overall liberalization of the sectors to which it invites private participation and FDI.** This will entail restructuring infrastructure SOEs as a key step towards a competitive infrastructure markets services (e.g., electricity, water, air and railway transport) and converting SOEs into a shareholding company to allow foreign private investors to become their shareholders, aiming to create business-oriented enterprises and to attract private finance instead of government subsidies. Preferential treatment of SOEs, including government guarantee and tax and customs preferences, etc. should be discontinued.

Leveraging Public – Private Partnerships for investment attraction

Public-Private Partnerships (PPPs) can provide more opportunities for private participation in Uzbekistan, including for FDI, in sectors where state owned enterprises (SOEs) are still dominant. Uzbekistan would in particular benefit from a financial boost through PPPs to develop projects in sectors that are key enablers for attracting investment outside the natural resources seeking FDI. These sectors will represent priority targets for PPPs (including involving foreign investors): transport, power, municipal services and social infrastructure, among others.

For this purpose, the government has implemented several reforms, in particular a new PPP Law was adopted on January 22, 2021, to address gaps in the previous PPP legal framework. The Uzbekistan PPP Development Agency ("PPDA") established in October 2018, coordinates PPP efforts and performs an investment promotion and facilitation role.

While private enterprises and international financial institutions from a wide range of countries have shown interest in PPPs, some substantial barriers remain to their successful implementation. These will require several improvements by the government, including to:

- Align PPP efforts with this FDI strategy with a view to promote infrastructure investment that can facilitate efficiency-seeking FDI.
- Strengthen expert capacities of PPP civil servants to deal with the PPP project process cycle properly and professionally. PPP experts need, in particular, be trained to:
    - Properly appraise and validate project costs
    - Structure the risk sharing[56]
    - Assess PPP commercial feasibility (incl. bankability)
    - Identify and mitigate project risks, including external shocks (e.g., currency depreciation)

[56] *The risks involved in PPPs projects (in particular, market and fiscal) should be assessed and addressed; the biggest risk for banking is government forced support of PPP financing--especially in INFRA--systemic risk realization.*

  - Follow established international transparency and project evaluation standards
- Get more experience in active utilization of green bonds[57] as financial instruments used to raise funds for infrastructure projects offering environmental and sustainability benefits. Uzbekistan should participate in the "Infrascope index" for countries that evaluate the environment for PPPs for each country.[58]

[57] In more mature capital markets, non-resident investors can support government bond market development and the extension of the yield curve but would bring in a new set of requirements. However, the base for domestic capital market in Uzbekistan is assessed at 'nascent' stage (see The World Bank's Aide-Memoire "Uzbekistan Domestic Bond Market Development", April 2022). Moving to a more sophisticated instruments, such as Green Bonds, require institutional and market capabilities on top of the standard one, which are lacking at the current stage of development.

[58] The Infrascope Index comprises 23 indicators and 78 sub-indicators, both qualitative and quantitative in nature, including on regulations, institutions, maturity, investment and business climate, and financing. Some data is drawn from the World Bank Private Participation in Infrastructure Database.

7. Implementation Action Plan and Roadmap

Key actions for strategy implementation

The following section proposes a high-level action plan and roadmap to support implementation of the new strategy. The table below outlines (i) a set of concrete policy reform actions aligned with the priority reform areas identified in this report; (ii) proposed timelines for implementation; and (iii) responsible government bodies, including key institutions, agencies, and private sector stakeholders in charge of the implementation of the proposed actions. Annex 9.5 of this report provides references of good practice examples from other countries to illustrate the proposed investment climate reforms.

The action plan presented as part of this report entails reforms aimed at enhancing the investment climate specifically to attract FDI. It is important to note that such reforms must build upon and be complemented by reforms strengthening the enabling environment for the private sector more broadly, including reforms aimed at improving the allocation of land, labor, and finance; increasing competition; enhancing the outward orientation of the private sector; creating better private sector support services; and accelerating agricultural market reforms as laid out in the recently published Systematic Country Diagnostic.[59]

In implementing the strategy, detailed action plans shall be formulated for each of the reform actions outlined in the table below by the responsible entities for implementation. These action plans can serve as the basis for monitoring progress with strategy implementation by the high-level committee described in Chapter 8. The table follows the overall structure of the proposed policy reform program as outlined in Chapter 6.

Potential challenges exist and they are worth considering as this Implementation Action Plan is undertaken. Many of the activities outlined require high levels of institutional coordination, cross institutional planning and institutional capacity to be successfully undertaken. It will be important that particular attention is paid to addressing such potential risks to implementation up front and that these are accounted for as much as possible (e.g., through specifying lead agencies per activity, ensuring adequate budget support and institutional point persons accountable for implementation, etc.).

[59] Toward a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/933471650320792872/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan

7.1. Investment Climate

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
FDI strategic framework						
1.1.	Adoption of a new Investment Strategy	• Conducting analysis of the global landscape and major trends for FDI. • Assessing Uzbekistan's FDI performance and current policy landscape for FDI. • Identifying priority sectors for FDI attraction and a reform program for attracting / retaining more investments in those target sectors. • Setting up an institutional mechanism for strategy monitoring and implementation. • Adopting the strategy as official government program.	A cohesive strategic FDI framework that (i) defines the role FDI is expected to play in the economy; (ii) clarifies the priority sectors for FDI attraction; (iii) specifies a policy reform program to achieve its goals; (iv) sets out institutional arrangements for implementation.	Short term	High	MIFT UZIPA Relevant line ministries and government bodies
FDI policy and legislation						
1.2.	Adoption of a modernized Investment Law	• Reviewing the Investment Law and benchmarking it against international good practice.	A modern investment law including investor protections and	Short term	High	MIFT MoJ

[60] The activities necessary to achieve the strategic objectives are binned in short-term (0-1 year), mid-term (2-5 years) and long-term (beyond 5 years) timeframes.
[61] The proposed priorities for the different reform actions have been assigned based on a combination of reform urgency and potential reform impact. They are indicative and require further refinement and adjustment by the government

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		• Ensuring alignment with bilateral investment treaties (BITs) and International Investment Agreements (IIAs) that Uzbekistan has ratified. • Adopting targeted amendments to the Investment Law, specifically related to modernizing investor protections and guarantees.	treatment standards in line with international best practices. Increased coherence of the domestic legal framework for investment.			
1.3.	Development of a strategy to reform Bilateral investment treaties (BITs)	• Reviewing the currently in force BITs/IIAs for alignment with international best practice standards. • Prioritization of BITs for renegotiation using a risk based approach. • Developing a negotiation strategy and preparing a negotiation team with sufficient experience in investment protection and BIT matters.	A strategy for re-negotiating and upgrading 'old style' BITs to enhance investor treatment standards and reduce the risk of investor state disputes.	Short term	Medium	MIFT MoJ MoFA
1.4.	Adoption and publication of a new model BIT	• Reviewing and benchmarking global good practices with model BITs. • Defining the key parameters and policy choices related to investor protections and treatment as basis for the formulation of the model BIT.	An officially published model BIT providing modern standards of investor treatment as a signalling tool to the investment community.	Short term	Medium	MIFT MoJ MoFA

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		• Adopting and publishing the new model BIT as an important tool to communicate the government's investment policy to the foreign investment community.				
1.5.	Creation of an online library of laws and regulations related to investment	• Reviewing and benchmarking global good practices with online portals to publish investment legislation. • Identifying existing sources of information on legislation and regulations governing investment in Uzbekistan that can become the basis for an online portal. • Identifying technical and institutional options for hosting the portal. • Establishing the technical platform as well as necessary institutional and administrative infrastructure for the online portal. • Translating existing legislation related to investments into English and / or other languages, and providing for upcoming legislation to be translated as well (e.g., unofficial translations through	A central online portal with an up-to-date library of all primary and secondary legislation governing investment in Uzbekistan, including (unofficial) translations into English and / or other languages.	Mid term	Low	MIFT MoJ

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		automated online translation services). • Launching the online portal. • If necessary, existing legislation on the law-making process and publication of legislation needs to be amended accordingly.				
1.6.	Development and implementation of an action plan to enhance the inclusiveness of the law making process	• Amending the legislation on the legal process to: ○ Mandate the online publication of all draft legislation / regulation concerning investment climate and requiring a minimum of 4 weeks for public consultations; ○ Establish consultation requirements also for by-laws and ministerial rulemakings that impact the establishment and operation of businesses; ○ Require the publication of an annual report on all legislative changes related to investment climate. • Obliging public agencies to timely and proactively notify the investor community about the placement of	An action plan with proposed measures to improve the framework for private sector consultations in the context of new legislation / regulations concerning investment climate.	Mid term	High	MIFT MoJ

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		draft legislation for expert opinions. • Developing a set of additional measures to stimulate public agencies to increase the time for public discussion of conceptual documents of regulatory policy and draft regulatory legal acts. • Introducing an annual survey-based assessment of private-sector consultations' effectiveness on new policies, laws and regulations.				
FDI entry and establishment						
1.7.	Publication of a Negative List to harmonize and centralize all restrictions on FDI	• Undertaking a comprehensive mapping of FDI entry restrictions across horizontal and sector specific legislation. • Compiling a comprehensive inventory of existing restrictions. • Reviewing existing restrictions for appropriateness in light of the government's policy objectives. • Introducing a regularly reviewed Negative List that contains all market access restrictions for foreign investors as part of the Investment Law.	A regularly reviewed Negative List that contains all market access restrictions for foreign investors as part of the Investment Law.	Short term	Medium	MIFT

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
1.8.	Publication of licensing policies and procedures related to investment	• Reviewing and benchmarking of good practices with licensing processes and policies in the region as well as globally. • Developing an action plan for aligning Uzbekistan's framework for licensing strategic investments with good practice, specifically in relation to transparency and access to information. • Publishing administrative provisions related to the granting of licenses to increase the transparency of regulatory procedures, decision criteria and timelines.	Administrative provisions published to enhance the transparency of licensing policies and procedures related to investments.	Mid term	Medium	MIFT Relevant line ministries and agencies
Investment protection and retention						
1.9.	Establishment of an effective grievance management mechanism to enhance investment retention and expansion	• Establishing a tracking tool to systematically identify investor grievances, assess their sources as well as quantify investment at risk and costs accrued to investors due to grievances. • Conducting an assessment of the current structure and functioning of the Commissioner for the protection of Rights and Legitimate Interests of Entrepreneurs.	An effective investor grievance management in line with international best practices.	Mid term	High	MIFT MOJ Commissioner for the protection of Rights and Legitimate Interests of Entrepreneurs UZIPA

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		• Strengthening the Commissioner and/or introducing an independent investor grievance mechanism to identify and resolve investor grievances before they escalate into disputes, including through: ○ Adopting the legal foundations to empower the lead government agency for investor grievance management. ○ Developing implementing regulations defining its mandate, key processes and powers. ○ Conducting training and capacity building for relevant technical staff on international investment treaties and problem-solving techniques. ○ Introducing an interactive public electronic platform that allows investors to submit and follow grievances easily.				

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
1.10.	Regulations governing lawful expropriations	• Reviewing current compensation practices in Uzbekistan against international practices. • Adopting legislation on the procedure and calculation of compensation in case of lawful expropriation.	New legislation on the procedure and calculation of compensation in case of lawful expropriation in line with international practices.	Short term	High	MoJ
Investment incentives						
1.11.	Publication of an incentives inventory	• Undertaking a full mapping of investment incentives offered by different government agencies. • Compiling a comprehensive inventory and database centralizing relevant information related to investment incentives, including eligibility criteria, requirements and procedures for application and award, legal basis, implementing institutions, etc. • Publishing the inventory on a public webpage to increase transparency related to investment incentives. • Conducting regular reviews of the cost effectiveness of incentives instruments and their alignment	An online database making relevant information related to investment incentives easily accessible to investors.	Mid term	High	MIFT MOF Ministries and government agencies providing investment incentives

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		with overall government objectives related to investment attraction.				
Sector-specific investment climate reforms						
1.12.	Regular reviews of sector-specific investment constraints and investment policy barriers in the sectors targeted by this strategy	• Establishing a mechanism to systematically identify investment constraints and investment policy barriers in the sectors targeted by this strategy. • Systematically collecting inputs from representatives of state agencies, local governments, sector associations, private businesses, professional advisors, regulatory bodies, and educational institutions. • Regularly reviewing the international competitiveness of the target sectors and adopting measures and policies that will help Uzbekistan to remain an attractive investment destination. • Improving Uzbekistan's sector value propositions, particularly in Tier II sectors, where the country currently faces several competitiveness constraints.	A systematic assessment of Uzbekistan's investment competitiveness in key sectors targeted by this strategy.	Long term	High	MIFT Relevant line ministries Private sector Other relevant stakeholders.

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
1.13.	Alignment of customs tariffs for essential inputs and basic raw materials in the electrical & electronic equipment and packaging materials sectors	• Conducting an assessment and benchmarking of current tariff levels for essential raw materials in Uzbekistan with competing locations in the region. • Conducting targeted consultations with the private sector to assess the extent of the issue and the potential impact in terms of investments lost / expansion investments not realized. • Conducting a cost-benefit analysis to assess the impact of potential tariff harmonization in terms of government revenue losses vis-a-vis additional benefits in terms of investments, jobs created, exports generated, etc. • Developing an action plan for adjusting customs tariffs aligned with the outcomes of the assessment.	Customs tariffs for essential inputs and basic raw materials in the electrical & electronic equipment and packaging materials sectors optimized based on detailed cost-benefit analysis.	Short term	High	MIFT Customs authority Line ministries
1.14.	Enhancing access to electricity for production processes.	• Enhancing the quality and reliability of electricity service by allowing companies access to independent energy producers. • Analyzing the current transmission system for technical and	Increased access to more reliable and competitive electricity sources for companies in sectors targeted by this strategy.	Long term	High	MIFT Ministry of Infrastructure Competition authority

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		regulatory potential in passthrough solutions. • Undertaking a study of transmission system detachment from generation for the establishment of an open market. • Changing the regulatory framework and technical standards to allow for private-to-private direct transmission of electricity as well as metering.				Energy Market supervisory body
1.15.	Adoption of an action plan to foster greater competition in the supply of domestic raw materials in the electrical & electronic equipment, packaging materials, and construction materials sectors	• Undertaking a study of the current market structure in the focus sectors to understand limitations of quasi-monopolistic structures. • Reviewing the macroeconomic impact on competitiveness and costs due to limited competition in the production and supply of basic input and raw material markets. • Developing an action plan to enhance the availability and competitiveness of inputs for most raw-material-based sectors through increased competition. Potential actions include:	An action plan setting out concrete reform actions to improve the competitiveness and availability of domestic raw materials in key sectors targeted by this strategy through competition policy reforms.	Mid term	High	MIFT Competition authority

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
		○ Strengthening anti-monopoly legislation and establishing a fully empowered competition authority; ○ Breaking up public and private monopolies; ○ Attracting new investors into the market; ○ Regularly reviewing change in cost structure for companies and any increases in competitiveness due to market structure changes.				
1.16.	Adoption of an action plan for technical skills development in the electrical & electronic equipment, packaging materials, and other sectors.	• Conducting an assessment of required skillsets in consultation with the private sector to identify key skill gaps associated with the operation, repair and use of specialized production machinery and equipment. • Developing an action plan for supporting skill development in collaboration with the private sector.	An action plan outlining concrete reform steps to enhance the availability of technical skills supporting production in key sectors targeted by this strategy.	Mid term	Medium	MIFT Ministry of Employment and Labor Relations

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe[60]	Priority[61]	Responsible executives
1.17.	Increasing strategic warehousing capacities in the food processing sector	• Conducting a mapping of current warehousing capacities in Uzbekistan to identify critical gaps. • Developing an action plan for increasing warehousing capacity in identified regions.	An action plan outlining concrete reform steps to increase the strategic warehousing capacity for the food processing sector.	Long term	Medium	MIFT Ministry of Agriculture

7.2. Investment Promotion

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe	Priority	Responsible executives
Investment Promotion Institutions						
2.1.	Strengthening UZIPA's strategic focus and alignment	• Clarifying UZIPA's role, keeping a strong focus on promoting FDI rather than foreign portfolio investment or domestic firms' debt financing by foreign and international investors. • Reviewing and updating the agency's priority sectors along with the priorities defined in the new FDI strategy. • Increasing the share of resources spent on priority sectors, including staff - there should be at least one dedicated investment promotion expert for each priority sector at UZIPA.	UZIPA's strategy and priorities are fully aligned with the priorities set out in this FDI strategy.	Short term	High	MIFT UZIPA Center for Development of Investment Projects
2.2.	Adoption of a coherent coordination framework for government institutions involved in investment	• Clarifying the roles and services provided by UZIPA, MIFT, SDA and other actors, as their mandates overlap. • Increasing coordination between UZIPA and FIC, especially on publishing a joint report on investor issues.	A clearly and well-articulated coordination framework for different actors involved in investment promotion and facilitation.	Short term	High	MIFT UZIPA SDA FIC Other government

	promotion and facilitation	• Developing a coordination framework including articulating clear roles and responsibilities for different actors as well as mechanisms for cooperation.				agencies in line ministries involved in investment promotion
2.3.	Strengthening UZIPA's governance and operational effectiveness	• Amending UZIPA's governance structure to include either a board of directors or an advisory board with private sector participation. • Increasing the number of KPIs and impact indicators that UZIPA measures and creating a new internal M&E system. • Introducing a Client Relationship Management software tool to facilitate and track UZIPA's interactions with investors and ensure end-to-end monitoring of relationships with prospective investors. • Aligning UZIPA's staff salaries with private sector remuneration levels to attract top talent required for effective investment promotion.	UZIPA's operational processes aligned with international best practices.	Mid term	High	MIFT UZIPA
2.4.	Strengthening UZIPA's investor service delivery	• Reviewing UZIPA's services provided along the investment project lifecycle and strengthening key services provided in particular in stages post investment decision. • Introducing an aftercare service with dedicated staff that will focus	UZIPA's services offering along the investment project lifecycle aligned with international best practices. Revamped promotional webpage for UZIPA in line	Mid term	Medium	UZIPA

		on expanding the operation and facilitating reinvestments from existing foreign firms in the country. • Reviewing UZIPA's website to improve its promotional effectiveness, in particular by providing additional sector linked information relevant to firm's investment motivation.	with international best practices.			
Proactive investment promotion to attract new investments in sectors targeted by this strategy						
2.5.	Preparation and implementation of targeted investment promotion campaigns	• Developing and articulating compelling value propositions for the priority sectors targeted by this strategy. • Preparing a new set of promotional materials for each of the sectors targeted by this strategy based on the redefined value propositions. • Implementing targeted investor outreach programs aimed at attracting investors in priority sectors identified in this strategy. • Disseminating the sector based value propositions through UZIPA's webpage and other online government platforms as appropriate	A set of sector-based outreach programs promoting priority sectors targeted by this strategy to investors abroad.	Short term	High	UZIPA

2.6.	Establishment of a systematic approach to competitiveness benchmarking	• Preparing a detailed analytical report on identifying and removing sector investment constraints for Tier I and Tier II sectors (priority sectors with medium-to-long-term perspective). • Undertaking regular benchmarking reviews of target sectors' international competitiveness.	A detailed sector FDI competitiveness report. A regular report benchmarking Uzbekistan's competitiveness in the target sectors identified by this strategy.	Long term (annually)	Medium	MIFT UZIPA
Targeted investor aftercare programs to increase reinvestments from Uzbekistan's existing investor base						
2.7.	Preparation and implementation of targeted investor aftercare program	• Identifying a set of priority sectors and existing firms for inclusion in the targeted investor aftercare program. • Implementing a targeted aftercare program with the objective of supporting reinvestment of existing FDI in sectors targeted by this strategy.	A targeted investor aftercare program to unlock more investment from Uzbekistan's base of existing investors.	Mid term	High	UZIPA
2.8.	Establishment of a framework to systematically track the perceptions of existing investors in Uzbekistan	• Compiling a list of registered firms with foreign ownership and joint ventures with foreign participation on an annual basis. • Undertaking annual FDI surveys to develop a full understanding of established investors' experience in Uzbekistan as well as their business needs.	An annual investor barometer report summarizing relevant trends of investor perceptions in Uzbekistan.	Long term (annually)	Medium	UZIPA

		• Developing partnerships with other relevant stakeholders, including the Business Ombudsman, Foreign Investors' Council, Strategic Development Agency, and others to systematically collect information about existing investors' needs.				

7.3. Privatization and Public Private Partnership

№	Name of activity	Mechanism of implementation	Results	Implementation timeframe	Priority	Responsible executives
Privatization						
3.1.	Adoption of the Law on Privatization and the Law on State Property Management	• Completing the process of adopting the Law on Privatization and the Law on State Property Management	A new Law on Privatization and Law on State Property Management.	Mid term	High	MoF
3.2.	Defining the role of FDI in the privatization process	• Clarifying what role the government foresees for FDI in the privatization process, including which privatized sectors and projects are open for FDI. • Aligning privatization plans with the FDI strategy.	A policy document clarifying opportunities for FDI in privatization.	Short term	Medium	MIFT MOF
3.3.	Preparation and implementation of a dedicated FDI attraction program related to privatization	• Identifying a set of concrete and bankable privatization projects in target sectors identified in this strategy for proactive promotion to foreign investors. • Promoting complete privatization (transfer of control) of a select number of large and potentially profitable assets through competitive processes and reputable advisors: ○ Developing a broad communication campaign and stakeholder consultations; ○ Identifying a list of potential investors and preparing a	An FDI attraction program promoting a select number of bankable projects to foreign investors.	Mid term	High	MIFT UZIPA Identified reputable advisors

		dedicated communication campaign; ○ Consider setting up a dedicated small project unit under the prime minister's office.				
PPP						
3.4.	Align PPP efforts with FDI strategic priorities, especially infrastructure development needs of FDI	• Reviewing current PPP framework and priorities and their impact on FDI and economic development. • Redesigning the PPP framework to match restructuring needs of specific sectors targeted by this strategy.	Relevant PPP plans aligned with FDI Strategy.	Mid term	Medium	MIFT in coordination with line ministries
3.5.	Conduct a review of Uzbekistan's PPP framework and pipeline	• Conducting an in-depth diagnostic of the pipeline of PPP projects and the overarching conditions for PPP transactions. • Developing a reform action plan to strengthen the PPP policy framework.	A PPP policy framework in line with international best practices.	Short term	High	MoF PPDA
3.6.	Strengthen implementation capacity related to PPP	• Strengthening expert capacities of PPP civil servants to deal with the PPP project process cycle properly and professionally. • Participating in the "Infrascope index" benchmarking Uzbekistan's capacity to implement sustainable and efficient PPPs in key infrastructure sectors.	Enhanced staff capacity related to PPP.	Mid term	Medium	MOF PPDA

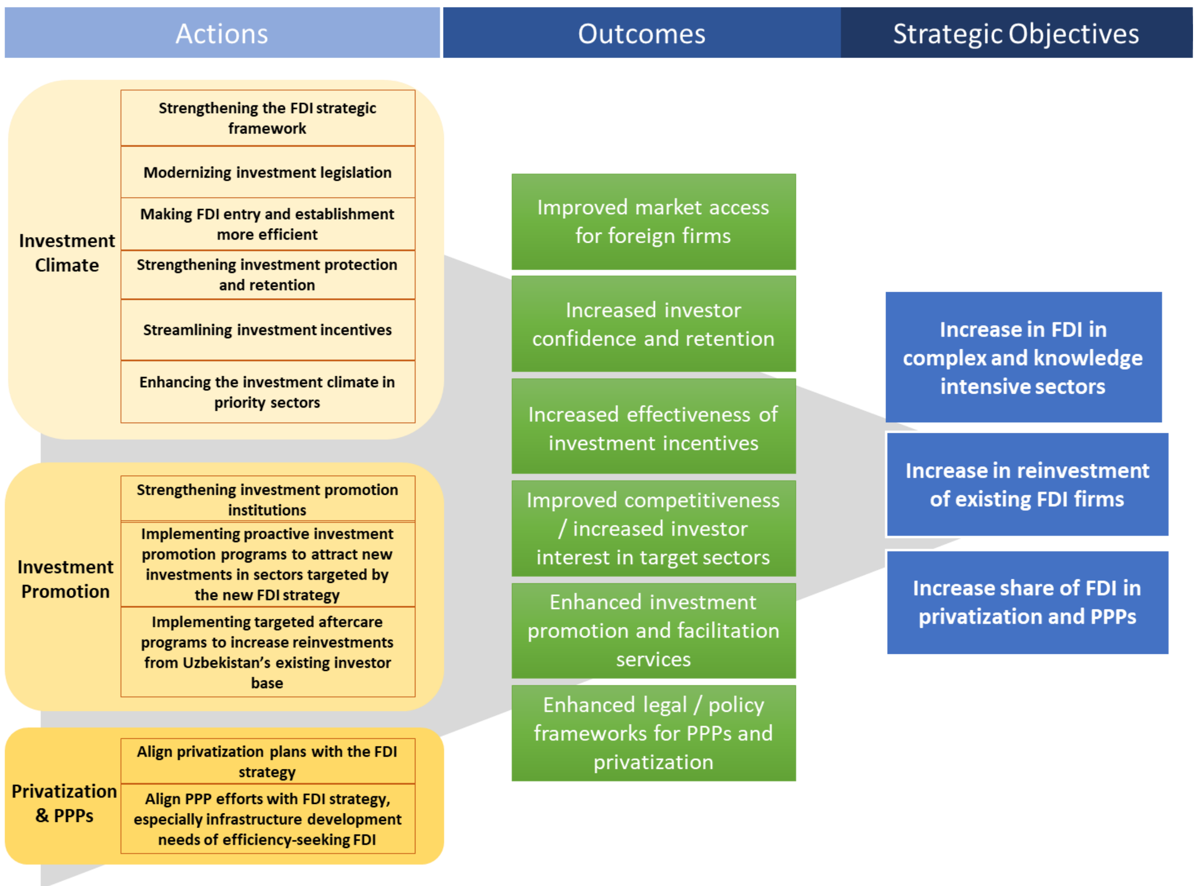
8. Monitoring & Evaluation Framework

The Government should operationalize a rigorous M&E framework including a set of key performance indicators to be able to measure and demonstrate the impact achieved through the implementation of the proposed strategy. In this context, the development of a practical M&E framework will be essential to measure progress towards reaching the targets and objectives set out in the new FDI strategy. A solid M&E framework is also essential for ensuring that impact achieved is sufficiently documented, attributed and made visible to stakeholders. The following section describes a comprehensive framework that can be applied by the government of Uzbekistan to monitor and report on progress with implementing the strategy. It proposes a logical framework and a set of appropriate indicators to measure progress at each stage of the results chain and outlines a dedicated institutional mechanism to manage the process of monitoring strategy implementation.

8.1. Logical Framework

In order to achieve the ultimate strategy goals, there is a logical sequence of government actions that need to be undertaken for outcomes and objectives to be met. Together, these constitute the logical framework of the proposed strategy. The logical framework encompasses all activities and actions of the government and other state bodies that ultimately lead to the achievement of the strategic goals.

Figure 20 Logical framework of the strategy



Government actions are expected to cause a chain of effects that will lead to meeting the outcomes, and eventually to meeting the overall strategic objectives laid out in the proposed strategy. As described in detail in the proposed strategy implementation action plan and roadmap (Chapter 7), the government will undertake a series of priority reforms and measures to increase Uzbekistan's attractiveness for investors. The proposed logical framework supports the effective implementation of activities and helps identify measures that do not support the attainment of the strategic objectives effectively (Figure 20).

8.2. Indicative list of indicators and targets

To fully operationalize the logical framework outlined above, a set of specific indicators must be defined by the government at the various levels, including government actions, outcomes, and strategic objectives. The indicators need to be closely aligned with the overall objectives set out in the strategy and the reform actions that will be undertaken by the government as part of its implementation.

The following table sets out a list of potential indicators that could be used in the context of the proposed strategy. The indicators are based on international good practices with M&E frameworks and take into account the specific objectives and reform measures envisaged under the proposed strategy. It should be noted that the indicators need to be reconfirmed and verified by the government in light of its specific preferences and priorities, as well as taking into account data availability and the capacity of the agencies involved in strategy implementation to collect, monitor and track these data. Annex 9.6 provides additional details for individual indicators, including short descriptions, potential sources of data, as well as a proposed frequency of measurement. The table below outlines proposed indicators at the level of outcomes and strategic objectives, while proposed activity level indicators are described in detail in Chapter 7 (column "Results" in the Action plan). The targets outlined in the table are indicative and need to be reconfirmed through consultations with the involved government agencies.

Table 5. Proposed indicator framework including outcomes and strategic objectives

Level	Indicator	Data sources	Frequency	Baseline	Indicative Target	Annex KPI ID
Strategic Objectives - *Indicators at this level are intended to measure the impact of strategy implementation*						
Increase in FDI in complex and knowledge intensive sectors	FDI inflows / FDI inflows by type or sector	State Statistics Committee of Uzbekistan / Central Bank / UZIPA	Annually	2021	+20% annually	1.1 / 1.2
	Employment in foreign-invested companies	State Statistics Committee of Uzbekistan / Central Bank / UZIPA	Annually	2021	+20% annually	1.3
Increase in reinvestment of existing FDI firms	Reinvestments from established FDI projects	UZIPA	Annually	2021	+10% annually	N/A
Increase share of FDI in privatization and PPPs	Share of foreign bidders in privatization / PPP processes	Uzbek State Assets Management Agency (SAMA)	Annually	2021	30% by 2026	N/A

Outcomes - *Indicators at this level measure intermediate outcomes based on the implementation of program actions and ultimately leading to the desired impact.*						
Improved market access for foreign firms	Changes to FDI related regulation	Ministries involved in changes to FDI related regulations	Annually	2021	N/A	2.1
	Changes to investment entry regulation	MIFT / UZIPA	Annually	2021	N/A	2.2
Increased investor confidence and retention	Investor Grievances resolved	UZIPA / Ombudsman	Annually	2021	+50% by 2026	2.3
	Compliance with BITs and other investment treaties	MIFT / MoFA	Annually	2021	N/A	2.4
Increased effectiveness of investment incentives	Effectiveness of locational incentives	Ministries and institutions involved in administering incentives	Annually	2021	N/A	2.5
Improved competitiveness / increased investor interest in target sectors	Investor perceptions as measured by investor survey	Bi-annual Business Survey conducted by IPA / MIFT	Bi-annually	2021	+10% annually	2.6
	Investor Interests	UZIPA Investor Tracking System	Quarterly	2021	N/A	2.7
Enhanced investment promotion and facilitation services	Investor Servicing and Facilitation	UZIPA Investor Tracking System	Quarterly	2021	N/A	2.8
	Performance of SEZs	SEZ administration	Annually	2021	N/A	2.9
Enhanced legal / policy frameworks for PPPs and privatization	Changes to regulations related to PPPs and privatization	Uzbek State Assets Management Agency (SAMA) / PPDA	Annually	2021	N/A	2.10

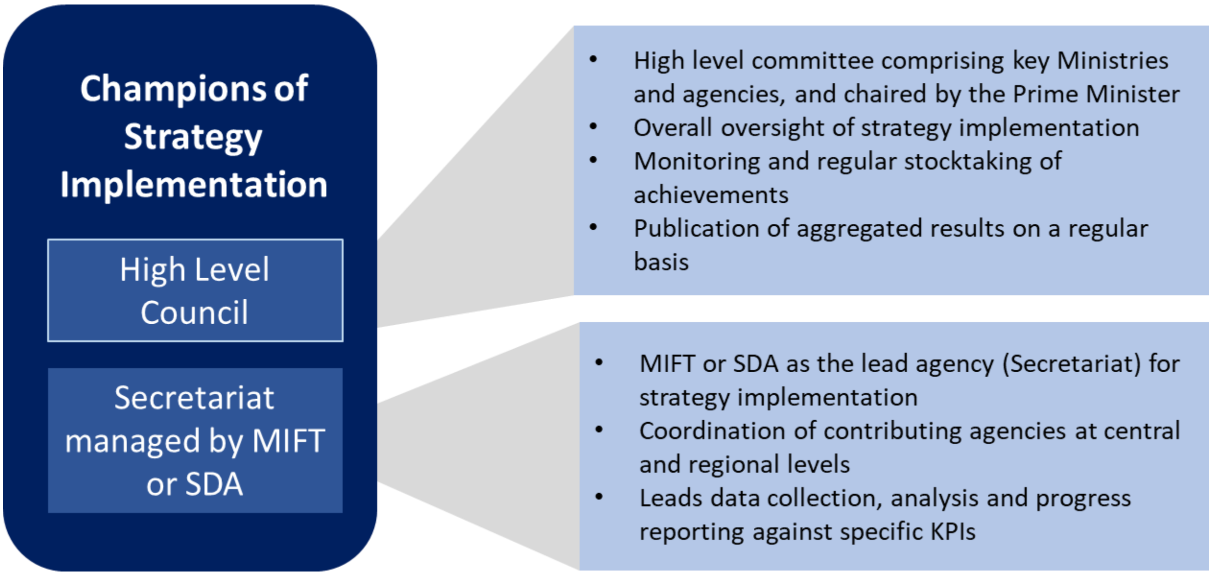
Note: The government actions outlined in the reform action plan represent the basis for achieving the outcomes and ultimately the strategic objectives targeted by the proposed strategy. The specific indicators to measure the direct outputs of the government actions are directly included in the Reform Action Plan document.in Chapter 7 (column "Results" in the Action Plan).

8.3. Institutional arrangements

High-level Council and Ministry of Investment and Foreign Trade / SDA as champions of strategy implementation.

The implementation of the proposed strategy needs to be underpinned by a dedicated institutional mechanism to manage the process of strategy implementation and oversee all stakeholders' contributions. The Government should appoint and maintain an appropriate high-level inter-ministerial council ("Council") composed of central and regional agencies, as well as private sector, with the task to regularly update and monitor progress on the strategy implementation. It will publish reform progress and investment results under each reform area, identify corrective measures as needed while continuously ensuring strategic alignment of reforms with Uzbekistan's economic development objectives. Within the existing institutional landscape, the role of the Council could be undertaken, for instance, the by Foreign Investors Council (FIC).[62] The Ministry of Investment and Foreign Trade (MIFT) or Strategic Development Agency (SDA)[63] could fulfill the role of a secretariat to the high-level council, ensuring its efficient and effective operation. The monitoring and evaluation framework that represents an integral part of the strategy will form the basis for program management and overview.

Figure 21 A dedicated institutional mechanism to ensure effective strategy implementation



Other agencies, including UZIPA and selected line ministries will support implementations of various government actions envisioned by the proposed strategy. The strategy implementation action plan and roadmap outlined in Chapter 7 lists other relevant institutions and stakeholders that should be included in the strategy implementation and be invited to participate in the work of the Council.

[62] https://mift.uz/en/foreign-investors
[63] https://sda.gov.uz/en/about

Operationalizing the M&E framework.

The following action plan guides the timely operationalization of the M&E framework for the implementation of the proposed strategy.

Actions needed to achieve goal	Timeframe	Responsible state body/ies	Output
Logical framework of the strategy			
1.1. Operationalize logical framework into a set of KPIs, including targets, and develop data collection mechanisms (i.e., investor tracking mechanism).	2022	Secretariate (MIFT / SDA) will lead and collaborate with other line ministries/ agencies and regions.	KPIs developed and implemented. Data collection launched.
1.2. Regularly take stock of strategy progress and publish aggregated results and achievements.	2023 onwards	High-level Inter-Ministerial Council.	Results regularly published.

9. Annex

9.1. Sector scan longlisting

The Global Industry Classification Standard (GICS®)		**Presence in UZB**	**FDI is sought by the government**	**Export oriented sectors**	**UZIPA priority sectors**	**Import substitution**	**Privatization targets**	**Regional FDI trends** *(fDiMarkets)*	**ECA FDI trends** *(fDiMarkets)*	**Sector scan longlist**
Energy	Energy Equipment & Services	X	X	x			x	x		
	Oil, Gas & Consumable Fuels	X	X	x	x		x	x		**Oil & gas**
Materials	Chemicals	X	X	x	x	x	x	x		**Pesticides & fertilizers**
	Construction materials	X	X	x	x					**Construction materials**
	Containers & Packaging	X	X	x						**Packaging materials**
	Metals & Mining	X	X	x			x	x		
	Paper & Forest Products	X	X	x						
Industrials	Aerospace									
	Building Products	X	X	x						
	Construction & Engineering	X	X							
	Electrical Equipment	X	X	x						**Electrical & electronic equipment**
	Machinery	X	X	x	x			x	x	**Industrial machinery**
	Trading Companies & Distributors	X								
	Commercial & professional services	X	X	x						
	Air Freight & Logistics	X								
	Airlines	X					x			
	Marine									
	Road & Rail	X								

The Global Industry Classification Standard (GICS®)		Presence in UZB	FDI is sought by the government	Export oriented sectors	UZIPA priority sectors	Import substitution	Privatization targets	Regional FDI trends (*fDiMarkets*)	ECA FDI trends (*fDiMarkets*)	Sector scan longlist
	Transportation Infrastructure	X					x		x	
Consumer discretionary	Automobiles & Components	X	X	x		x				
	Household Durables	X	X	x						
	Textile, Apparel & Luxury Goods	X	X	x	x					**Leather & footwear**
	Hotels, Restaurants & Leisure	X	X	x	x					
	Retailing	X	X							
Consumer staples	Food & Staples Retailing	X	X							
	Food, Beverages & Tobacco	X	X	x	x			x	x	**Food processing**
	Household & Personal Products	X	X	x						
Healthcare	Healthcare Equipment & Services	X	X	x						
	Pharmaceuticals, Biotech & Life Sciences	X	X	x	x	x		x		**Pharmaceuticals**
Financials	Banks	X	X				x			
	Diversified Financials	X								
	Insurance	X	X							
IT	Software & IT Services	X	X	x	x				x	**Software & IT services**
	Communication Equipment	X	X	x						
	Technology Hardware & Equipment	X	X	x						
	Electronic Equipment, Instruments Components	X	X	x						
	Semiconductors & Semicon Equipment									

The Global Industry Classification Standard (GICS®)		Presence in UZB	FDI is sought by the government	Export oriented sectors	UZIPA priority sectors	Import substitution	Privatization targets	Regional FDI trends *(fDiMarkets)*	ECA FDI trends *(fDiMarkets)*	Sector scan longlist
Communication Services	Telecommunication Services	X					x		x	
	Media & Entertainment	X								
Utilities	Utilities	X					x			
Real Estate	Real Estate	X							x	
Agriculture	Agricultural Products	X	X	x	x					Agriculture
	Fertilizers & Agricultural Chemicals	X	X	x						
	Packaged Foods & Meats	X	X	x						
	Food Distributors	X								
					Education					

9.2. Detailed sector profiles for shortlisted sectors

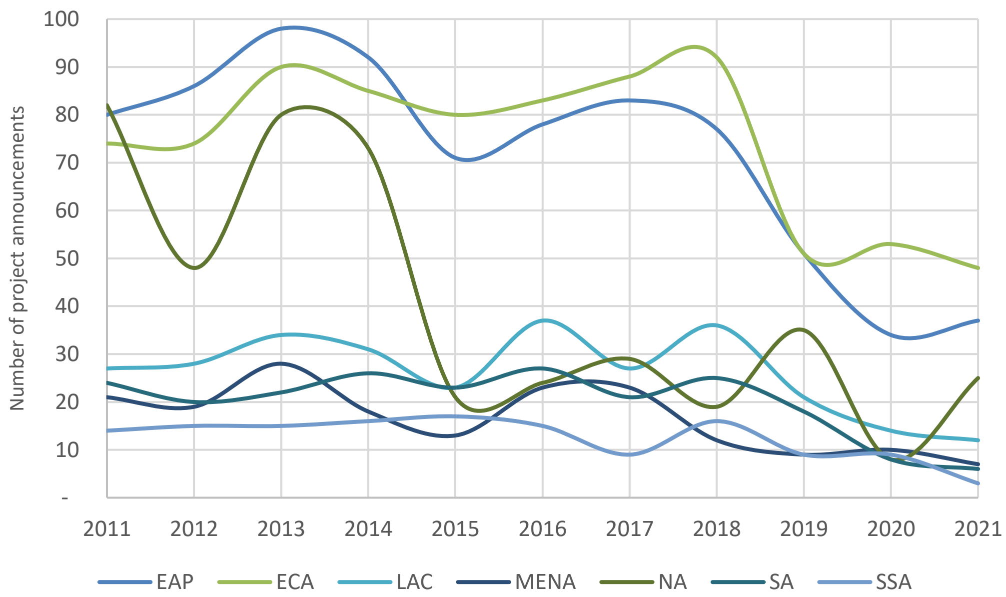
9.2.1. Oil & gas processing

Oil & gas processing sector includes companies involved in oil & gas exploration, data acquisition, development, drilling, production, gathering, refining, distribution and transportation of hydrocarbons and includes but is not limited to major resource holders, national oil companies, multinational oil companies, drilling contractors, services contractors, and other related businesses.

i) Sector FDI performance

Global investments, even before the COVID-19 pandemic and the Ukraine war, have started to decline. In the wake of more and more relevant environmental concerns, new exploration has seen a decline. With very few regional exceptions, like North America, where a heavily subsidized oil and gas production increase was continued, especially in fracking gas, the overall investment has declined significantly (see Figure 22).

Figure 22 Greenfield FDI project announcements in Oil & gas sector by region (# of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Uzbekistan has seen six FDI projects since 2011. Most of these investments have been targeting the energy generation segment and not the actual increase in exploration or production of oil and gas. It also did not significantly support the value adding through further refinement or the production of more complex goods than the bulk semi-raw use of oil and gas (see Table 6), except for one Japanese investment into refinement.

With the Ukraine crisis, a reshaping of especially the natural gas chain is to be expected. With Uzbekistan´s reserves in gas and the potential for exports towards China and the European markets without the use of Russian pipeline infrastructure. These factors can be promoted to attract more investment into the gas sector, but do require broader adjustments to the sectoral structures, which are dominated by state owned enterprises and do not allow for free-market conditions.

Table 6. Number of FDI projects in Oil & Gas sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	450	99	549	402 057	90 912
Uzbekistan	6	0	6	4 247	841

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in oil & gas processing sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	3(0.5) / **1.5**	• With a heavily state dominated sector, private sector participation would most probably introduce higher efficiency processes into the sector. • With an almost exclusively state-owned sector, the potential linkages with SMEs and other suppliers for the services are currently limited. This limits the presence of a wider variance of suppliers. A foreign investor would increase the demand for suppliers, but the limited availability of selection lowers the attractiveness of the sector.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	3(1) / **3.0**	• With additional licenses to the current extraction projects, a higher number of jobs could be created. • However, oil and gas jobs require high levels of training as per inherent dangers of the sector. This limits the immediate effects on the job market and lowers the attractiveness for investors. It could however increase the potential for non-urban population, as many of the extraction sites are located in less densely populated areas. • The sector usually offers higher than average wages and long-term contracts.
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / 3.**0**	• With the global shift away from fossil fuels, a long-term change in global demand patterns and demand centers can be expected. Still, with the currently still heavily fossil input dependent energy and petro-chemical industry, as solid demand for export can be expected. Especially for higher value-added refinements of crude oil and its derivates. • Gas will remain a highly sought-after commodity, as it offers a much smaller CO_2 footprint as oil. Here, the basic infrastructural circumstances (availability of sufficient pipeline capacities) will determine the potential for exports.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	2(1) / **2.0**	• Oil and gas related infrastructure is bound to two locations, the actual site of extraction and the availability of transport infrastructure. Uzbekistan has a solid system of pipelines for gas while basically none for oil. • In the refinement of oil and the further processing of natural gas high skills are required. These skills lead to higher wages. • Still, urban areas do usually attract investments inro further processing of oil and gas with the proximity to demand centers, easier access to logistics and higher availability of skilled and educated labor.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	3(0.5) / **1.5**	• Higher investment, especially in higher value-adding processing of oil and gas, will increase the demand for services and supply of technologies in these fields. High quality and certification requirements ensure demand for high value products. • The potential for spillovers is high but requires a deepening of the value chain away from mere extraction and export of crude oil and gas. The attraction of investments into these sectors requires access to markets that have a high demand in the higher-value products. Uzbekistan thus needs to ensure, that access to markets is unrestricted and open. • Direct R&D investments are not to be expected, as exploration and extraction technologies are already available and easy to supply by imports. A deepened value chain of the sector would on the other hand lead to higher R&D spending, as product portfolios and export orientation do require a constant development to ensure competitiveness on international markets.

SUBTOTAL	11.0	
2. Feasibility: Does investment in oil & gas processing sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong FDI track record?	2(1) / **2.0**	• The Uzbek market is heavily state dominated and has only recently started a de-monopolization process is still limited. The markets is still very hard to access and enter for fully private companies. • Overall crusted structures and state-controlled processes do make markets access and establishment risky and unpredictable. • Sudden changes to legislation or the operational environments, like a ban on the export of gas, further deteriorate the confidence of investors in the Uzbek oil and gas sector as an investment target. • A very small track record in FDI into the sector further diminishes the potential for investments with the missing operational evidence from already established foreign investors. • Still, the market potential, having the second largest hydrocarbon reserves in the region, Uzbekistan's oil and gas sector does retain a certain level of attractiveness.
Is the **global market** attractive? Can goods/services be exported globally?	3(1) / **3.0**	• Current demand is high, especially for gas. Uzbekistan is interconnected with large demand centres like China or toward the EU for Gas. For Oil only China and Russia are options. • Exports can be stopped by the government at short notice, so the local demand is deemed more important than exports.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	4(0.8) / **3.2**	• Uzbekistan has the second largest hydrocarbon reserves in the Central Asia region, especially in natural gas. • Uzbekistan is already the second largest natural gas producers in the region. • The potential for investment is high due to the currently estimated reserves.
Does Uzbekistan have **competitive infrastructure**?	4(0.8) / **3.2**	• Uzbekistan is connected to oil pipelines system allowing access to the Chinese and Russian markets. The gas pipeline system also allows for the export towards Europe without touching Russian territory.
Does Uzbekistan have **competitive skills and support services**?	2(1) / **2.0**	• Uzbekistan is struggling with a relative low level of education, which does not support the creation of the skills required by oil and gas companies and especially not by higher value adding industries. • While the government has established vocational training and has embarked on a process of fast raising educational levels, the matching between actual demand and supply of skills remains challenging.
Does Uzbekistan offer a conducive **business (regulatory/institutional) environment**?	1(1) / **1.0**	• Although Uzbekistan has embarked on a reform and de-monopolization of the oil and gas sector, the overall structural setup and sectoral oversight systems remain highly unfavorable for investors. • The importance of gas in the energy production and the need to add higher value to the extracted hydrocarbons to tend to encourage heavy state interventions into the market and thus cerate uncertainties for sector actors and potential investors. The negative effects of state interventions also are felt in realted sectors, like fertilizers, that rely on the basic inputs of the oil and gas sector.
SUBTOTAL	**14.4**	
Evaluation key:	5=very positive	4=positive 3=neutral 2=negative 1=very negative

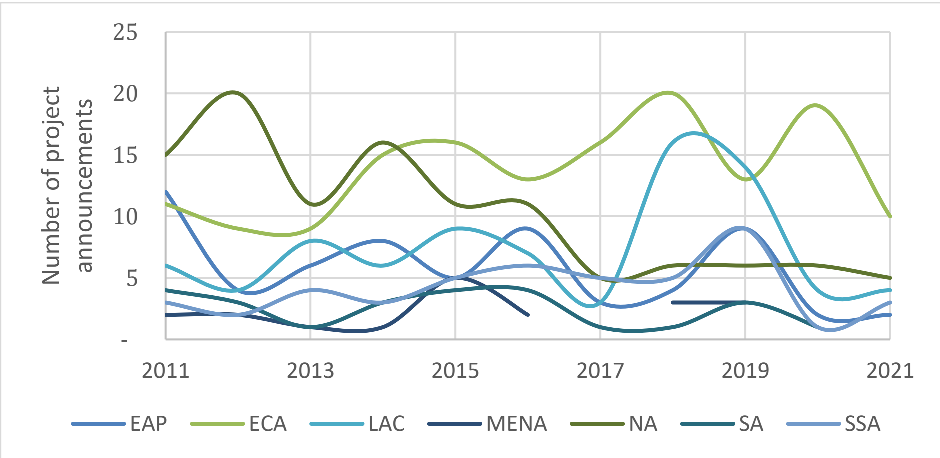
9.2.2. Pesticides & fertilizers

The Global Fertilizers and Agricultural Chemicals Manufacturing industry formulates and prepares fertilizer products, pesticides (e.g., herbicides, insecticides and fungicides) and other agricultural chemicals (e.g., insect repellents, sheep dips, fly sprays and flea powders). Key markets serviced include the agricultural sector, households, and various commercial and industrial users. This sector is closely related to the Oil & Gas sector, as it uses many of the raw materials and derivates.

i) Sector FDI performance

Global FDI flows and projects are declining in recent years overall. This might be related the COVID 19 pandemic´s basic effect on FDI, but there is a certain cyclicality of the sector FDI visible.

Figure 23 Greenfield FDI project announcements in Pesticides & Fertilizers sector by region (# of projects)



Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).
Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Uzbekistan has seen only a limited number of FDI projects into pesticides and fertilizers of the past 10 years. Especially, when comparing with the global distribution of projects and the basic setup of Uzbekistan with many raw materials available domestically, a certain discrepancy can be seen. This discrepancy could be explained by the inputs the World Bank received from an in-depth sector focus group consultation, that referred to several state interferences with the market of especially fertilizers in form of price enforcements, the required use of certain exchanges, no direct access to customers, inputs price and export bans. These points make the creation of a solid value proposition challenging.

Table 7. Number of FDI projects in the pesticides & fertilizers sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	362	111	473	56 088	78 611
Asia-Pacific	87	9	96	8 451	26 630
Uzbekistan	5	0	5	456	838

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Still, when looking at the FDI potential of the sector, specifically in the production of fertilizers, where Uzbekistan has a large amount of relevant mineral deposits, as strong potential for investment for exports is visible. According to the latest World Bank assessment on the competitiveness and potential of industrial production of Uzbekistan,[14] fertilizers, specifically products as urea, ammonium nitrate, superphosphate and potassium chloride, have highly competitive advantages in production compared to other globally available products.

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in pesticides & fertilizers sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	2(0.5) / **1.0**	• Investment into both sectors would somewhat increase efficiency and the use of new technology, as the already established joint ventures showcase. • Structural impediments like heavy state influence on the overall market mechanism, especially in fertilizers, are choking any sectoral development. The entrance of a fully foreign company could not change the dynamics significantly.
Will new investors **create additional jobs**? Could new additional jobs be created **in the regions**?	2(1) / **2.0**	• The sector is relatively low in labor intensity, as automatized mass production dominates the processes. • The operation of the machines can be achieved by lower skilled labor too. • Production close to demand centers like agricultural regions, does support a spread of facilities outside of urban areas. However, logistics availability is required for distribution of bulk products and their export.
Will new investors create increased **export revenues or reduce imports**?	3(1) / **3.0**	• The potential for exports to the region and beyond is high. • The potential in fertilizers is high, dee to an abundance of natural resources. • In pesticides the inputs could be substituted by a stronger chemical industry based, currently not existent in Uzbekistan. An immediate substitution of inputs for pesticides is not probable.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	5(1) / **5.0**	• While fertilizers require less sophisticated manufacturing technologies, pesticides do have higher requirements through chemically more complex processes. • Due to high levels of automatization, high skill levels are not required, except in quality control and process engineering. • The companies currently present in the sector do not face any problems in finding labor with the required skill set. A shortage is not immanent.
Will FDI in the sector lead to **positive spillover effects to local economy**? Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	3(0.5) / **1.5**	• Suppliers are mainly raw material producers, which are state dominated. An increase in supplier diversity is not to be expected. • Other spillover effects into related industries might be triggered by a higher demand for inputs for pesticides. • The limited length of the value chain of fertilizers limits a deep integration into global value chains. Pesticides do have a longer (chemical) value chain, which could pulled more into Uzbekistan by extending the availability of basic inputs. • Basic fertilizer products require relatively low R&D spending, but fertilizers could introduce additional developmental demands for Uzbekistan specific uses like cotton.
SUBTOTAL	**9.5**	
2. Feasibility: Does investment in pesticides & fertilizers sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	4(1) / **4.0**	• Demand for pesticides and fertilizers remain high, especially in an agricultural heavy region like Central Asia but also beyond towards Russia and China. • The domestic availability of raw materials for fertilizers makes a local production very attractive.[64] • Pesticides are currently heavily imported due to missing inputs on the local market.

[64] *World Bank Group: Assessment of competitiveness and potential attractiveness for foreign investment of industrial/manufacturing products of Uzbekistan based on data in 2017/18-2020 (internal note), 2021.*

		• FDI numbers remained low over the past decade in Uzbekistan, as well as globally.
Is the **global market** attractive? Can goods/services be exported globally?	3(1) / **3.0**	• The regional demand is high, with a lot of agricultural production. • Competition is almost non-existent, as the majority of the market is either state owned or indirectly state controlled through input and general price controls. Exports are often hindered or completely stopped.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	2(0.8) / **1.6**	• Key inputs for fertilizers are available within Uzbekistan, making production basically attractive. • But, their availability, especially of gas, is often interrupted and unpredictable, leading to underutilization of capacities and thus lower than possible sales. • Heavy state interference and uniquely in input pricing and availability make operations very unpredictable and discouraging.
Does Uzbekistan have **competitive infrastructure**?	1(0.8) / **0.8**	• Although inputs are mined domestically and inputs are available, their allocation by state owned companies is not market based. • Both, the up and down stream of the sector are state controlled, less so in pesticides, thus the free access to input and sales markets is limited.
Does Uzbekistan have **competitive skills and support services**?	5(1) / **5.0**	• Low skill requirements do allow for the selection of labor form a large pool. • Companies active in the sector are not facing any impediments in labor availability.
Does Uzbekistan offer a conducive business (**regulatory/institutional) environment**?	1(1) / **1.0**	• The sector and the inputs sector for fertilizers is dominated by the state and state-owned companies. • Price for inputs and final products are controlled, exports can be banned without prewarning. • Non-state owned firms are treated equally with SOEs in the allocation of inputs.
SUBTOTAL	**15.4**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

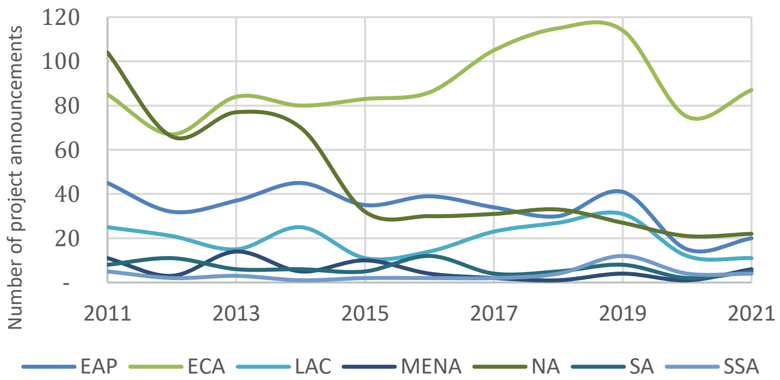
9.2.3. Packaging materials

Manufacturers of packaging, including plastics and cardboard containers and related materials.

i) Sector FDI performance

The packaging materials sector had been on a largely downward trajectory in terms of new FDI project announcements for most global regions in the lead up to the COVID-19 pandemic. However, since 2020 there has been an uptick in FDI project announcements, perhaps due to the increase in online shopping and delivery services and accompanying increased need for shipping and packaging materials. The ECA region (including Western Europe) has been a global leader in the sector and was seeing increases in FDI announcements even prior to the pandemic (Figure 24). Estimated capital expenditure trends for greenfield FDI announcements in the sector have varied greatly over the last decade (
Figure 25).

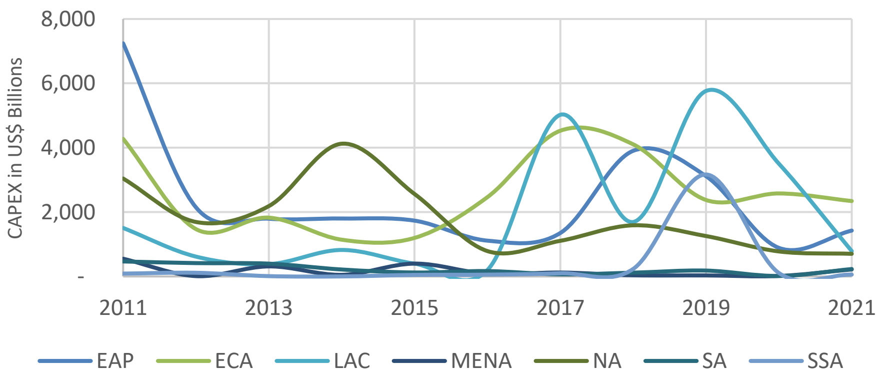
Figure 24 Greenfield FDI project announcements in Packaging materials sector by region (# of projects)



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

Figure 25 Greenfield FDI project announcements in Packaging materials sector by region (capex)

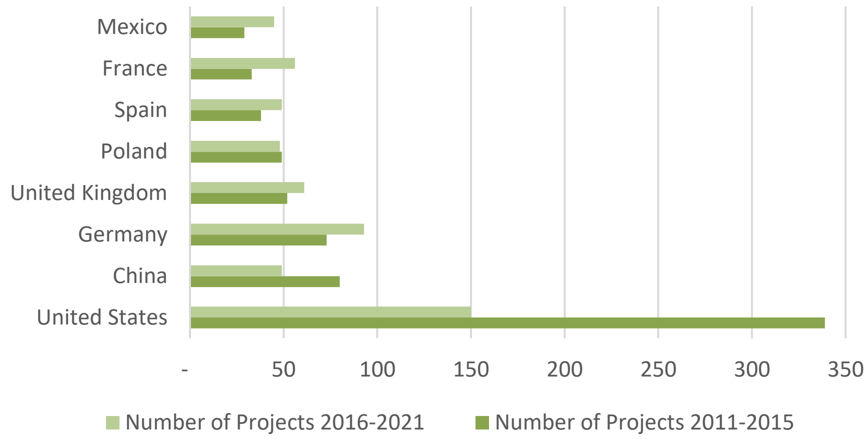


Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

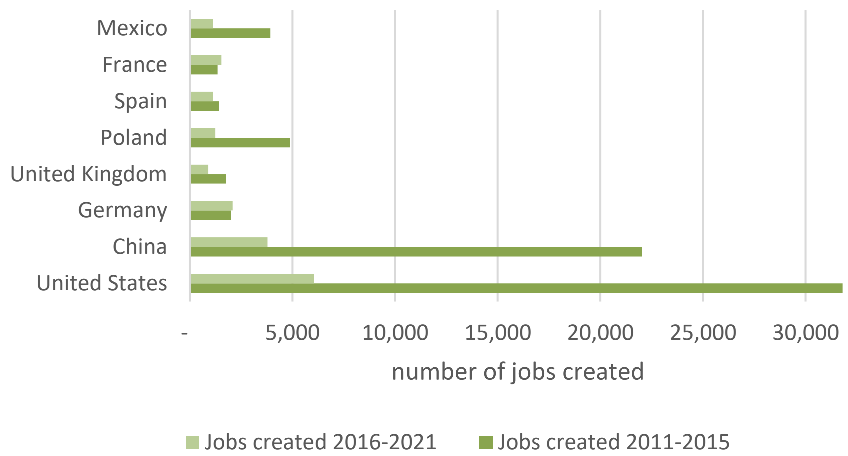
Top country destinations for FDI in packaging materials by number of project and by job creation have been the USA and China, with Germany, the UK and Poland as leading destinations by project numbers (Figure 26, Figure 27).

Figure 26 Top ranking countries as destination for FDI in Packaging materials (#of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

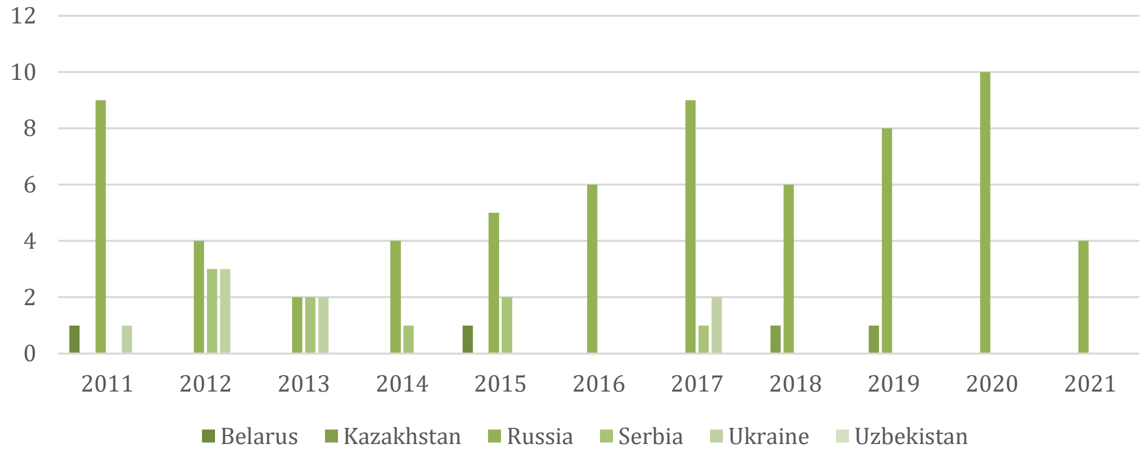
Figure 27 Top ranking countries as destination for FDI in Packaging materials (#of jobs)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

According to **fDi** Markets database, Uzbekistan has not attracted any FDI in the packaging materials sector over the last decade. From the comparator group, Russia, Ukraine, and Serbia have a lead in attracting FDI projects (Figure 28).

Figure 28 Project Announcements of Packaging Materials Sector, Uzbekistan vs Select Comparators



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in the packaging materials sector add value to Uzbekistan?		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	3(0.5) / **1.5**	• Private sector consultations revealed there is at least some foreign presence in the packaging materials sector in Uzbekistan, which has production in a wide range of products from bottle caps to shipping boxes. Additional FDI could contribute positively to the sector's performance.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	5(1) / **5.0**	• Investment in the sector has potential to create additional jobs, though the location of such jobs would most likely be in areas closer to established transportation hubs.
Will new investors create **increased export** revenues or **reduce imports**?	5(1) / **5.0**	• New investors would be likely to create increased export revenues as the regional market outside of Uzbekistan is a prime destination for packaging materials.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	2(1) / **2.0**	• Requirements for connectivity and easy access for exporting may indicate that investment in packaging materials are more likely to take place proximate to existing urban areas or key transportation hubs.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	5(0.5) / **2.5**	• Additional FDI in the sector could lead to positive spillover effects, particularly regarding the provision of know-how, management and labor skills for domestic firms. • The need for additional high skilled support services related to equipment maintenance could also provide additional opportunities for domestic firms to further develop and address this gap.
SUBTOTAL	**16**	
2. Feasibility: Does investment in packaging materials sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	5(1) / **5.0**	• The region does not have a strong FDI track record in the sector, though Russia has had a significant number of FDI projects and is a key export market. The ongoing conflict between Russia and Ukraine and associated sanctions and instability will likely have an affect on this sector in terms of FDI announcements,

		exports to the Russian market (and from the Russian market), as well as on demand. ● Private sector consultations revealed demand in the region for exports of packaging materials.
Is the **global market** attractive? Can goods/services be exported globally?	5(1) / **5.0**	● The packaging materials sector is estimated to have a CAGR of 3.94% between 2022-2027.[65] Increases in delivery of goods and online ordering has caused increase demand for packaged supplies. Asia is a key demand market for this sector. Over the past decade, India's packaging consumption has increased by 200%, in China, during the Alibaba Double 11 (an online shopping day), Chinese shoppers received over 1.9 billion shipments.[66] ● Sustainability concerns have led to some innovations in the market, but analysis shows that the consumption of single use plastic in on the rise.[67]
● Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	2(0.8) / **1.6**	● The packaging materials sector is heavily reliant on the input of specific materials (dependent upon the final good), many of which are unavailable in Uzbekistan and require importing. ● The double landlocked nature of the country makes import and export times lengthier and more complex, and private sector consultations revealed import times for key inputs to be a key issue faced with delays of 4-5 months being cited. ● In addition, regulatory changes that impose additional customs fees on certain inputs (and vary depending upon the finished nature of the import) cause additional obstacles for firms.
Does Uzbekistan have **competitive infrastructure**?	5(0.8) / **4.0**	● Uzbekistan has a solid infrastructure in place for bulk transport and good connections towards main demand centers of the region Russia, China, and Turkey. COVID-related delays have, however, affected the efficiency of such infrastructure.
Does Uzbekistan have **competitive skills** and support services?	2(1) / **2.0**	● Private sector consultations revealed that Uzbekistan has wide availability of labor but lacks skilled labor especially in more specialized positions. The machinery involved in producing packaging requires specialized repair and maintenance and finding skilled and qualified support services is particularly difficult and a key concern cited in private sector consultations. Electricians, metal workers, engineers are all difficult to find locally.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	3(1) / **3.0**	● Private sector consultations also revealed frequently changing policies with regards to taxes demonstrating some regulatory unpredictability, as well as extensive administrative requirements for filing taxes, which could present barriers across many sectors.
SUBTOTAL	**15**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

[65] *Mordor Intelligence. https://www.mordorintelligence.com/industry-reports/global-packaging-market*
[66] *Ibid.*
[67] *Ibid.*

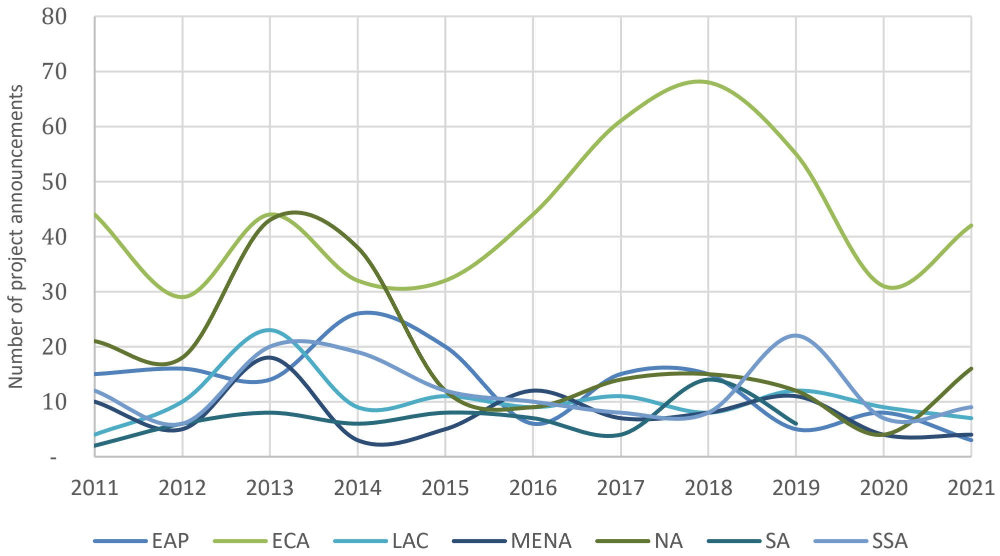
9.2.4. Construction materials

The construction materials industry consists of a wide range of companies involved in the mining, quarrying, and processing of raw materials used for both heavy and building construction. Materials such as cement, sand and gravel, clay, concrete, and marble are used in this industry.

i) Sector FDI performance

Construction materials attract significant investments globally. The sector is also seeing a rapid growth after the pandemic induced slowdown. This is especially true for the ECA region, which shows a very strong rebound to almost pre-pandemic levels. The construction materials sector is also one of the most stable ones, based on constant demand from the construction sector driven by population increase, new construction materials combined with the availability of capital for investment into real-estate. This does foster a picture of continued and long-term investment into the sector and its related services.

Figure 29 Greenfield FDI project announcements in Construction materials sector by region (# of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

Table 8. Number of FDI projects in the Construction materials sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	829	292	1 121	77 583	187 633
Asia-Pacific	197	46	243	23 685	53 895
Uzbekistan	12	3	15	1 468	3 588

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Uzbekistan has seen a solid inflow of FDI and of reinvestments, as testament to the basic attractiveness of the Uzbek markets. Most of these companies are targeting the domestic market of Uzbekistan,[19] but have all targeted exports to the region and beyond. Some of the investments, like a Korean company producing insulation materials, are using very high-quality inputs, that require imports, as these materials are not attainable. On the other hand, raw materials needed for more basic processing and manufacturing, like concrete prefabricated elements, asphalt, and paving materials, can be directly sourced in Uzbekistan.

Basic population growth and the need to keep pace with this growth in demand for infrastructure and living quarters does pose an interesting demand trend, that might support a further promotion of the sector, mainly targeting the domestic market.

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in construction materials sector add value to Uzbekistan?		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	4(0.5) / **2.0**	• The current producers of construction materials are already using up-to-date technology. Additional investment, except in completely new subsectors, would have a limited impact on the level of performance and overall competitiveness. • The sector, although often with state share in the ownership structures, is overall privately operated
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	3(1) / **3.0**	• The construction material sector is mainly characterized by bulk production. With limited manual labor required, the impact on overall labor is usually limited in scale. • Mostly low skill labor is required for operations in construction material production. The demand for high-skill labor thus will remain limited. • Regions, outside of urban areas might benefit more, as many of the production sites are usually located outside of urban areas due to their environmental impact and proximity to the
Will new investors create **increased export** revenues or **reduce imports**?	4(1) / **4.0**	• Exports of construction materials is relevant, but the main drivers of investors in the construction material sector is based on the demand created by the domestic markets. High transportation costs for bulk materials do tend to shorten the export radius. • Around 70% (+/-, depending on the subsector) of raw materials are imported. Many of these cannot be substituted, due to the complexity of their production (polymers for example). The companies of the sector are actively looking for local substitution of imported goods but do see a barrier in more complex production processes.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	3(1) / **3.0**	• The construction material sector does not require any specific infrastructure, apart from the possibility of bulk transportation. • Increased production in the regions would support access to cheap construction materials and support the improvement of general and private infrastructure, although only in limited scale.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	3(0.5) / **1.5**	• The construction material sector is mainly a non-technology heavy sector, that requires many diverse inputs and services. Apart from maintenance and logistics, there are only limited number of processes that can be outsourced or can only be supplied by third parties. • A short value chain and mainly bulk inputs and products limit the creation of global value chains.
SUBTOTAL	**13.5**	
2. Feasibility: Does investment in construction materials sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	4(1) / **4.0**	• With a constant population growth and a sector modernization push by the government, the demand of construction and related materials will remain high. • The regional markets offer some export opportunities from Uzbekistan, but the relative expense of logistics do limit a regional market formation. • FDI remained low in the sector

Is the **global market** attractive? Can goods/services be exported globally?	4(1) / **4.0**	• The global construction material market is characterized by a steady growth lead by infrastructure development and private investment into real-estate in many countries. The introduction of new construction materials and more sustainable production methods increase demand further. • Although cyclical, there is a general upwards trend in construction material investments. Especially in low- and mid-income countries this trend is strong. Additionally fueled by an abundance of free capital, the real-estate and overall construction sectors are creating a lot of demand.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	5(0.8) / **4.0**	• The infrastructure (roads, railroads, energy generation) has seen a steady increase in investment in recent years and continued to be one of the focus points of the government. The increased demand for construction does automatically increase the demand for construction materials • Raw materials, as seen above, are depending on the subsector. Many of the main raw materials are available in Uzbekistan and help to support fully local production. The abundance of many minerals further supports a high local value-added production.
Does Uzbekistan have **competitive infrastructure**?	4(0.8) / **3.2**	• Frequent delays in the import of raw materials, mainly caused by the COVID 19 pandemic affect all sectors. Companies are compensating with longer production planning, but still face halts to production regularly. • The Uzbek road and rail system are well established and ensure quick transportation between sites and for export.
Does Uzbekistan have **competitive skills and support services**?	5(1) / **5.0**	• Uzbekistan does have a large number of unskilled labor available. • The construction sector, with its low demand on high-skill labor, does have a strong supply of labor in Uzbekistan. A steady supply of labor is thus expected. • The average labor costs of Uzbekistan is among the most competitive in the Central Asia region and thus offer a solid opportunity for savings.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	3(1) / **3.0**	• High import duties significantly increase the costs of inputs and thus products of construction materials. • Relative high presence of the state in the sector does create concerns for investors as the partial dependence on basic raw materials is also dominated by state owned enterprises. • Lack of competition policy and a transparent market oversight framework limits the potential of a fully open markets to unfold.
SUBTOTAL	**23.2**	
Evaluation key: 5=very positive	4=positive	3=neutral 2=negative 1=very negative

9.2.5. Industrial machinery

i) Sector FDI performance

The sector of industrial machinery includes companies that produce construction, agricultural and industrial machinery as well as measuring & control equipment. Industrial equipment sector products are generally grouped according to their usage per sector (e.g., agriculture equipment, metalworking equipment, plastic & rubber equipment, construction equipment, etc.). Industrial equipment is the capital good to support production activities in mining, agriculture, forestry, and construction.[68]

The industrial machinery sector has represented about 6% of global FDI flows over the past decade.[69] During the same period, Uzbekistan received 16 projects (Table 9), however only half of them were in manufacturing, the remaining 8 projects were in sales, marketing, logistics or distribution with considerably lower capex and number of new jobs created. Consequently, most projects ended up in Tashkent, rather than in the regions.

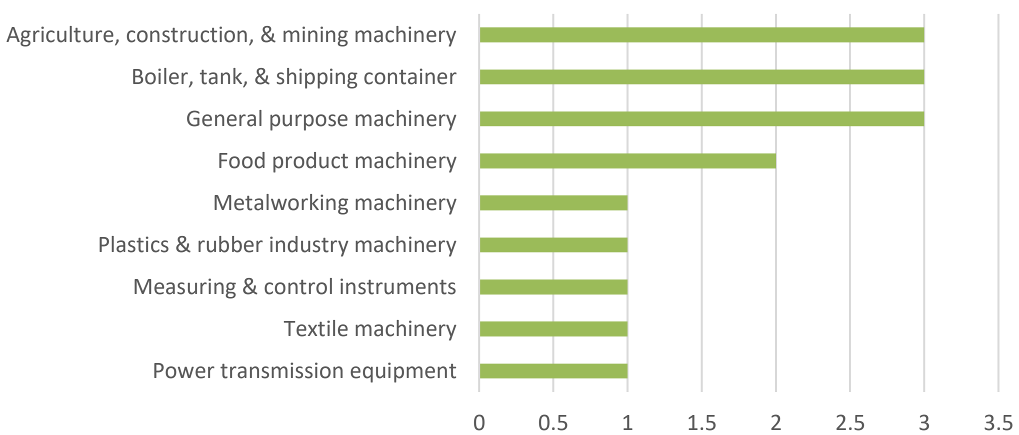
Table 9. Number of FDI projects in the industrial machinery sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	7 580	2 352	**9 932**	126 954	725 391
Asia-Pacific	2 310	474	**2 784**	48 318	320 052
Uzbekistan	15	1	**16**	209	1 644

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Statistics for Industrial machinery sector products grouped according to their usage per sector show that most projects concerned agriculture, construction & mining machinery; boiler, tank & shipping container machinery; and general-purpose machinery (Figure 30).

Figure 30 Sub-sector breakdown of FDI in industrial machinery sector in Uzbekistan



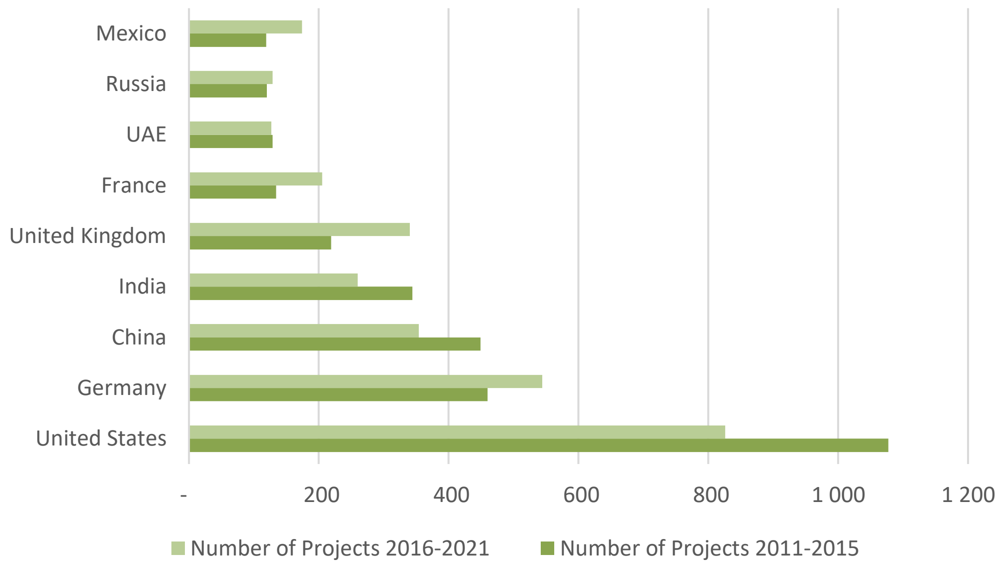
Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

[68] *The nature of industrial equipment is interchangeable for different sectors. For example, an excavator and bulldozer can be used in both mining and construction sectors.*
[69] ***fDi** Markets database*

Among FDI projects in the industrial machinery sector in Uzbekistan, most come from the EU (9), followed by CIS countries and South Korea (each 2 projects).

USA, Germany, China, India, and UK are the top 5 destination for FDI in the industrial machinery sector in terms of number of jobs (Figure 31), while most jobs are created in three destinations only: USA, China, and India.

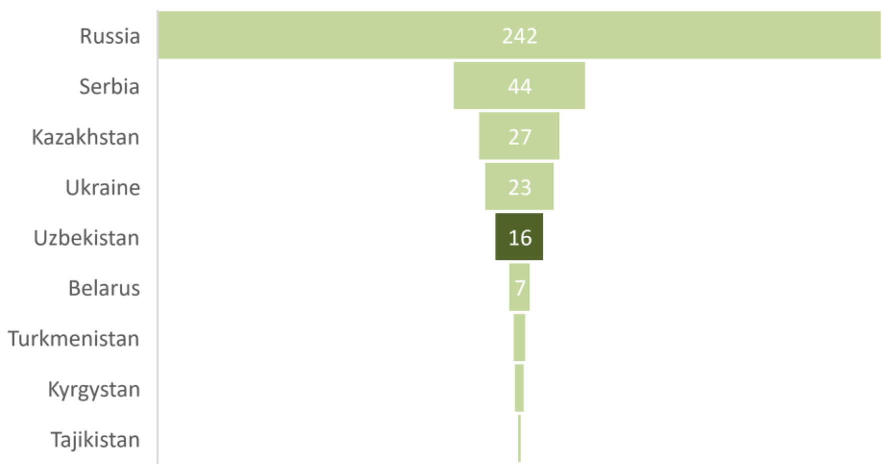
Figure 31 Top destinations for FDI in the industrial machinery sector (by number of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Among the comparator countries, Uzbekistan lags behind other competing locations in terms of number of new FDI projects (Figure 32).

Figure 32 Number of FDI projects in the industrial machinery sector in comparator countries



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in industrial machinery sector add value to Uzbekistan?		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	4(0.5) / **2.0**	• FDI in the sector could lead to sector value chain improvements as it would bring new technologies and operations currently unavailable in the country, particularly with respect to usage per sectors. • Industrial machinery and equipment sector is currently less affected by Industry 4.0 implementation than other manufacturing sectors on three accounts: • the widespread use of legacy equipment (90% of factories still make use of legacy assets to accomplish specific operations), • challenges with capturing plant floor data from complex processes, • use of systems or machines with diverse communication protocols.[70] As a result, the FDI will not bring about a major technological change.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	3(1) / **3.0**	• The sector is moderately labor intensive and requires a mix of highly skilled and (un)skilled labor. • Jobs created within the sector provide good job security and earnings like other manufacturing sectors, however with potentially higher job strain.[71]
Will new investors create **increased export** revenues or **reduce imports**?	5(1) / **5.0**	• FDI in the sector would have both high potentials to support import substitution and export revenues. Industrial machinery is a capital-intensive goods that has globally a strong export track record.[72]
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	4(1) / **4.0**	• Manufacturing plants could be located outside Tashkent – existing manufacturing sites in the country (Samarkand, Navoi, Yangiabad, Keravchi, Juma etc.) support the feasibility of investment site location in the regions provided the site has good transport access and adequate labor force catchment area.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to FDI projects?	3(0.5) / **1.5**	• Manufacturing FDI provides improved opportunities for domestic firms to supply their goods/services to foreign investors and potentially also linkages to R&D institutions. • The spillover effect will, however, be limited by current production capabilities of existing local producers and accessibility of manufacturing inputs and parts.
SUBTOTAL	**15.5**	
2. Feasibility: Does investment in industrial machinery sector offer an attractive proposition for foreign investors?		
Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	2(1) / **2.0**	• Demand in ECA region has slowed as customers reduce or delay capital spending and slash production – a combination of general sector trends and impact of COVID-19 • Several countries also have heavy excess production capacities which further intensifies the competition. • Presence of industrial equipment OEMs does not induce suppliers' co-location; final products can be supplied via trade rather than via FDI.
Is the **global market** attractive? Can goods/services be exported globally?	1(1) / **1.0**	• Industrial equipment OEMs operate in highly competitive and slow-growing global markets which are not linked to final customers locations. • Current COVID-19 induced global economic slowdown and excess production capacities do not make global markets attractive. • Production relocation to lower production costs countries is not a common cost optimization business model in the sector given the high share of capital costs in manufacturing.[73]
Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	2(0.8) / **1.6**	• The country does not have a strong upstream supply chain – material and components needed for OEM manufacturing would have to be imported from elsewhere. • Findings of a recent study analyzing share of value added in total output per sector (product) suggest that energy intensive manufacturing is viable only due to substantial open

[70] *Heavy machinery manufacturing in the age of Industry 4.0, MachineMetrics, Heavy Machinery Manufacturing, September 2020*
[71] *https://www.payscale.com*
[72] *2019 Global Machine Tool Export Market Report*
[73] *A critical analysis of supply chain issues in construction heavy equipment, University of Newcastle, Australia, 2016*

		or hidden subsidies provided by the government (e.g., in production of ferrous metallurgy products which provide inputs to industrial machinery sector)[74]
Does Uzbekistan have **competitive infrastructure**?	2(0.8) / **1.4**	• The country provides standard infrastructure for manufacturing industry – several fully infrastructure developed industrial sites are available in the regions (outside the main city agglomerations), FEZs provide also access to additional investment incentives for investment projects. • Anecdotal evidence collected during the private sector interviews suggests electricity blackouts can be an issue for larger manufacturing operations – the country does not provide a competitive business environment and infrastructure for Industry 4.0 technologies used in this sector. • Transport connection and educational infrastructure is likely to meet investors' needs.
Does Uzbekistan have **competitive skills and support services**?	3(1) / **3.0**	• Presence of a large manufacturing clusters in other sectors provides access to sufficient talent pool of skills required in industrial equipment manufacturing. • Anecdotal evidence collected during the private sector interviews, however, suggests labor market shortages in skilled labor, especially related to R&D and advanced skills.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	2(1) / **2.0**	• Absence of quality infrastructure (testing laboratories accredited in key export market, e.g., EU) limits export opportunities of local producers. • High share of SOEs in the sector or in supplying sectors means unequal access to resources needed for manufacturing.
SUBTOTAL	**12.0**	
Evaluation key:	5=very positive	4=positive 3=neutral 2=negative 1=very negative

[74] *World Bank Group: Assessment of competitiveness and potential attractiveness for foreign investment of industrial/manufacturing products of Uzbekistan based on data in 2017/18-2020 (internal note), 2021*

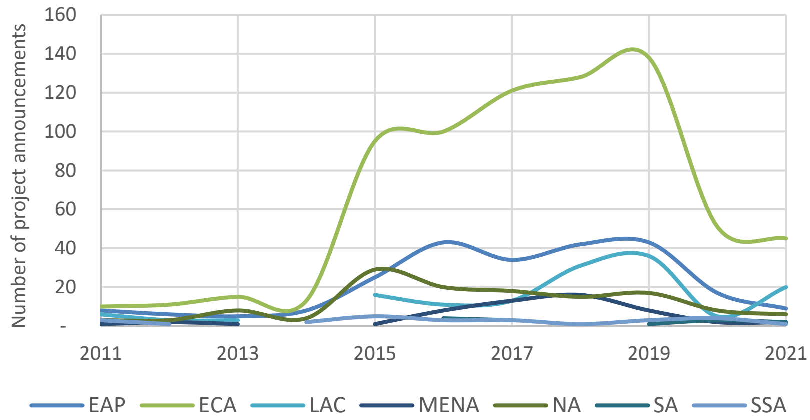
9.2.6. Leather and Footwear

This sector includes manufacturers of footwear (both made of leather and other materials) and leather products.

i) Sector FDI performance

The leather and footwear sector has witnessed a decrease in FDI project announcements since 2020 and the onset of the COVID-19 pandemic (Figure 33). Despite this, sources indicate that the sector is still expected to see growth with CAGRs of over 5 and 6 percent in leather products and leather footwear.[20] The sector witnessed spikes in estimated capital expenditure of greenfield FDI project announcements in 2017 and 2019, in North America and sub-Saharan Africa respectively.

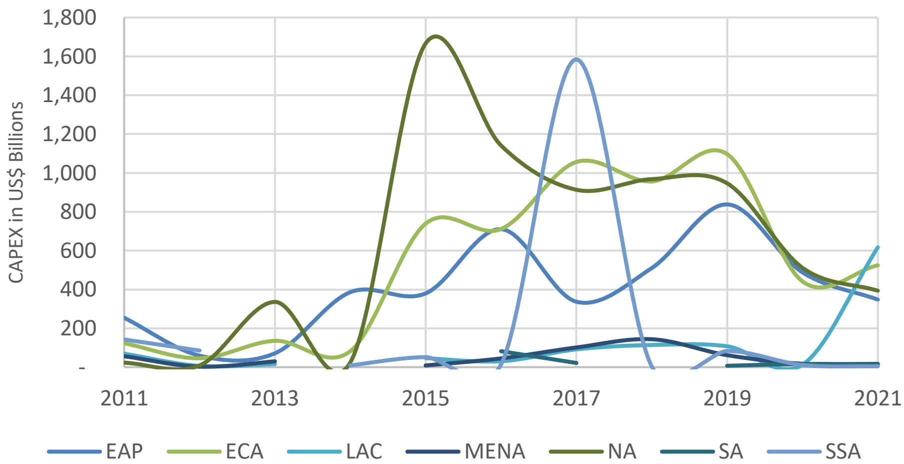
Figure 33 Greenfield FDI project announcements in Lather & footwear sector (# of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

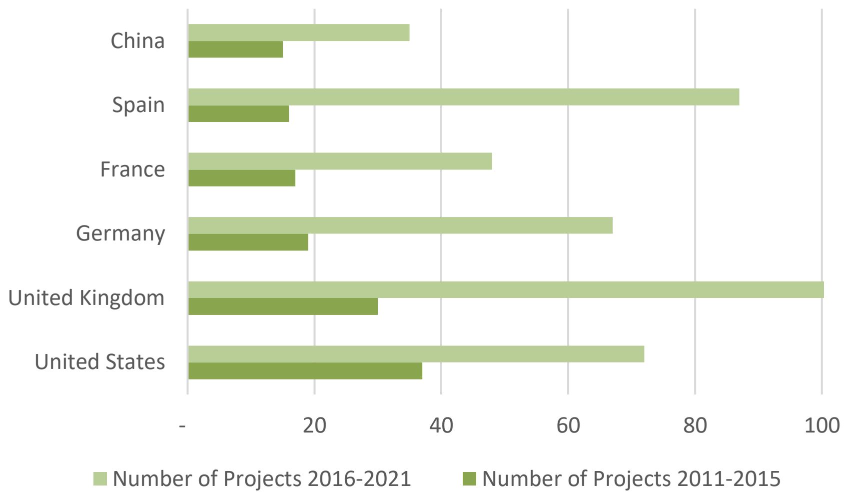
Figure 34 Greenfield FDI project announcements in Lather & footwear sector by region (capex)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

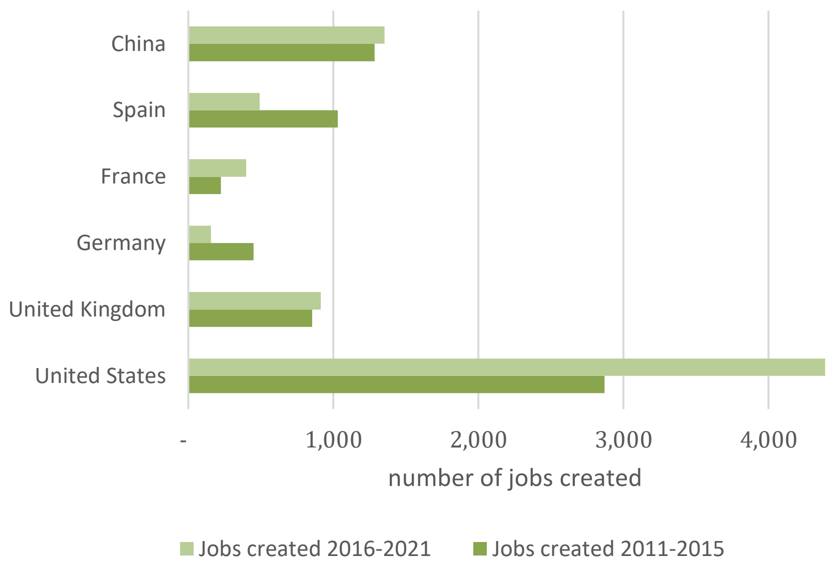
Top ranking destinations for greenfield FDI project announcements include the US, the UK, Germany, France and Spain (Figure 35). The US has led in terms of job creation associated with FDI project announcements (
Figure 36).

Figure 35 Top ranking countries as destination for FDI in footwear & leather (by # of projects)



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

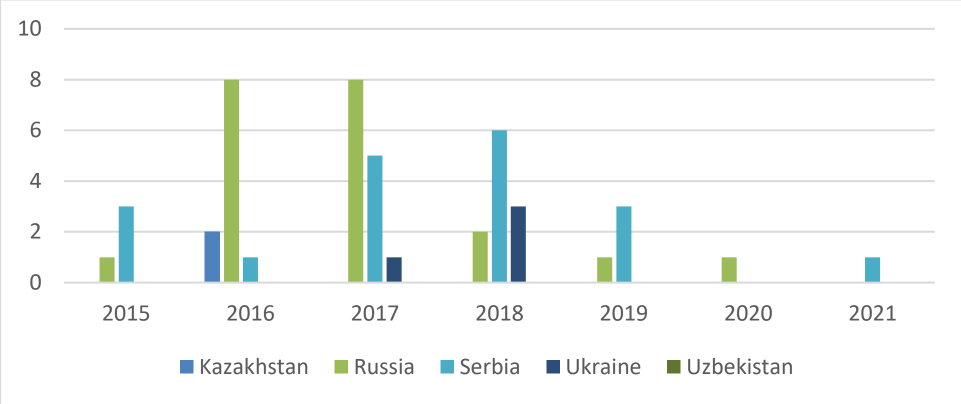
Figure 36 Top ranking countries as destination for FDI in footwear & leather (by direct jobs)



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

fDi Markets database does not show any FDI announcements for the Leather and Footwear sector in Uzbekistan over the last 10 years (Figure 37). Russia, followed by Serbia have led amongst comparators, with Kazakhstan being the only regional comparator with recorded announcements (2) over the last decade.

Figure 37 Project Announcements of Leather & Footwear Sector, Uzbekistan vs Select Comparators



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in the leather and footwear sector add value to Uzbekistan?		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	3(0.5) / **1.5**	• Private sector consultations reveal the existence of various firms in the sector of differing size. Additional FDI could contribute positively to the sectors performance.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• The leather and footwear industry is among the most labor intensive industries,[75] so investment in the sector would be expected to create additional jobs. However, private sector consultations revealed that there is limited availability of skilled labor for the sector.
Will new investors create **increased export** revenues or **reduce imports**?	5(1) / **5.0**	• New investors would likely create increased export revenues as a significant amount of leather and footwear produced is for export.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	2(1) / **2.0**	• Shortages in the availability of skilled labor for the sector provide limited clarity on the potential to improve the economic wellbeing of less urban areas of Uzbekistan or the potential for reducing regional disparities. • Requirements for connectivity and easy access for exporting may indicate that investment in leather and footwear factories are more likely to take place proximate to existing urban areas or key transportation hubs.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	2(0.5) / **1**	• Private sector consultations revealed high needs for imported inputs for the sector, especially regarding chemicals, materials for shoe soles, etc. (up to half of the associated production costs are imported in one case). Currently, this may point to limited potential for domestic firms to act as suppliers, but could point to other industries (e.g., chemical production) that could be beneficial to develop further for domestic production and supplying to the sector. • While the exact spillover effects of the industry cannot be analyzed, in other countries that have attracted significant FDI for exporting leather and footwear, there is limited evidence of linkages and spillover effects for the local economy.[76]
SUBTOTAL	**13.5**	
2. Feasibility: Does investment in leather and footwear sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		

[75] *https://www.ilo.org/global/industries-and-sectors/textiles-clothing-leather-footwear/lang--en/index.htm*
[76] *www.oefse.at/fileadmin/content/Downloads/Publikationen/Studien/11_Sustainable_Sourcing_Ethiopia_Leather_March2019.pdf*

Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	2(1) / **2.0**	• Over the last 10 years, Uzbekistan has not had any recorded FDI announcements in the leather and footwear sector, with Kazakhstan has recorded 6 and Kyrgyzstan 1 announcement during the same period.[77] • Globally, the Europe and Central Asia region has led in terms of FDI project announcements in the leather and footwear production sector in recent years, so the broader ECA region appears to be attractive to investors.
Is the **global market** attractive? Can goods/services be exported globally?	3(1) / **3.0**	• The leather footwear sector is expected to grow annually at about 5.08%,[78] the leather goods sector is expected to grow at 6.2%[79] demonstrating strong global market demand. • Global FDI announcements, both in terms of number of projects and estimated capital expenditure, have declined in the sector since 2019, though this may be due to investor uncertainty in the pandemic period.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	2(0.8) / **1.6**	• There is significant available labor force in Uzbekistan, which private sector consultations revealed are attractive for the industry and problematic in some nearby countries such as Russia. • The double landlocked nature of the country makes import and export times lengthier and more complex, and private sector consultations revealed import times for key inputs to be a key issue faced. • Private sector consultations also revealed high needs for imported inputs for the sector, especially regarding chemicals, materials for shoe soles, etc. (up to half of the associated production costs are imported in one case). • Proximity to the Russian market is considered to be useful as it is a key export market, according to private sector consultations, however, the current Russia-Ukraine conflict imposes uncertainty regarding the future leather and footwear demands of the Russian market.
Does Uzbekistan have competitive infrastructure?	5(0.8) / **4.0**	• Uzbekistan has a solid infrastructure in place for bulk transport and good connections towards main demand centers of the region Russia, China and Turkey. COVID-related delays have, however, affected the efficiency of such infrastructure.
Does Uzbekistan have competitive skills and support services?	2(1) / **2.0**	• Private sector consultations revealed that Uzbekistan has wide availability of labor, but lacks skilled labor especially in more specialized positions. It was noted that additional training is necessary to build up necessary skills in the sector, and that private sector firms are not interested to invest and would prefer to see government investment in skill development.
Does Uzbekistan offer a conducive business (**regulatory/institutional) environment**?	3(1) / **3.0**	• Private sector consultations also revealed frequently changing policies with regards to taxes demonstrating some regulatory unpredictability, as well as extensive administrative requirements for filing taxes, which could present barriers across many sectors.
SUBTOTAL	**12**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

[77] *According to FDI markets data, which captures FDI project announcements that are publicly announced in the media. Investment projects that are not announced in the media would not be captured in the data.*
[78] *Statista sites the CAGR at 5.08%.*
[79] *Mordor Intelligence states that the Leather Goods Market is projected to record a CAGR of 6.2% during the forecast period (2022 - 2027).*

9.2.7. Food processing

The sector of food processing includes manufacturers and distributors of food and beverages. The sector includes both primary food processing (turning agricultural products into edible food) and secondary food processing (creating food from ingredients that are ready to use).

i) Sector FDI performance

FDI in the agriculture and food sectors remains small relative to industry and services. For example, in 2020 FDI in food processing in Europe made up only 6% of all FDI inflows (322 projects),[80] while globally the share is even lower between 3 and 4%.[81] Within the agro-food value chain, however, food processing accounts for the lion's share of cross-border investment activity, with large multinational food and beverage companies playing a critical role in driving FDI activity.

During the past decade, Uzbekistan received 13 projects in the food processing sector (

Table 10), about one third of which were projects in sales, marketing, logistics or distribution (i.e., foreign representation office), the remaining projects were mostly in primary processing (fish, meat). Geographically, 3 projects originated in Russia, 3 in China, and 2 in Singapore.

Table 10. Number of FDI projects in the food processing sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	6 270	2 359	**8 629**	338 281	1 407 010
Asia-Pacific	1 436	287	**1 723**	84 528	366 526
Uzbekistan	13	0	**13**	641	2 953

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

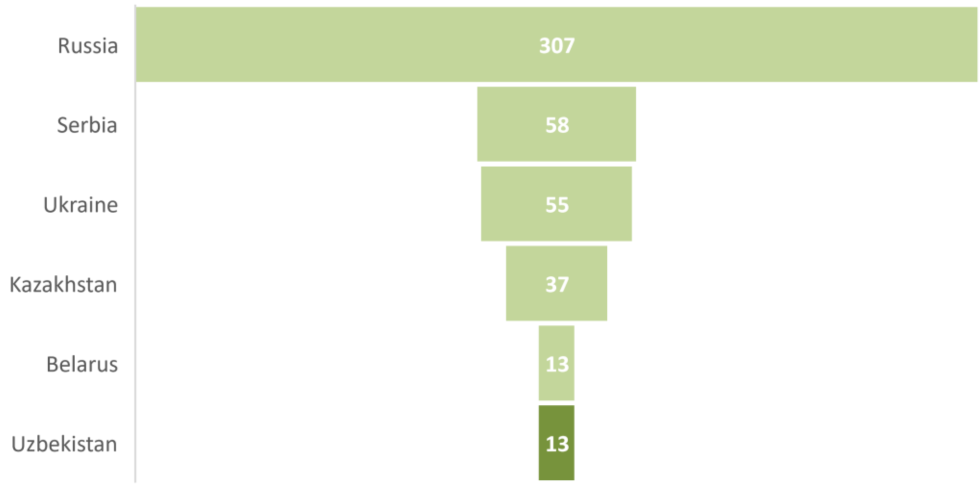
fDi Markets database showcases Russia as the leading destination for FDI in food-processing (307 projects, followed by Serbia and Ukraine. Kazakhstan is the only serious regional competitor with almost triple the number of projects over Uzbekistan (

Figure 38).

[80] *EY Investment Monitor 2021 (June 2021)*

[81] *Punthakey, J. (2020), "Foreign direct investment and trade in agro-food global value chains", OECD Food, Agriculture and Fisheries Papers, No. 142, OECD Publishing, Paris.*

Figure 38 Number of FDI projects in the food processing sector



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Looking across regions, companies in North America and the European Union are the source of half of FDI inflows in agriculture and more than two-thirds in food processing. They invest in agriculture with a broad geographic reach: the European Union, Asia, Central and South America, and Oceania are among the most attractive destinations. In the food sector, however, FDI inflows remain highly concentrated in the European Union and North America. Agriculture and food firms typically invest within their own region, highlighting the important influence of proximity on cross border investment decisions. Investment appears to be concentrated around specific regional hubs, suggesting that volatility in FDI flows could have important consequences for countries on the periphery.[82]

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. **Desirability: Will additional FDI in food processing sector add value to Uzbekistan?**		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	4(0.5) / **2.0**	• FDI could significantly improve the sector value chain given current capacity shortfalls (e.g., only 15% of the 20 million tons of fruits and vegetables grown each year is processed for longer shelf-life or only 16% of meat and milk is processed)[83] • FDI can also have a positive spillover effect to downstream value chain industries (warehousing, transport, logistics).

[82] *Ibid.*
[83] *Food Processing – Uzbekistan Country Commercial Guide, International Trade Administration, October 2021*

Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• Food-processing sector is a moderately labor-intensive sector that could contribute to labor creation, particularly in the regions where the primary agricultural production is concentrated. • Additionally, the sector has a potential for secondary job creation along the value chain (packaging, distribution, logistics).
Will new investors create **increased export** revenues or **reduce imports**?	4(1) / **4.0**	• Sector can serve both domestic market with existing trade deficit in processed food trade as well as supply to export markets.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparity?	4(1) / **4.0**	• Food processing sector is one of the sectors with highest potential to be located outside the urban zones, in rural areas in proximity to primary agricultural production (particularly for products with longer shelf-life).
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to FDI?	4(0.5) / **2.0**	• The sector provides unique opportunities for domestic firms (and even individual producers) to supply their agricultural inputs to foreign investors and hence improve their income. • FDI in the sector can help Uzbekistan to deepen its integration into GVC and have a positive spillover effect into domestic economy.
SUBTOTAL	**16.0**	
2. **Feasibility: Does investment in food processing sector offer an attractive proposition for foreign investors?**		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	3(1) / **3.0**	• Local market provides business opportunities as currently imports of processed food are higher than exports, and almost half the volume of domestic production. • While the neighboring markets are also net importers of processed food, they have lower purchasing power and as confirmed by private sector during consultations, export to these market – in particular for products with a shorter shelf-life – may not be economical for Uzbekistan based producers. • In the general the best sector opportunities in production and processing/packaging equipment supply lie in the areas of juice, fruit, vegetable, meat and milk processing. • The expected long-term effect of COVID-19 on food processing sector is neutral. Other global trends (e.g., changes in global GVC flows or Industry 4.0) also impact the food processing sector less than other sectors.
Is the **global market** attractive? Can goods/services be exported globally?	2(1) / **1.0**	• While the global market is growing (North America being the largest market, Asia Pacific the fastest growing market),[84] there is also a growing trend of health awareness and challenges of food contamination, and government regulations (e.g., in the EU market). • With regards to FDI, food firms typically invest within their own region, highlighting the important influence of proximity on cross border investment decisions.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	4(0.8) / **3.6**	• The country has capacity to provide agricultural inputs for processing industry, yet missing storage infrastructure may limit the access (e.g., 30% of fruits and vegetables grown each year is lost due to insufficient storage capacities).
Does Uzbekistan have **competitive infrastructure**?	2(0.8) / **1.6**	• Insufficient storage and cooling infrastructure may be a limiting factor for FDI – existing producers often need to supply their own storage equipment (e.g., milk cooling tanks) to local producers to secure sufficient volume of primary agricultural inputs. This is of special concern to inputs with very short shelf-life (milk, berries, lettuce etc.), and particularly in summer months with hot weather.
Does Uzbekistan have **competitive skills and support services**?	4(1) / **4.0**	• There is sufficient availability of workforce – private sector representatives interviewed during the sector consultations did not indicate any issues related to labor market. Most of labor in the sector is unskilled / semiskilled labor which can be easily found.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	3(1) / **3.0**	• There are no substantial regulatory issues reported by the private sector apart from regulations on payment terms (90 days payment settlement period) which is too long for products with a short shelf-life (e.g., milk) and puts extra financial strains on food processing companies. • The sector has been largely demonopolized, there are many small private producers on the market with unrestricted access to primary agricultural inputs.
SUBTOTAL	**17.2**	
Evaluation key:	5=very positive	4=positive 3=neutral 2=negative 1=very negative

[84] *Processed Food Market – Global Industry Insights, Trends, Outlook, and Opportunity Analysis, 2018-2026, Market Insight, 2022*

Annex 9.3 provides additional detailed analysis and rankings of the financial viability of specific agricultural goods at the product level.

9.2.8. Pharmaceuticals

i) Sector FDI performance

Global investment monitor **fDi** Markets reports that the global pharmaceutical sector has been steadily growing between January 2014 and December 2019. Globally, FDI in the pharmaceuticals sector is **driven by mergers & acquisitions** (M&As). It repeatedly ranks among top 5 sectors in value terms of net cross-border M&A sales, while it never reaches top 10 sectors in value terms of newly announced FDI greenfield projects.[85] Nevertheless, the share of FDI pharmaceutical sector among top FDI sectors is relatively low – prior COVID-19 the sector was responsible for 3 percent of all FDI projects and 1 percent of all new jobs created by FDI in Europe.[86]

Pharmaceutical sector is not a strong target sector for FDI. Within the last decade, globally there were over 2,517 FDI projects in the pharmaceutical sector, out of which < 20% ended up in the Asia-Pacific region (Table 11).

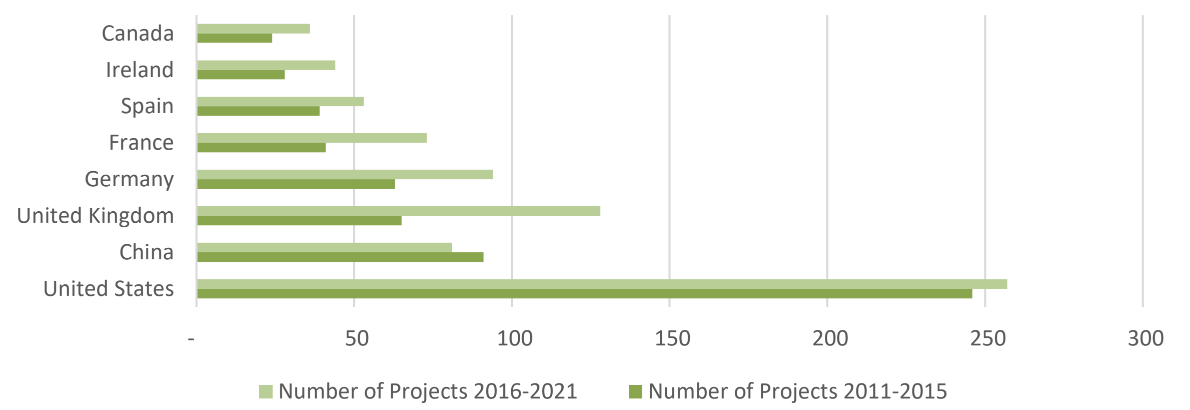
Table 11. Number of FDI projects in the pharmaceutical sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	1 640	877	**2 517**	88 239	239 974
Asia-Pacific	418	115	**533**	22 552	73 355
Uzbekistan	13	0	**13**	313	2 569

Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

Apart from China, there is no Asia-Pacific country among top ranking countries as destination for FDI in the pharmaceutical sector – most FDI goes to the USA, both in terms of number of projects, capex and number of jobs created.

Figure 39 Top destinations for FDI in pharmaceuticals (by number of projects)



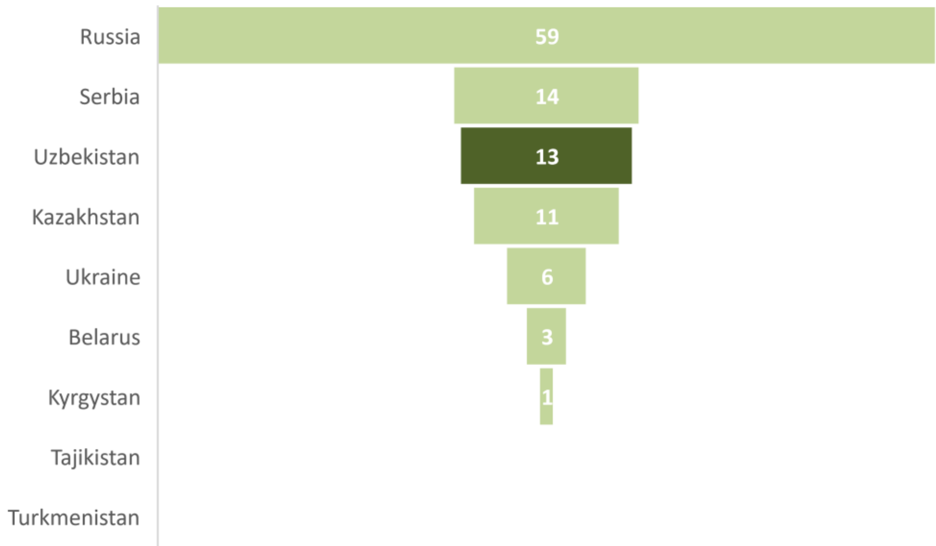
Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

[85] *World Investment Report 2020, UNCTAD; retrieved at https://unctad.org/system/files/official-document/wir2020_en.pdf*
[86] *E&Y European Investment Monitor (EIM), 2020; retrieved at https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/attractiveness/ey-europe-attractiveness-survey-2021-hr-v1.pdf*

Among FDI projects in the pharmaceutical sector in Uzbekistan, most come from India (3), followed by a host of other countries – Egypt, Italy, Netherlands, Latvia, Russia, Bangladesh, China and UK (1 project each). Unlike global trends, most FDI projects in Uzbekistan are greenfield projects.

Among the comparator countries, Uzbekistan ranks high in terms of number of new FDI projects (Figure 40).

Figure 40 Number of FDI projects in the pharmaceutical sector in comparator countries



Source: fDi Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. **Desirability: Will additional FDI in pharmaceuticals sector add value to Uzbekistan?**		
Will new investors help to **improve** the **performance of the sector value chain** as a whole?	4(0.5) / **2.0**	• New projects would have a positive impact on both sector domestic value chain and country integration into global value chains. Higher value comes in FDI projects in innovative (original brand) drug production and biotechnology than in generic drugs production where Uzbekistan already has an established production / import base. • A strong FDI presence could, however, lead to market consolidation leading to some domestic producers losing their competitive advantage and market share. • FDI in the pharmaceutical sector is likely to bring more advanced production technologies, including adoption of 4.0 technologies with positive spillover effect on domestic value chains.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• The pharmaceutical sector is not a labor-intensive sector, however with the increasing adoption of advanced technologies, the sector will require well trained and skilled labor with earnings above other sectors' averages. • Pharmaceutical sector is a talent-based industry; jobs typically provide high job security and high earnings, particularly in selected fields (e.g., drug regulatory affairs, pharmacovigilance and clinical research, R&D, quality assurance, biostatistics, and SAS programming). • As such, only simple "production line" manufacturing operations could likely be established in the regions. Service / R&D oriented activities will be looking for sector talent typically to be found in large university cities.

Will new investors create **increased export** revenues or **reduce imports**?	5(1) / **5.0**	• There is a significant potential for import substitution given current high imports in the sector (84% of market share in value are imported pharmaceuticals with India leading the chart).[87] • Regional markets in the neighbouring countries show similar high import rates for pharmaceutical products; FDI in the sector could lead to increased exports from Uzbekistan.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	4(1) / **4.0**	• The establishment of several free economic zones specializing in pharmaceutical sector production in the regions provides investment incentives to new coming FDI projects – FDI projects will create both new jobs and supplier opportunities for local businesses. • Manufacturing FDI outside traditional large urban centres can tap into labor cost differential while improving the well-being of Uzbekistan region.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	4(0.5) / **2.0**	• Pharmaceutical sector does not generate substantial supplier opportunities given its cost structure (a high share of materials inputs – active pharmaceutical ingredients – which are largely produced outside the country and must be imported). • There is a potential for sector links with academia provided there is sufficient talent pool on the university / research institute side. FDI can also generate positive spillover effect on distribution channels by strict adherence to good manufacturing and distribution practices.
SUBTOTAL	**17.0**	
2. **Feasibility: Does investment in pharmaceuticals sector offer an attractive proposition for foreign investors?**		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	2 (1) / **2.0**	• Uzbekistan pharmaceutical market is among the fastest growing markets in the CIS region (GACR of 5% for 2017/2020, and 34% for 2020/21 due to COVID-19 treatment procurement). • Further market growth expected due to introduction of several state programs for medicine procurement, and introduction of a compulsory state health insurance program (90% of population to be covered by 2025). • Market is characterized by high use of generic drugs (94% of the market), while use of innovative drugs is very limited (cf. 56% generics / 44% original drugs market share in Russia). Current market structure is not favourable for entry of MNCs on the market; most imports come from India (about 428 manufacturers, almost 1/3 of the market share).[88] • Pharmaceutical market by the anatomical therapeutic chemical (ATC) classification shows underdeveloped market structure, which in turns creates market business opportunities in the future. • The Government has initiated a large-scale privatization program including privatization in companies in the healthcare and pharmaceutical sectors.[89] However, only two companies in the sector have been listed for privatization (Tashkent Oxygen Plant and Uzmedimpex). In total 13 investment PPP projects have been identified in the pharmaceutical sector by the PPP strategy. [90] • In the pharmaceutical sector Uzbekistan has comparatively strong FDI track record – it has been the top FDI recipient among Central Asia comparator countries and has received FDI in greenfield manufacturing projects unlike the globally more common M&A sector trend.[91]
Is the **global market** attractive? Can goods/services be exported globally?	2(1) / **2.0**	• While active pharmaceutical ingredients (API) are largely synthesized, fermented, extracted, or isolated in low-cost, high-volume manufacturing countries (India and China are responsible for over 60 percent of global API production),92 formulated drug products are typically manufactured in a geographic region nearer to their ultimate end market. Beyond the APIs and excipients that are necessary for the production and distribution of drugs is packaging, often made outside the ultimate end market too. • The USA and the global market (and the fast-growing markets of emerging economies such as Brazil, China, and India in particular), lead to gradual migration of manufacturing and research activities to these emerging markets. • During the period 2015-2020 the Brazilian, Chinese, and Indian markets grew by 11.3%, 4.8% and 10.0% respectively compared to an average market growth of 5.0% for the top 5 European Union markets and 4.9% for the US market.[93]

[87] *Brief analysis of pharmaceutical sector market and regulatory issues preventing sector development and investments, IFC September 2021*
[88] *Ibid.*
[89] *Presidential decree no. 4300 and government resolution no. 358*
[90] *Presidential decree no. 4290*
[91] *Based on **fDi** Market database data*
[92] *APIs – Global market report - Edition 2019*
[93] *EFPIA (2021). The Pharmaceutical Industry in Figures, Key Data 2021*

		• The pharmaceutical industry is geographically concentrated – globally, it contributes at least 5 percent of GDP in only 4 percent of countries. The opportunity for countries to participate in pharmaceutical GVCs is thus small because of the low pre-existing domestic production capacity.94
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	3(0.8) / **2.4**	• The sector value chain depends on chemical sector inputs – however, active pharmaceutical ingredients (API) are mostly produced outside the country. Local production of certain synthesized APIs is possible but not yet well established. • Country's geographic location allows serving wider regional market. • Recently government introduced new support measures for the pharmaceutical sector producers,[95] creating additional incentives for investment.
Does Uzbekistan have **competitive infrastructure**?	4(0.8) / **3.2**	• There are several free economic zones specializing in pharmaceutical sector production (in Nukus, Zaamin, Kasansay, Syrdarya, Baysun, Bostanlyk, Andijan and Parkent districts). • Investment projects located in these zones are exempt from land tax, profit tax, corporate property tax, improvement tax and social infrastructure development duty, single tax for micro firms and small enterprises, as well as mandatory contributions to targeted state funds for various periods.[96] • Additional pharma sector infrastructure (Tashkent Pharma Park) is under development with expected target 50-60 hectares of developed cluster infrastructure.[97] • The country, however, does not have a. particularly advanced business environment and infrastructure for Industry 4.0 technologies.
Does Uzbekistan have **competitive skills and support services**?	2(1) / **2.0**	• Although there are several tertiary education institutions providing courses related to pharmaceutical sector, there is a prevailing sentiment among private sector producers that the country lacks enough high qualified specialists. • Inadequate use of modern production technology and equipment hampers not only development of pharmaceutical facilities and production volumes but also limits sector human resources development. • Certain niche sectors operations (e.g., contract research organizations) that are typical for pharmaceutical sector value chain are non-existent in Uzbekistan, partly due to missing skills required.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	2(1) / **2.0**	• Government established a specialized agency for sector development (Agency for Development of Pharmaceutical Industry),[98] the agency is also in charge of development of some of the key sector infrastructure (e.g., Tashkent Pharma Park). • Sector assessment reports indicate there is poorly implemented and enforced intellectual property protection system, lack of regulatory transparency and too complex licensing procedures in Uzbekistan. Firms report a large regulatory implementation gap as many legal regulations are not properly implemented or not implemented on time within prescribed timeframe. • Unrestricted import of certain categories of drugs and poor distribution practices undermine regulatory framework and result in high number of market participants (there are > 1000 drug manufacturers registered in Uzbekistan, out of which < 100 are local producers). • The above regulatory weaknesses combined with existing market structure and limited mandatory government purchases limit FDI motivation.
SUBTOTAL	**13.6**	
Evaluation key:	5=very positive	4=positive 3=neutral 2=negative 1=very negative

[94] *World Investment Report 2020, UNCTAD*
[95] *Presidential Decree "On additional measures to accelerate the development of the pharmaceutical industry of the republic in 2022-2026"*
[96] *https://kun.uz/en/news/2019/06/12/free-economic-zone-for-production-of-medicines-established-in-andijan*
[97] *https://uzpharmagency.uz/en/menu/tashkent-pharma-park*
[98] *https://uzpharmagency.uz/en/menu/ob-agentstve*

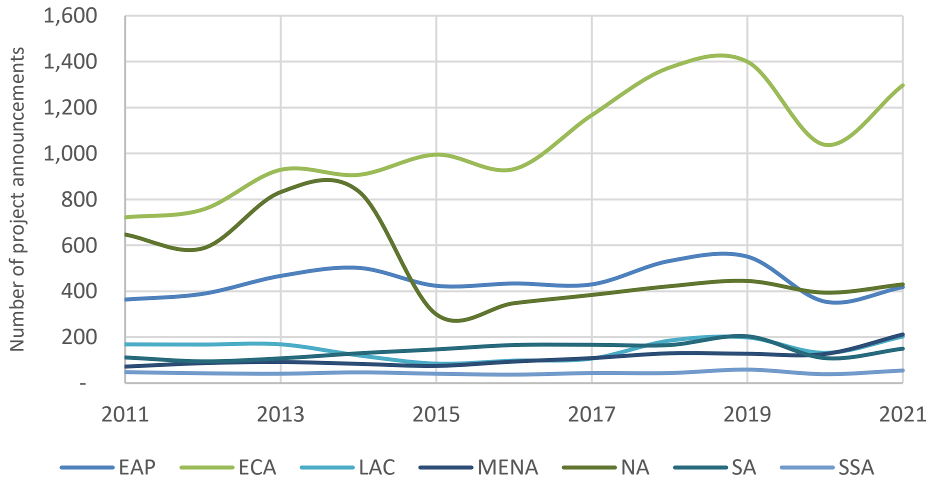
9.2.9. Software and IT services

This sector includes firms operating in the software and information technology (IT) services sector, including developers of software, those engaged in sales and marketing of software or IT, or business services related to IT.

i) Sector FDI performance

Software and IT Services has attracted a significant amount of global FDI and remained, unsurprisingly, quite resilient in the face of COVID-19. Within the last decade, globally there were nearly 25,000 FDI projects in the Software and IT Services sector.[99] Over the last decade, the US has been the global leader in attracting FDI projects in Software and IT Services as well as in job creation, with the UK taking second in terms of FDI projects and India taking second in terms of job creation (Figure 41).

Figure 41 Greenfield FDI project announcements in software & IT services sector by region (# of projects)

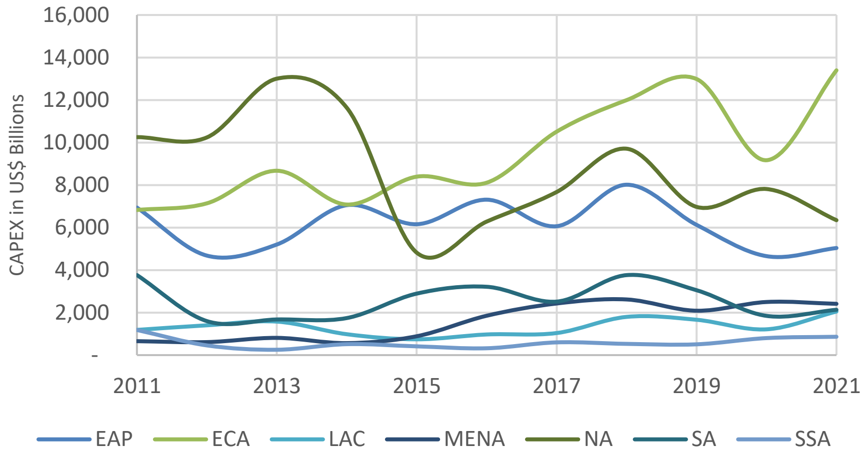


Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

[99] *Source: FDI Markets database. Sub-sectors of the Software and IT Sector included in the data are: All other information services; Computer facilities management services; Computer systems design services; Custom computer programming services; Internet publishing & broadcasting & web search; Other (Software & IT services); Other computer related services; Software publishers, except video games.*

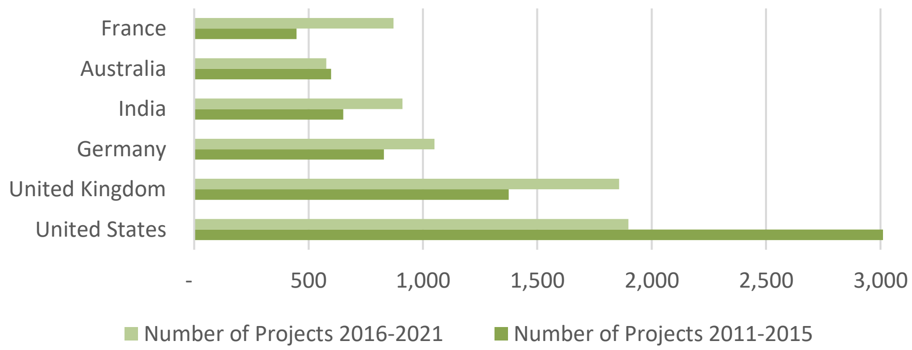
Figure 42 Greenfield FDI project announcements in software & IT services sector by region (capex)



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

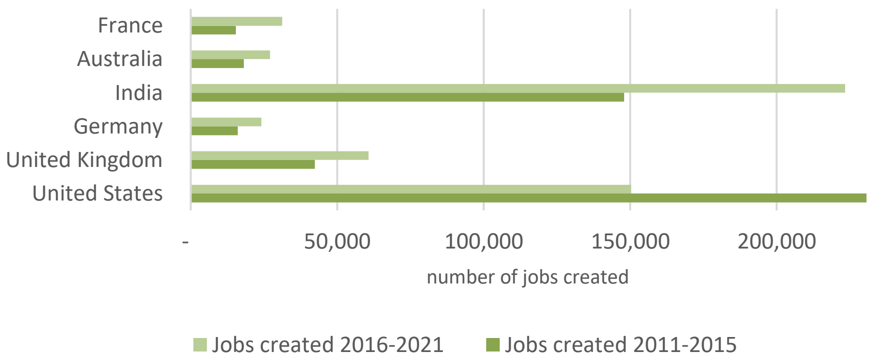
Note: Global regions correspond to the World Bank's categorizations. Abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), North America (NA), South Asia (SA), Sub-Saharan Africa (SSA).

Figure 43 Top ranking countries as destination for FDI in Software & IT, by number of projects



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

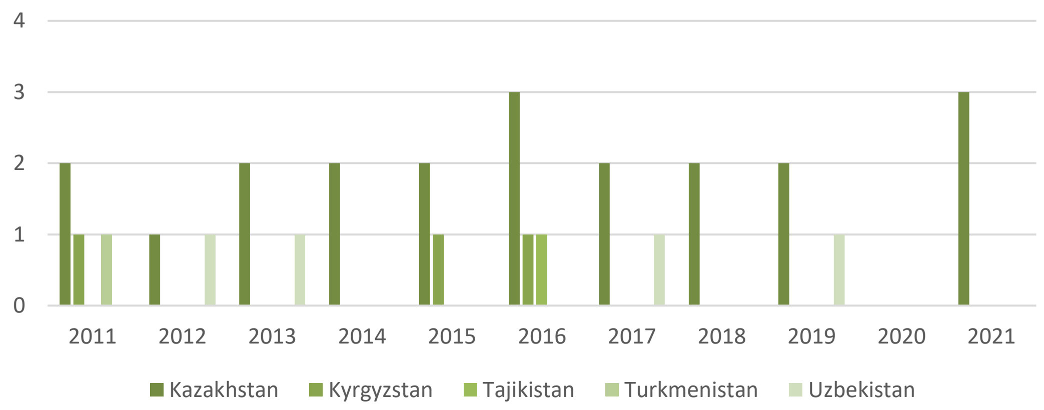
Figure 44 Top ranking countries as destination for FDI in Software & IT, by number of jobs



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

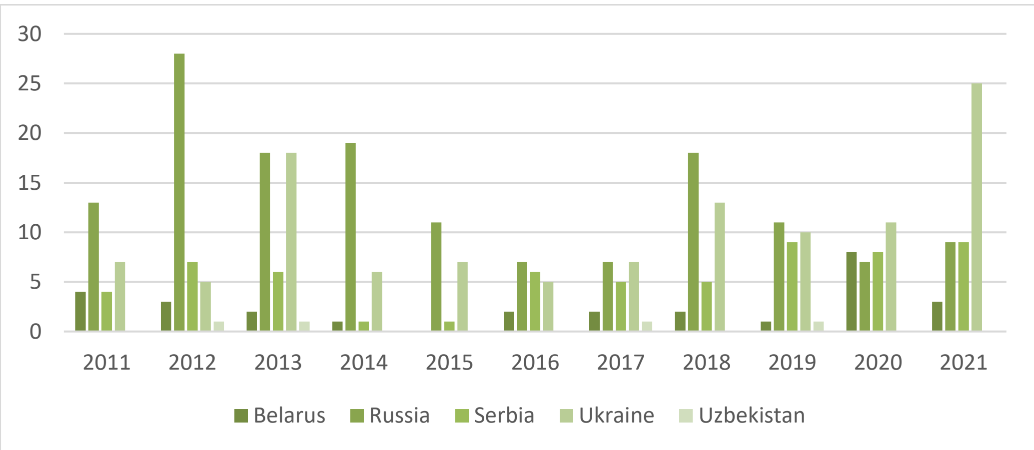
Within the immediate region, Uzbekistan has had 4 FDI project announcements in the Software and IT Services sector over the last decade – more than many neighboring countries, but far less than Kazakhstan (Figure 45). Other comparator countries selected include, Russia, Ukraine, Belarus, and Serbia, which all have significantly higher numbers of FDI announcements in the sector over the last 10 years.

Figure 45 Project Announcements of Software and IT Services Sector, Uzbekistan vs Regional Comparators



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

Figure 46 Project Announcements of Software and IT Services Sector, Uzbekistan vs Select Comparators



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in the software and IT services sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	5(0.5) / **2.5**	• As there is a rather limited presence of foreign firms in the sector and Software and IT Services tends to develop in established clusters, it would be beneficial to the sector as a whole to have additional firms.

Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	2.5(1) / **2.5**	• New investors would have needs for skilled labor, but investor interviews have consistently cited a lack of skilled labor as a concern. It is unlikely that at this time there is sufficient skilled labor for locally hiring a significant number of new employees in these jobs, in addition it is unlikely that such jobs would be created in the regions or outside established urban centers.
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / **3.0**	• The effects upon export revenues or imports are not directly known for this sector; it is unlikely that there would be a significant effect.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	1(1) / **1.0**	• It is unlikely that new FDI in this sector would establish in non-urban regions or that it would contribute to improving economic wellbeing of these regions.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	5(0.5) / **2.5**	• FDI in this sector has the potential to contribute positively to local firms. It is possible they could supply certain goods or services to FDI firms (office materials and supply, office space, etc.) and there is also good potential for skills transfer into the local economy.
SUBTOTAL	**11.5**	
2. Feasibility: Does investment in the software and IT services sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	2(1) / **2.0**	• There is a limited track record for attracting FDI in this sector. • There is not data available on software and IT spending for Uzbekistan. Data is available for Kazakhstan, Ukraine and Russia (from the lists of comparator countries), which all have witnessed increasing demand in recent years.[100]
Is the **global market** attractive? Can goods/services be exported globally?	5(1) / **5.0**	• The global IT Services market is expected to register strong compound annual growth rate (CAGR) of 10.36 % from 2018 to 2026.[101] • The COVID-19 crisis has not and is not expected to affect market attractiveness. • This sector appears to be resilient in the face of COVID-19 related shocks, making it an attractive sector for FDI globally.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding, office space etc.)?	1(0.8) / **0.8**	• Uzbekistan has limited broadband coverage[102],comparatively low internet speeds[103], broadband costs are very high[104], and private sector consultations revealed issues with internet accessibility outside major cities and limited ability to quickly expand access. Private sector consultations also revealed limited availability of high-skilled labor.
Does Uzbekistan have **competitive infrastructure**?	2(0.8) / **1.6**	• As noted above, Uzbekistan has limited broadband coverage, comparatively low internet speeds, costs for broadband are very high, private sector consultations revealed issues with internet accessibility outside major cities and limited ability to quickly expand access.
Does Uzbekistan have **competitive skills** and support services?	1(1) / **1.0**	• Private sector consultations revealed limited availability of high-skilled labor.
Does Uzbekistan offer a conducive business	2(1) / **2.0**	• Private sector consultations revealed the presence of SOEs particularly in the provision of broadband and broadband services that created unfair competition to private firms.

[100] *IDC data downloaded from EIU.*
[101] *Source: Mordor Intelligence https://www.mordorintelligence.com/industry-reports/it-services-market*
[102] *IFC Uzbekistan Country Private Sector Diagnostic.*
[103] *Ranked 116 globally as of March 2022. https://www.speedtest.net/global-index/uzbekistan*
[104] *Uzbekistan ranks behind most other Asian nations included in the Inclusive Internet Index, and behind all those in Central Asia. It scored particularly poorly for affordability. https://theinclusiveinternet.eiu.com/explore/countries/UZ/performance/indicators/*

(regulatory/institutional) environment?		• Private sector consultations also revealed frequently changing policies with regards to taxes demonstrating some regulatory unpredictability, as well as extensive administrative requirements for filing taxes, which could present barriers across many sectors.
SUBTOTAL	**12.4**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

Table 12. Available Comparator data for total IT spending on packaged software, hardware and IT services (US$ millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Kazakhstan	1511	1301	1534	1806	2038	2397	2540	2368	2437	2517	2505	2513
Russia	18213.6	18518	22088	24435	25420	24857	27179	27940	29131	30375	32057	33169
Ukraine	1445	1818	2097	2481	2597	2786	3084	3189	3353	3536	3762	3926

Source: International Data Corporation (IDC) data from EIU database
Note: Total IT spending on packaged software, hardware and IT services. Estimates in blue font. Forecasts in blue shaded cells.

Table 13. Available Comparator data for packaged software sales (US$)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Kazakhstan	119.92	83.444	98.445	112.5	124.35	125.14	138.4	151.9	169.4	188.1	207.6	230.2
Russia	2851	2743.9	3335.1	3448.3	3594	2890.3	2702	2839	3082	3367	3383	3688
Ukraine	168.5	203.38	228.45	253.98	332.6	334.94	359.08	389.3	424.4	462.9	499.8	544.8

Source: International Data Corporation (IDC) data from EIU database
Note: Estimates in blue font. Forecasts in blue shaded cells.

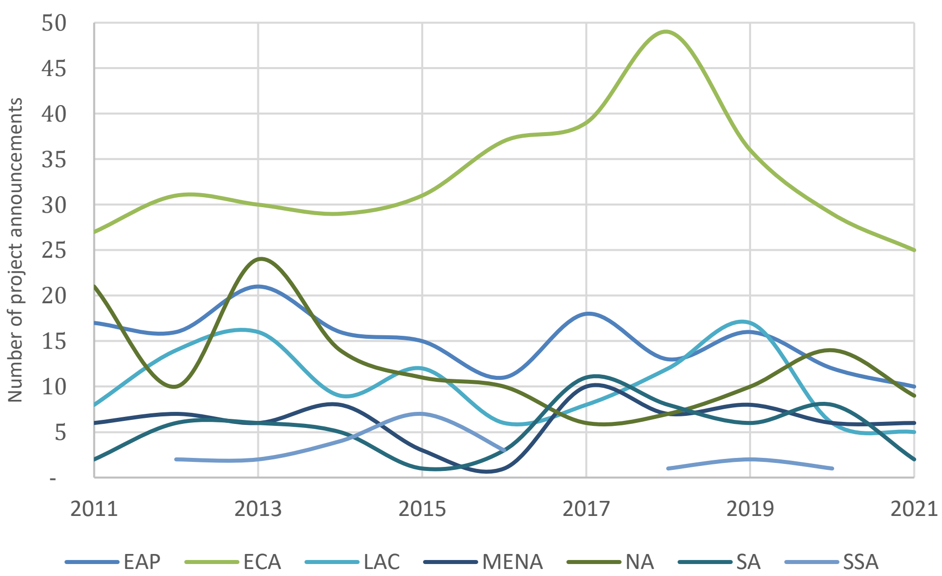
9.2.10. Electrical & electronic equipment

The electrical and electronic equipment (E&E) industry is broadly defined as an industry that manufactures electrical parts and components, electronic equipment, and consumer electronics. It encompasses a wide range of products, e.g., bare circuit boards, mobile phones, passive IC components, personal computers, refrigerators, semiconductors, televisions, wafers, wires and cables, among others. It thus has a wide range of production complexities that help with integration in the high level of globally distributional value chains of electrical and electronic equipment industries.

i) Sector FDI performance

Globally (Figure 47) the electrical and electronic equipment sector has seen fluctuating but relatively FDI flows. With ECA and EAP regions currently receiving the most FDI, other regions also benefit from the wide spectrum of potential manufacturing levels. With the weaknesses and fragility of the electrical and electronic equipment value chain uncovered by the COVID 19 pandemic, new investments towards the strengthening and increasing the overall resilience to global shocks has set in. This can be seen by the increase of investments into the sector in EAP and ECA, where the increase in capacities and diversification of production has gained momentum.

Figure 47 Greenfield FDI project announcements in the E&E sector by region (capex)



Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

According to **fDi** Markets database (see Table 14) in the past decade Uzbekistan attracted three FDI projects into the sector. Still, built on historic capacities and investments made before the analyzed timeframe, Uzbekistan has some specific products, that do appear to have a strong value proposition on the world market: according to the latest analysis by the World Bank,[105] transformers and electronic switchboards have a significant comparative advantage in comparison to regional and global competitors. This is strengthened by the local availability of important raw inputs like copper, which is available in sufficient quantities domestically.[106]

[105] *World Bank Group: Assessment of competitiveness and potential attractiveness for foreign investment of industrial/manufacturing products of Uzbekistan based on data in 2017/18-2020 (internal note), 2021*
[106] *Sector focus group feedback*

Table 14. Number of FDI projects in the electrical & electronics sector

	# of new projects	# of expansions	Total number of FDI projects	Capex ($ mil)	Jobs
Global	616	276	**892**	22 312	196 047
Asia-Pacific	186	39	**225**	10 007	78 009
Uzbekistan	3	0	**3**	108	642

Source: **fDi** Markets database, data for 2011-2021 (excluding co-location project type)

Furthermore, some of the suppliers of electronic components, like cables, are already well integrated into GVCs through their supply to an automotive OEM in Uzbekistan. This does suggest that sufficient quality and quantity can be produced within Uzbekistan, making a further increase in value added highly realistic.

With such basic elements in place, Uzbekistan could achieve higher levels of value added and with targeted promotion attract investors into lower complexity electronic equipment manufacturing with the potential to increase the level of complexity over time.

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. **Desirability: Will additional FDI in electrical & electronics sector add value to Uzbekistan?**		
Will new investors help to **improve the performance of the sector value chain** as a whole?	4(0.5) / **2**	• The industry is amid the conversion to Industry 4.0 production processes. An investor, depending on the final product, would certainly look at establishing up-to-date facilities and thus require the adjustment of suppliers and services accordingly. • There is a solid basis of manufacturers of electronic components and electronics in Uzbekistan, but the majority is in the lower tier level. Significant investments are required to increase the suppliers' level of development.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• The sector has a wide range of products, which differ in the level of labor intensity. The current sectoral setup is aimed at more labor intense cable production for the use in other more complex products. • With increasing the value added, higher skilled jobs are expected to be created by investors. This depends on the market and regional export potentials. • Electronics and electronic equipment manufacturing are generally dependent on reliable energy and logistics infrastructure. These usually are found close to urban centers, where also a higher level of education can be expected. Assuming an average level of production complexity, new investments would not have a direct effect on regions.
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / 3.**0**	• The broad sectoral portfolio does create different levels of export potential. While suppliers to OEMs usually produce for their main partner, other companies like producers of cables and wires do have a strong export contribution to turnover. • Electronic equipment production is prone to form GVCs. Depending on the level of production, the diversity of inputs can become very high and thus the probability to import substitution low. The current level of complexity in electronic equipment in Uzbekistan is not yet on a level that requires many inputs. Next to copper, that is domestically available, Aluminum is one of the main inputs. The absence of Aluminum processing does support any substitution.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	5(1) / **5.0**	• The electronics manufacturing based in Uzbekistan is not yet developed to a macro economically significant level. Most of the electronics needs can be currently satisfied by imports. A strong impact through jobs creation and through product availability is not directly deductible from the current situation and outlooks. • Electronic equipment, with a lower product complexity however does hold the potential in increased economic impact, as it allows for relative high scalability with low complexity inputs and products.

		• Especially electronic equipment requires lower skill levels for mass production of low complexity products like cables or switchboard. Thus, a positive impact on employment can be expected following investments.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to foreign investors?	4(0.5) / **2.0**	• The electronics sector in general is highly globalized, offering many entry points into the value chain. Uzbekistan, at the current level of supplier quality and quantity, has only in parts the capabilities required to service the GVC with products beyond basic inputs like cables. Thus, an investor could increase the level of capabilities and create the necessary demand level for an increase in capabilities, quality and quantity of domestic companies. • Electronics manufacturing is R&D intensive, especially in consumer electronics. The potential for a quick buildup of R&D capabilities and capacities within Uzbekistan are restricted by the low complexity level of the sector.
SUBTOTAL	**15.0**	
2. **Feasibility: Does investment in electrical & electronics sector offer an attractive proposition for foreign investors?**		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	4(1) / **4.0**	• Uzbekistan is currently not an attractive market for consumer electronics as the mix of its size and level of income do not create the necessary pull factors for domestic production. • Electronic equipment production on the other hand is already established and does have solid group of buyers like an automotive OEM and solid export markets. • The market for specific electronic equipment products like transformators and switch boards have an excellent cost advantage compared to international competitors. • Although investments into the sector by foreign investors is relatively low, the global and regional uptake on FDI could support the location of lower tier production with the need of basic raw materials like copper into Uzbekistan.
Is the **global market** attractive? Can goods/services be exported globally?	5(1) / **4.0**	• The global FDI trend shows a global increase in investment into electronics in general. Especially in ECA and the EAP region there has been a significant increase. This suggests high levels of demand for electronics and electronic equipment.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	5(0.8) / **4.0**	• Uzbekistan seems to have a strong competitive offer in availability and quality of key production inputs (sector specific site selection factors) and suitable raw materials critical to the sector, proximity to key markets, access to funding, etc.
Does Uzbekistan have **competitive infrastructure**?	3(0.8) / **2.4**	• Uzbekistan has a solid infrastructure in place for bulk transport and good connections towards main demand centers of the region Russia, China and Turkey. • Energy and gas supplies to have some quality-of-service problems and in specific cases of manufacturing do lead to losses due to unplanned production shutdowns.
Does Uzbekistan have **competitive skills and support services**?	4(1) / **4.0**	• Low complexity production of electronic equipment does not require a highly skilled labor force. This group is abundantly available in Uzbekistan, due to only a slowly increasing overall educational level.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	2(1) / **2.0**	• Structurally induced market distortions, like the dominant presence of state owned or state related companies in many sectors, especially the extractive industries and often arbitrary changes to regulations affect the long-term planning and daily operations of many sectors. • Taxation, high railroad tariffs and some unequal treatment of foreign companies is reported by sector representatives.
SUBTOTAL	**20.4**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

Annex 9.3 provides additional detailed analysis and rankings of the financial viability of related manufacturing products in the electrical and electronic equipment sector.

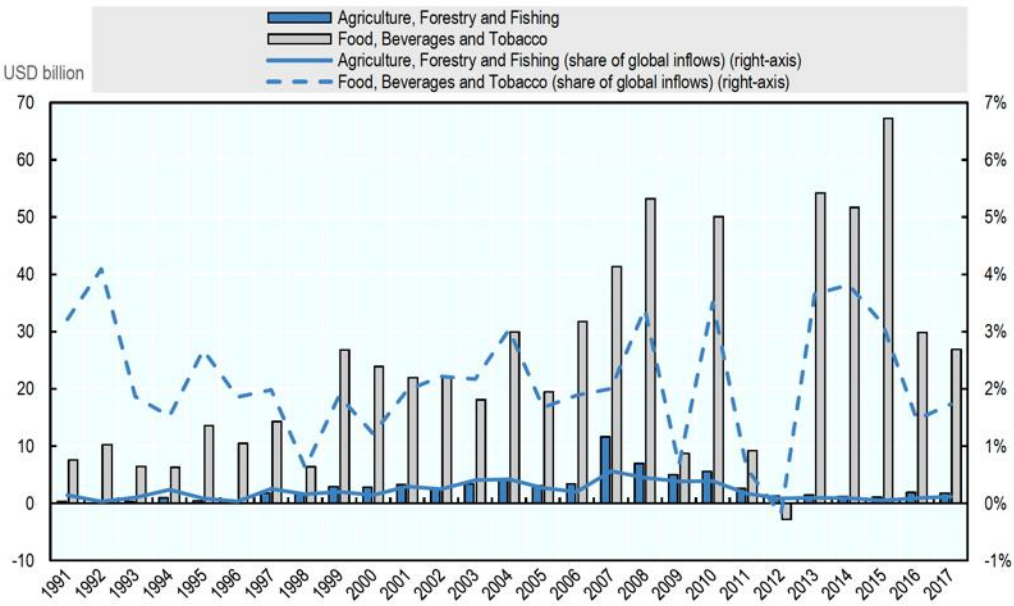
9.2.11. Agriculture

The agriculture sector includes firms that engage in cultivating plants and livestock; it excludes firms processing agricultural outputs into food (food-processing sector). For the purpose of the sector scan, two subsectors, in particular, were considered – sericulture (silk sector) and horticulture (fruits, vegetables, and ornamental plants).

i) Sector FDI performance

FDI in agriculture and food processing remains small relative to other industries. Global FDI inflows in primary agriculture grew to a peak of USD 11.6 billion (or 0.6% of total FDI inflows) in 2007, amid the food price crisis, but decelerated sharply in the period following the global economic crisis (Figure 48). Overall, FDI inflows in food processing were significantly larger than in primary agriculture, reaching USD 53 billion in 2008. After a sharp contraction and substantial fluctuations, FDI in food processing returned to pre-crisis levels, accounting for 3.8% of global FDI inflows in 2014. In contrast, primary agriculture has consistently accounted for less than 0.6% of global FDI inflows since the early 1990s.[107]

Figure 48 Global FDI inflows in agriculture and food



Source: FAOSTAT (calculations based on FDI data in US$ billon, 2010 prices)

In all countries, investment in agriculture tends to be dominated by local investors as these are usually better positioned to access land, interface with local farmers, understand local climate, consumer tastes, etc. Foreign investors are often wary of investing in sectors where they may be subject to price controls or export restrictions by the government as often happens in the case of agriculture.[108]

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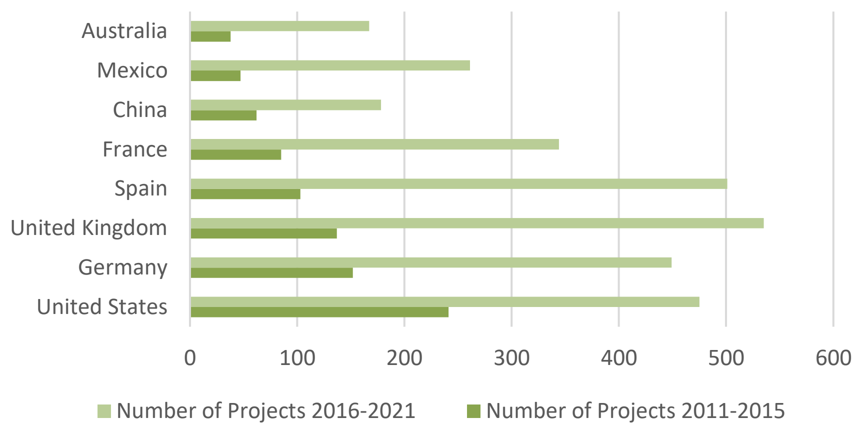
[107] *Punthakey, J. (2020), "Foreign direct investment and trade in agro-food global value chains", OECD Food, Agriculture and Fisheries Papers, No. 142, OECD Publishing, Paris.*

[108] *Heumesser, Ch., Schmid, E.: Trends in Foreign Direct Investment in the Agricultural Sector of Developing Countries: A Review, Vienna, 2012*

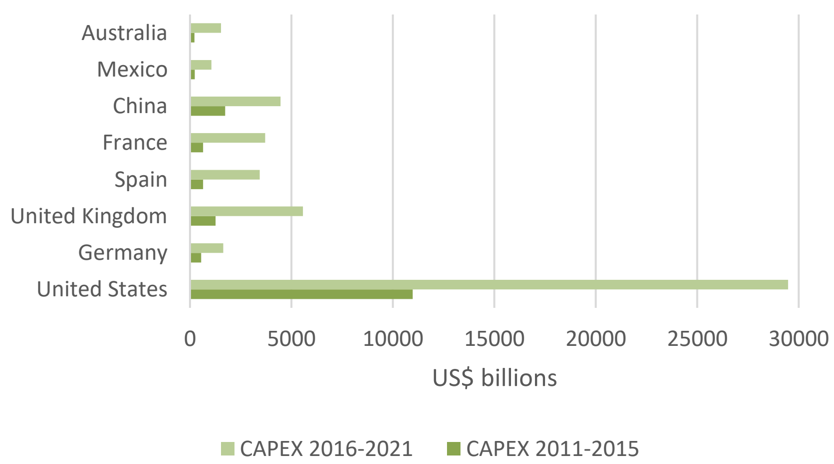
Most of FDI projects in agriculture goes to developed countries (Figure 49), however, there is a pronounced inequality in terms of capex distribution with USA claiming most of the FDI inflows (Figure 50).

Figure 49 Top ranking countries as destination for FDI in Agriculture, by # of projects



Source: **fDi** Markets database, data for 2011-2021

Figure 50 Top ranking countries as destination for FDI in Agriculture, by capex



Source: **fDi** Markets database, data for 2011-2021

In the regional context, most FDI in agriculture goes to Russia (69 projects), followed by Kazakhstan and Uzbekistan (each 12 projects) (Figure 51). Little data is available on FDI in sericulture – silk production in all major producing and exporting countries (China, India, Uzbekistan, Thailand, Brazil, Vietnam) is a traditional, locally owned industry where foreign capital enters in the form of technologies, know-how or joint-venture partnership, rather than greenfield investment. FDI is more common in the downstream industries of textile sector. Horticulture is among the three top subsectors receiving most FDI, together with livestock, grains & oilseeds.

Figure 51 Number of FDI projects in agriculture, per subsector

	RUS	KAZ	UZB	SRB	BLR	KGZ	TJK	TKM
Livestock	18	3	3	1	2	0	0	0
Crops	11	2	2	1	0	0	0	0
Fish	1	0	0	0	0	0	0	0
Fruits & vegetables	18	3	3	7	0	0	0	0
Grains & oilseeds	21	4	4	0	1	0	0	0
Total	**69**	**12**	**12**	**9**	**3**	**0**	**0**	**0**

Source: **fDi** Markets database, data for 2011-2021

ii) Rapid sector assessment

To what extent:	Score / Weight	Evidence
1. Desirability: Will additional FDI in agriculture sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	2(0.5) / **1.0**	• While FDI in agriculture may improve the performance of the value chain, it can also negatively impact on agricultural household production and crowd-out domestic investment, particularly in the livestock subsector where most production is done at small dehqan farms.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• Agriculture is a labor-intensive sector which generates a high number of jobs, however usually unskilled or semi-skilled. • The sector has potential to tap into labor force in the regions, outside traditional urban settlements (almost half of population lives in rural areas)
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / **3.0**	• There is a potential for increased exports; however agricultural exports are subject to significant market price fluctuations and volatility
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	3(1) / **3.0**	• As the sector is already the most common economic sector in rural areas, it will not have a significant impact on the regional economic development, unless it involves production of high value-added commodities using advanced agricultural production methods and high-tech intensive farming.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to FDI?	2(0.5) / **1.0**	• There are limited opportunities for domestic companies to supply their goods / services to FDI projects in agriculture – advanced agricultural technologies need to be imported; imports often concern also seeds, seedlings and livestock breeds. • There is some space for supplier opportunities for local construction firms or fertilizer producers, yet the overall spillover effect is likely to be limited. Research suggests that the influence of FDI on participation in agro-food GVCs is highly dependent on the strategic motivations underlying firm-level investment decisions.[109]
SUBTOTAL	**12.0**	
2. Feasibility: Does investment in agriculture sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	3(1) / **3.0**	• Local market provides some business opportunities as agricultural imports are still higher than exports, however, the trade gap is not as wide as for food processing sector. The domestic local production base is also considerably larger than for processed food.[110] • The regional markets are usually too small and provide little opportunities for downstream food processing industries. • Most agricultural commodities grown in Uzbekistan seem to have a high share of value added in gross output,[111] yet their export is often limited to short distance neighboring

[109] Punthakey, J. (2020), "Foreign direct investment and trade in agro-food global value chains", OECD Food, Agriculture and Fisheries Papers, No. 142, OECD Publishing, Paris.
[110] Agricultural Sectors - International Trade Administration, October 2021
[111] World Bank Group: Assessment of competitiveness and potential attractiveness for foreign investment of of crop and horticulture products of Uzbekistan based on data in 2017/18-2020 (internal note), 2021.

		countries in the region due to insufficient packaging, storage and transport capabilities and capacities.
Is the **global market** attractive? Can goods/services be exported globally?	2(1) / **2.0**	• Global demand for agricultural commodities (including for non-food uses) is projected to grow at 1.2% p.a. over the coming decade; well below the growth experienced over the last decade (2.2% p.a.). This is mainly due to an expected slowdown in demand growth in China (0.8% p.a. compared to 2.7% p.a. over the last decade) and other emerging economies, and lower global demand for biofuels.[112]
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	1(0.8) / **0.8**	• Limited and heavily regulated access to land is the key investment impediment in the sector – land allocation is based on specification of land use purpose (at the level of commodity grown at the land), leased land rights are poorly protected.
Does Uzbekistan have **competitive infrastructure**?	3(0.8) / **2.4**	• Critical infrastructure and backbone services are in place for agricultural production. Private sector representatives did not indicate any major impediments.
Does Uzbekistan have **competitive skills and support services**?	4(1) / **4.0**	• Agriculture has a high share employment (27% pf the total number of employed), almost half of the country's population lives in rural areas. There is sufficient supply of agricultural labor, although there may be a lack of high-skilled labor (e.g., certain agricultural commodity specialized agronomists or high-tech intensive farming specialists).
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	1(1) / **1.0**	• Agriculture sector is one of the sectors of the economy which is the most regulated by the state. The rights of farms owners to use leased land are very limited and poorly protected. • The existing mechanism of the state orders formation and the pricing system make the cultivation of certain commodities (e.g., cotton or wheat) unprofitable for most farmers.[113]
SUBTOTAL	**13.2**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

Annex 9.3 provides additional detailed analysis and rankings of the financial viability of specific agricultural goods at the product level.

[112] *OECD/FAO (2021), "OECD-FAO Agricultural Outlook 2021-2030"*
[113] *Yuliy Yusupov, The Agricultural Sector of Uzbekistan: Features, Key Problems. The Need for Reforms, Canter for Economic Development, 2019*

9.2.12. Banking

The ongoing privatization of state-owned banks provides a unique investment opportunity for FDI investors. The government's privatization efforts have prioritized the finance sector. Large state-owned banks – Uzsanoatqurilishbank (SQB) and Ipotekabank are currently going through the privatization process. The government aims to bring private banks' asset shares from the 15% recorded in 2020 to 60%, and their deposit shares from 28% to 70% by 2025.[114] Although banking is a model example of market driven FDI sector which is often not targeted by IPAs, it deserves a special consideration given the undergoing privatization effort.

Rapid sector assessment

To what extent:	Score / Weight	Evidence
3. Desirability: Will additional FDI in banking sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	5(0.5) / **2.5**	• Yes, FDI in banking sector will bring new financial services and fintech solutions which are not currently provided by local - largely state-owned – banks. • The existing financial system is relatively unsophisticated and heavily concentrated on commercial banking activity (95% of total financial sector assets)[115] • Private banks account for approximately 18% of total assets while holding 33% of deposits in the Uzbek baking system.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• Banking sector creates highly skilled jobs, even though in case of privatization the initial impact of FDI on job creation may be negative (releasing inefficient or redundant labor) • Jobs can be created in the regions provided the bank runs a network of regional representative offices.
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / **3.0**	• Direct FDI in the sector will have a neutral impact on increased export revenues or import substitution. It can, however, have undirect multiplication effect on increased exports via its financial services to exporters.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	3(1) / **3.0**	• See above – the direct FDI effect of the FDI in banking sector is neutral, while indirect economic benefits stemming from providing financing to local firms can lead to improvement of economic well-being of the regions.
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to FDI?	4(0.5) / **2.0**	• Banking sector can provide business opportunities for suppliers of banking infrastructure works, goods and services; there is a particular niche for providers of fintech solutions, • Increased presence of FDI in the sector can also generate positive spillover effect on other financial services (insurance companies, leasing companies, microfinance institutions).
SUBTOTAL	**14.5**	
4. Feasibility: Does investment in banking sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		
Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	5(1) / **5.0**	• Financial sector assets are rapidly increasing in Uzbekistan. The total assets of financial institutions in the country amounted to 429 trillion UZS (around 39.6 billion USD) as of January 1st, 2022, having increased more than twofold since 2018.[116] • The country demographics shows strong population growth; the country is the leader among Central Asian states in terms of absolute demographics growth.[117] • Given the high share of state-owned banks (12 commercial banks out of 33 are either fully or partially owned by the state), there is a unique investment opportunity for new market entrants to take over some of the existing state-owned assets.

[114] *MIFT (2022), The Investment Guide Uzbekistan*
[115] *World Bank (2022), Towards a Prosperous and Inclusive Future (the Second Systematic Country Diagnostic for Uzbekistan), April 2022*
[116] *Ibid.*
[117] *K. Makhanov, A Brief Review of Uzbekistan's Demographics Profile, Euroasian Research Institute, 2021*

Is the **global market** attractive? Can goods/services be exported globally?	2(1) / **2.0**	• Global market provides some opportunities for Uzbekistan based banks, particularly in the field of export financing and providing guarantees.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	4(0.8) / **3.2**	• Given the nature of the investment opportunities (privatization) and existing sector data on assets and deposits growth trends, the banking sector in Uzbekistan does have competitive inputs needed for the banks to operate.
Does Uzbekistan have **competitive infrastructure**?	4(0.8) / **3.2**	• The state-owned banks provide sufficient infrastructure for FDI, although the new market entrants may need to introduce a new banking infrastructure needed for modern fintech banking services and solutions.
Does Uzbekistan have **competitive skills and support services**?	4(1) / **4.0**	• Competitive skills are available in the sector - state-owned banks earmarked for privatization employ enough skilled sector specialists who can be further trained to meet needs of foreign investors.
Does Uzbekistan offer a conducive business **(regulatory/institutional) environment**?	3(1) / **3.0**	• Financial sector requires reforms strengthening banking supervision; experts also express concerns about the universal licensing platform and its application to banking
SUBTOTAL	**17.2**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

9.2.13. Renewable energy

Uzbekistan plans to transition to a cleaner energy mix. The Ministry of Energy of Uzbekistan has issued a concept note on ensuring electricity supply for 2020–30, calling for significant changes in the domestic power generation mix. The share of natural gas and coal in it is expected to decrease from 86% to 68%, whereas that of renewable energy (solar and wind) is expected to rise to 25% by 2025.[118]

Investment opportunities abound in energy generation, transmission, and distribution. The Ministry of Energy has signed 16 power purchase agreements with various private energy producers in recent years, to renovate and build solar, wind and thermal power plants. The government intends to increase solar plant capacity from virtually zero in 2020 to 2.5 GW, and wind turbine capacity to 2 GW, by 2025.[119] Growing demand for electricity and ongoing power generation mix transformation towards renewables (solar and wind) create unique value proposition for FDI in the field of PPP projects or power purchase agreements.

Rapid sector assessment

To what extent:	Score / Weight	Evidence
5. Desirability: Will additional FDI in renewable sector add value to Uzbekistan?		
Will new investors help to **improve the performance of the sector value chain** as a whole?	5(0.5) / **2.5**	• New investors will significantly boost power generation capacity and modernize transmission and distribution lines. • Private energy producers – and FDI project in particular – can introduce completely new technologies and value chain activities that Uzbekistan currently does not have.
Will new investors **create additional jobs**? Could new additional jobs be **created in the regions**?	4(1) / **4.0**	• While capital intensive, renewable sector also creates a significant number of new jobs, often in professions that do not have equivalent in Uzbekistan. • New jobs will be created in the regions and renewable energy production, transmission and distribution are not limited to traditional manufacturing or service centers.
Will new investors create **increased export** revenues or **reduce imports**?	3(1) / **3.0**	• The impact of the FDI in renewable energy sector on increased export revenues is likely to be neutral. • Installation of new technologies will require additional imports as modern renewable energy technologies are currently not produced in Uzbekistan.
Will new investor help to **improve the economic well-being of Uzbekistan regions** and reduce regional disparities?	5(1) / **5.0**	• Yes, FDI in the sector can positively impact on improvement of economic well-being of Uzbekistan regions as it creates jobs in the regions, but also contributes to decarbonization and strengthens resilience to natural and climate-induced disasters which can have critical impact on regions and their development. • Solar energy potential rich regions of Uzbekistan—Karakalpakstan, Navoi, Bukhara and Surkhandarya—are mostly desert areas with relatively sparsely located population centers and, thus, have prospects for the development of alternative energy.[120]
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase **opportunities for domestic firms to supply their goods/services** to FDI?	4(0.5) / **2.0**	• FDI in the sector will create positive spillover effects on local economy and will created opportunities for domestic firms to supply their goods and services to FDI, for instance by supplying locally produced photovoltaic panels.
SUBTOTAL	**16.5**	
6. Feasibility: Does investment in renewable energy sector offer an attractive proposition for foreign investors?		
• Is the market (in terms of demand, supply and prices) attractive?		

[118] Ministry of Energy of Uzbekistan issues the "Concept Note" for ensuring electricity supply in 2020 – 2030, available at https://www.cms-lawnow.com/ealerts/2020/06/ministry-of-energy-of-uzbekistan-issues-the-concept-note-for-ensuring-electricity?cc_lang=en
[119] MIFT (2022), The Investment Guide Uzbekistan
[120] F. Aminjonov, Alternative Energy Sources of Uzbekistan, Eurasian Research Institute, 2016

Are the **local and regional markets** attractive? Does Uzbekistan and/or the region have a strong **FDI track record**?	5(1) / **5.0**	• Local market is attractive for FDI – power production is set to increase 1.5 times between 2020 and 2025 in Uzbekistan. To meet the growing demand for electricity, the government has embarked on comprehensive programs to boost power genera on capacity and modernize transmission and distribution lines. It is es mated that domestic power production will increase from 66.5 trillion Wh in 2020 to 91.8 trillion Wh by 2025.[121] • In recent years the country registered interest from foreign investors in the sector – ACWA Power (Saudi Arabia), for instance, is currently implementing three projects in Uzbekistan: two in renewable energy (wind power) with a capacity of 1,100 MW, and one project involving a thermal power plant with a capacity of 1,500 MW. Their total es mated cost is 2.6 billion USD.[122]
Is the **global market** attractive? Can goods/services be exported globally?	2(1) / **2.0**	• The global market is not relevant for firms investing in Uzbekistan via PPP or power purchase agreements.
• Does Uzbekistan offer competitive supply conditions for investors in this sector?		
Does Uzbekistan have **competitive endowments** (raw materials, location, funding etc.)?	5(0.8) / **4.0**	• Yes, the country has good location endowments for construction of renewable energy generation - several desert regions are solar energy potential rich regions. There are also good conditions for development of small and mini hydro-plants in the country. • On the other hand, geographical conditions are not favorable for the large-scale development of wind power.[123]
Does Uzbekistan have **competitive infrastructure**?	4(0.8) / **3.2**	• Yes, the country has necessary infrastructure needed for the renewable sector development.
Does Uzbekistan have **competitive skills and support services**?	4(1) / **4.0**	• There is sufficient pool of skilled workers in the energy sector; even though particular skills related to renewable energy production and maintenance may be missing or not supplied in sufficient numbers.
Does Uzbekistan offer a conducive business (**regulatory/institutional) environment**?	4(1) / **4.0**	• The government has adopted a concept note for sector development that includes provisions for improvement of the sector regulatory framework. • Power purchase agreements and PPP regulatory framework provide conducive environment for FDI projects.
SUBTOTAL	**22.2**	
Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative		

[121] *MIFT (2022), The Investment Guide Uzbekistan*

[122] *Ibid.*

[123] *F. Aminjonov, Alternative Energy Sources of Uzbekistan, Eurasian Research Institute, 2016*

9.3. Assessment of Uzbekistan's Manufacturing & Agriculture Products by Potential Financial Viability

Table 15. Ranking of Uzbekistan' Manufacturing & Agriculture Products by their Potential Financial Viability (measured as Ratio of Value-Added to Total Output)

number	Domestic market-Seeking FDI (highest in domestic prices)		Efficiency-Seeking FDI (highest in world prices)	
	Manufacturing	**Rank**	**Manufacturing**	**Rank**
1	Polyethylene (Petrochemicals)	1	Polyethylene (Petrochemicals)	1
2	Polypropylene (Petrochemicals)	1	Polypropylene (Petrochemicals)	1
3	Potassium Chloride (Chemical fertilizers)	2	Upper knitted clothing (Garment)	2
4	Reinforced concrete products (Construction materials)	3	Knitted underwear (Garment)	3
5	Electrical transformers (Electromechanical machinery building)	3	Superphosphate (Chemical fertilizers)	3
6	Cement (Construction materials)	4	Rice & cereals (Food-processing)	3
7	Ammonium Nitrate (Chemical fertilizers)	4	Canned fruits and vegetables (Food processing)	4
8	Superphosphate (Chemical fertilizers)	4	Electrical switchboards (Electromechanical machinery)	4
9	Rice & cereals (Food-processing)	4	Cotton-Yarn (Textile)	5
10	Upper knitted clothing (Garment)	5	Reinforced concrete products (Construction materials)	6
11	Urea (Chemical fertilizers)	5	Electrical transformers (Electromechanical machinery building)	6
12	Cotton-Yarn (Textile)	6	Cotton fiber (Textile)	7
13	Canned fruits and vegetables (Food processing)	7	Milk & dairy products (Food processing)	7
14	Knitted underwear (Garment)	8	Urea (Chemical fertilizers)	8
15	Milk & dairy products (Food processing)	8	Cotton Fabrics (Textile)	8
16	Cotton Fabrics (Textile)	9	Electric Motors (Electromechanical machinery building)	9
17	Ferr. Metal Finished Roll Products (Ferrous metallurgy)	9	Cement (Construction materials)	9
18	Cotton fiber (Textile)	9	Ferr. Metal Finished Roll Products (Ferrous metallurgy)	10
19	Electric Motors (Electromechanical machinery building)	10	Ammonium Nitrate (Chemical fertilizers)	10
20	Electrical switchboards (Electromechanical machinery)	10	Potassium Chloride (Chemical fertilizers)	11

number	Domestic market-Seeking FDI (highest in domestic prices)		Efficiency-Seeking FDI (highest in world prices)	
	Agriculture	**Rank**	**Agriculture**	**Rank**
1	Sweet Cherry	1	Sweet Cherry	1
2	Peach	1	Apricot	1
3	Apricot	2	Peach	2
4	Pear	2	Grape	2
5	Cucumbers	2	Tomato	2
6	Carrots	3	Cucumbers	2
7	Apples	3	Plum	2
8	Plum	3	Sour Cherry	2
9	Tomato	4	Pear	2
10	Onions	4	Honeymelons	3
11	Mung	4	Apples	3
12	Quince	4	Quince	3
13	Sour Cherry	4	Carrots	4
14	Grape	4	Melons and Gourds	4
15	Honeymelons	5	Watermelons	4
16	Beans	5	Cabbage	5
17	Cabbage	5	Onions	6
18	Potato	5	Rice	6
19	Cotton raw	6	Beans	6
20	Chickpea	6	Cotton raw	7
21	Melons & Gourds	7	Potato	8
22	Rice	8	Mung	8
23	Watermelons	9	Chickpea	9
24	Wheat	9	Wheat	9

Table 16. Assessment of Potential Viability/Attractiveness of Manufacturing and Horticultural Products

Products	Value-added in total output							
	in domestic prices				in world prices			
	2018	2020	**average**	**rank**	2018	2020	**average**	**rank**
MANUFACTURING PRODUCTS								
Urea	47	50	48.5	**5**	20	17	18.5	**8**
Ammonium Nitrate	56	56	56	**4**	-67	-47	-57	**10**
Superphosphate	47	63	55	**4**	65	66	65.5	**3**
Potassium Chloride	84	87	85.5	**2**	-365	-414	-389.5	**11**
Ferr. Metal Finished Roll Products	35	19	27	**9**	-12	-44	-28	**10**
Cement	77	33	55	**4**	-13	19	3	**9**
Reinforced concrete products	56	72	64	**3**	26	47	36.5	**6**
Cotton-Fiber	22	20	21	**9**	33	32	32.5	**7**
Cotton-Yarn	44	45	44.5	**6**	46	50	48	**5**
Cotton Fabrics	22	17	19.5	**9**	24	28	26	**8**
Upper knitted clothing	51	49	50	**5**	87	61	74	**2**
Knitted underwear	38	36	37	**8**	60	59	59.5	**3**
Milk and dairy products	26	35	30.5	**8**	29	38	33.5	**7**
Canned fruits and vegetables	43	38	40.5	**7**	51	52	51.5	**4**
Rice & cereals	51	57	54	**4**	64	59	61.5	**3**
Electrical switchboards	13	2	7.5	**10**	78	31	54.5	**4**
Electrical transformers	89	40	64.5	**3**	32	45	38.5	**6**
Electric Motors	-15	52	18.5	**10**	19	23	21	**8**
Polyethylene	99	99	99	**1**	94	94	94	**1**
Polypropylene	99	99	99	**1**	96	96	96	**1**

AGRICULTURE PRODUCTS	domestic prices				world prices			
	2018	2020	average	rank	2018	2020	average	rank
Cotton raw	36	37	36.5	6	68	58	63	7
Wheat	6	-18	-6	9	47	12	29.5	9
Potato	47	33	40	5	44	62	53	8
Cabbage	68	18	43	5	85	76	80.5	5
Tomato	64	49	56.5	4	95	91	93	2
Cucumbers	71	65	68	2	95	95	95	2
Onions	60	42	51	4	74	69	71.5	6
Carrots	75	50	62.5	3	85	85	85	4
Rice	41	21	31	7	74	67	70.5	6
Mung	56	39	47.5	4	27	85	56	8
Beans	49	40	44.5	5	61	88	74.5	6
Chickpea	47	26	36.5	6	5	75	40	9
Melons and Gourds	56	5	30.5	7	92	79	85.5	4
Watermelons	49	-3	23	8	93	75	84	4
Honeymelons	65	13	39	5	92	85	88.5	3
Apples	72	59	65.5	3	93	85	89	3
Pear	71	68	69.5	2	88	93	90.5	2
Quince	61	49	55	4	92	84	88	3
Plum	68	64	66	3	92	90	91	2
Sour Cherry	59	54	56.5	4	91	91	91	2
Sweet Cherry	92	90	91	1	99	98	98.5	1
Apricot	72	73	72.5	2	96	93	94.5	1
Peach	79	81	80	1	91	91	91	2
Grape	56	54	55	4	93	92	92.5	2

9.4. Investment impediments identified during private sector consultations[124]

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
Oil & Gas	This sector is one of the several strategic sector with SOEs dominance. None of the firms operating in this sector agreed to participate in the focus group interviews. Sector related investment climate changes are being implemented via special government resolutions rather than by systematic changes applicable to all private sector firms.	N/A	In order to attract any FDI, the sector needs to undergo several reforms, including de-monopolization, free market entry of firms into the sector, privatization and/or restructuring of existing SOEs. The SOEs that will remain in state ownership will require establishment of proper corporate governance, financial reporting, and performance management mechanisms.
Pesticides & fertilizers	• The sector is dominated by SOEs, and the state controls the raw material inputs market as well as domestic and export sales.	• There is a need to maintain Uzbekistan's comparative advantage in this sector that attracts FDI: low-cost raw materials (natural gas) and labor. Avoid increase in	Need to improve public-private dialog on the problems of investment

[124] *A series of sector focus group interviews was held during the period of February - March 2022 with selected representatives of domestic and foreign investors in each of the sectors included in the sector scan.*

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
(Chemicals and petrochemicals industry)	• Firms indicate that the government violates its own investment agreements signed with foreign investors by issuing new resolutions that contradict the original investment agreements. However, foreign investors prefer not to enforce investment agreements in international courts. • The main risk for FDI in this sector is that the government controls all inputs (volumes and prices – gas, electricity, etc.), but also outputs. Foreign investors do not decide upon who they will sell output to nor the price at which they will sell. The government also does not allow firms to have high profits. • There is much unpredictability - the government, for instance, unexpectedly introduced a complete ban on the export of fertilizers without conducting any prior consultations with (FDI) firms. Yet, the major chemical SOE (Uzkimyesanoat) is not subject to this ban. So, the government is forcing firms with FDI in this sector to export via this SOE. • There is a great deal of contradicting legislation (resolutions) that are issued too frequently and that unduly change the legal environment for firms with FDI. • FDI firms are not able to obtain sufficient amounts of key raw materials (e.g., natural gas supply) during the winter season. • The government introduced a penalty upon all exporters that do not receive payments for their export in 80 days. The amount of this penalty is	gas prices in real terms as it eliminates Uzbekistan's comparative advantage in nitrogen-based fertilizers. • Some firms with FDI in this sector are trying to reduce their risk of insolvency by diversifying their investment in other sectors in Uzbekistan, e.g., confectionary, cotton & textile, fruits and vegetables, and car sales. • The government must obey the investment agreement signed with foreign investors. • The government should stop frequent changes of national legislation as it negatively impacts the investment climate and hinders the attraction and retention of FDI. • The government should avoid sudden bans on the export of key products, e.g., fertilizers, without first conducting consultations with private firms. Such actions could lead to insolvency or bankruptcy of export-oriented firms. • There is a need to improve logistics and improve trade facilitation to become an export-oriented country. • The government could consider piloting a micro-loan project to Uzbek farmers so they could buy pesticides and fertilizers	and business climate in this sector.

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	100% of the total firm's export. As a result, firms are penalized twice. • Although chemical outputs now can be sold on the 'Tashkent commodity exchange', the commodity exchange limits the maximum level (i.e., imposing a ceiling) for the price change during the trading sessions. Thus, most prices on the commodity exchange are not subject to market forces.	and chemical firms could sell their products and receive timely payments. • For privatization to become a way to attract FDI, the international financial institutions must push the government to enhance transparency in the privatization of chemical SOEs to ensure confidence in the process. Some SOEs are now removed from the privatization list as many foreigners suspect they will be given to some unknown individuals without a public auction. • There is a need to activate the "Council of Foreign Investors" that was established in Uzbekistan for resolving FDI problems. This Council exists on paper only and does not work or help. • There is a need to enforce the rule of law for all firms without granting advantages to anyone. It is not FDI vs. locals, it should be equal rules for all.	
Machinery building industry	• Many raw materials and parts are imported. Delays in payments for firms' output impact firms' ability to pay for imported parts. • The domestic market lacks ack skilled workers. • The absence of testing laboratories accredited in the EU or other foreign countries is a barrier for export. • Ministries provide some consulting for local firms on export, but that is not enough.	• There is a need to reduce banking interest rates to ensure modernization of the capital base. • It would be useful to reduce VAT and improve its administration so it does not become a turnover tax on producers. • It will be important to improve the training of skilled workers, specifically needed are abilities for skilled workers that are able to	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	• Many firms need access to more modern equipment but lack available capital and find that bank loans are inaccessible due to high interest rates. • Some firms with 100% of foreign ownership try to re-register as JVs, in order to attract an experienced foreign partner in the source country that will organize the import of raw materials and parts.	operate foreign machinery, read English instructions, and perform specialized repairs (e.g., trained in repairing electric vehicles).	
Electromechanical industry (cables, wires for cars, other machinery)	• High VAT and poor VAT administration impacts the output and cash flow of firms. • High banking interest rates on loans at about 20-22% with 10-11% inflation are prohibitive to investment. • The government changed investor legislation for some foreign firms: e.g., One foreign investor had the right to get certain tax preferences for 10 years, then a 50% reduction of tax rates for 5 years following this according to the legislation at the time of investment, but in practice, the firm only received benefits for 10 years; Another investor notes that according to the law on free zones, foreign investors should receive tax benefits for 10 years, but the government cancelled these preferences for some firms. • Some firms with FDI in this sector did not receive full tax benefits by law, which they attribute to ineffective tax inspectors. One firm cites the example of tax inspector removing money from the firm's account without just cause, and despite the firm proving to the authorities that this mistake was made the money was not returned to the firm. The	• Consider reducing VAT from 15% to 12%, better to 8%. • Consider reducing banking interest rates according to inflation trends. • Consider reducing custom duties on import of raw materials (steel, aluminum, polyvinylchloride). • The government must ensure stable uninterrupted electricity supply or compensate firms for damages from electricity cut-offs. Firms assess these damages at 10-20% of total output. • The government could consider establishing investment funds that can provide financing for longer-term investment. Banks offer too high interest rates and short-term loans. • The time spent is meeting the requirements of the tax administration is extremely burdensome, and the government needs to reduce the very complex statistical accounting and reporting requirements. Firms cite needing 4-5 accountants and	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	Business ombudsman was also unable to provide assistance in this matter. • Certificates for electricity, gas, and water meters are given in Uzbekistan for a very short time (1-2 years), while in other countries for 4-5 years. • Frequent electricity cut-offs are a problem for firms in this sector, e.g., they can severely impact glass-fiber production (the equipment can be damaged).	significant amounts of time to respond to the national tax and statistical requirements.	
Construction materials industry	• A key problem is logistics as more than 50% of raw materials (6-7 items) are imported, mostly from China and Korea, via Vladivostok (Russia) as logistics inside China is overloaded. The import is now delayed from 1-2 months pre-pandemic to 4-5 months in 2021-22. • Due to delays in import of raw materials, some firms stopped production 3 times for a duration of 1 month each time in 2021. Now, to ensure uninterrupted production, firms should expand warehouses and rent more land to ensure larger stock of raw materials. • Lack of skilled workers on domestic labor market. • Customs introduced new duties and excise taxes on imported raw materials in end-2021 that add up to 20% to cost of imported raw materials. • Majority of firms in the sector have state shares, but they are till considered as “private firms” by local legislation, e.g., as “joint stock companies” and “joint ventures”.	• Consider cancelling for producers only (not for traders) the newly added customs duties and excise taxes on imported raw materials which are not produced in Uzbekistan. • Improve logistics and trade facilitation services at Uzbek customs. • Improve training of skilled workers.	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
Packaging materials industry	• Frequent changes in legislation: investors feel as if every week there is another government resolution issued without consulting investors in this sector. • Some private firms experience difficulties with commercial banks as some banking accounts of firms were registered on citizens' passports. The citizens passports are now being replaced by the unified 'ID Cards' for physical entities for use inside of Uzbekistan. • The existing equipment in Uzbek commercial banks cannot process digital data codes about producers' output. • Raw materials imported from China are now delayed up to 4-5 months in 2021-2022, vs. 1 month in 2019-2021. As a result, many firms produce far below their capacity. • Lack of own finances and inaccessibility of bank loans also limit production and export potential. • Imported raw materials ordered in August 2021 became subject to additional excise taxes / custom duties introduced in the end of 2021 when these materials finally arrived in Uzbekistan (delayed due to aforementioned import delays). As a result, raw materials ordered before the new taxes were introduced became more expensive by 40-50%. • Certain domestically made raw materials (polyethylene) from Shurtan and Karakalpakstan cannot compete with imported ones as local plastic cannot preserve the carbonation of water in bottles. Imported raw materials are better than domestic	• Accelerate digitalization of data related to producers' output. Develop IT technologies for that. • Eliminate customs duty (excise tax on some imported raw materials) for firms that use those raw materials for their own production. • Ensure exporting firms retain their preferences (e.g., VAT return, compensation of 50% transportation cost until Uzbek border) that were granted 4-5 years ago for the full duration promised. • Reduce logistics costs for export-import. • Ensure equal competition for all firms. • The repayment period for banking loans should be extended from 1 year to up to 3 years. • Increase the number of local training schools that produce skilled workers able to operate imported machinery and equipment and can understand English instructions. Most firms lack capacity to organize on-job training of workers.	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	and this ensures quality of final products, but subjects firms to relevant import duties. • Firms that import ready semi-finished goods (e.g., bottle caps) do not pay customs duties, while firms that import raw materials required for producing final bottling materials like bottle caps in Uzbekistan must pay customs duties on raw materials. • Firms established initially as 'foreign firms' or 'joint ventures' prefer to re-register as domestic firms after 5 years when preferences for firms with FDI expire. • There is a severe lack of skilled workers, especially electricians, turners, metal workers that are able to produce individual parts for packaging machinery. There is also a lack of engineers able to repair micro electronic devices or imported freezing equipment. Firms hire Chinese electricians or engineers as local workers, and engineers are of poor quality.		
Software & ICT services	• Lack of skilled or talented people at senior level. Difficult to find qualified directors or top managers. • Difficulty to keep young staff at same positions for a long time as they want quick promotions or move out. • Limited opportunities of on-the-job training in most firms. • Difficult to keep foreign skilled workers due to difficulties with visa extension. There is legal requirement to exit Uzbekistan and get new visa abroad after 12 months of maximum extension on previous visa.	• Gov't should consider providing to foreign investors and foreign workers the "resident card (green card)" instead of usual work "visa" regime, so they could stay longer than 12 months and buy apartments and other property in Uzbekistan. If on work "visa", foreign citizens cannot buy apartment or similar property in Uzbekistan. • International financial institutions should consider developing programs to support young firms at early stages of business development.	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	• The national SOE 'Uzbektelecom' monopolized all types of activities in the sector. • Low digital literacy of population in Uzbekistan that restricts offering variety of ICT services. • Banking loans at such high interest rates are inaccessible for private firms. • High taxes, but low-cost license for operation. It could be opposite: more expensive license, but lower taxes. • No Gov't vision and log-term development strategy in the sector.	• Develop the sectoral national strategy. Uzbektelecom should withdraw completely from retail services, focus on developing national broad-band network and equipment and give this network to private firms on unified rent tariffs. The private firms, instead, should focus on retail services to clients and withdraw from creating and investing in their own private networks, and must use only Uzbektelecom's networks. • Gov't should improve digital literacy of population.	
Footwear & leather industry	• Lack of skilled workers: job vacancies in the firms of this sector far (by 3 to 7 times) exceed the number of skilled workers that can work on these jobs. As a result, most jobs already created are empty, and most firms work below their productive capacity. Many firms hire foreign workers that able to operate machinery and read English instructions on machinery operations. For example, firms cannot find skilled electricians in Uzbekistan and have no choice as to hire them from China. • Lack of skilled accountants that can work with growing difficulty of Uzbek requirements on statistical reporting and non-IFRS accounting and auditing. • Too much of statistical reporting is required from firms. Too frequent changes of tax legislation: VAT	• Gov't should create specific training programs/courses tied for this sector to fill thousands of empty jobs that already created. Skills should be focused on how to operate equipment. • Improve logistics to reduce transportation cost. • Simplify procedures for getting quality certificates for imported raw materials. • Simplify national accounting as per international accounting standards (IFRS), simplify and minimize the national statistical electronic reporting. • Simplify tax administration, especially VAT administration: it should not be a turnover tax on producers.	There is no SOEs in this sector and domestic competition in this sector is very high. Gov't wants to support this sector by giving subsidies and other financial preferences. However, this is a competitive sector that needs different type of Gov't support.

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	preferences that granted recently are eliminated quickly. Many accountants exit from the sector due o growing difficulty of reporting. • High share of imported raw materials (e.g. 28 chemicals out of total 30 are imported). Frequent delays in imports of raw materials due to poor logistics. Transport cost increased by 3 times in the recent 3 years. • Demand for inventories is increasing, but banking loans are inaccessible due to high interest rates (over 20% in national currency and over 9% in USD). • Quality certificates for raw materials are costly and take up to 10 work days to obtain. • Customs clearance is a big problem: separate certificates from various state bodies (Uzstandard, Ecology, Sanitary, etc.) are required for every invoice on every raw material. • Property tax and land tax are now calculated based on the minimum square meters for a firm's office and production facilities, and not based on the actual size that a firm occupy. This leads to artificial over taxation of firms. • Frequent interruptions of electricity and gas supply that lead to large raw materials and output losses. Natural gas may be supplied, but with lower pressure in the pipe, which does not meet technological requirements.	• Simplify calculation of property and land taxes. Continue tax reforms based on the best international practice. • Gov't should eliminate cut-offs in electricity, gas, and water supply. At least, it should inform firms in advance of such cut-offs so firms could plan ahead to avoid high output losses. • Gov't should compensate firms for output losses due to cut-offs of electricity and gas supply. • Develop local chemical industry so chemical firms become oriented to produce chemicals and other raw materials for the leather and footwear industry as well. • Need to improve treatment of environmentally harmful drains into rivers from firms. Need to improve planning of placement of firms only in those districts that have environmentally friendly equipment that prevent environmental contamination.	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
Food processing industry	• When firms sell to supermarkets, payment by the supermarkets to food producers can be delayed up to 90 days according to legislation, which is in favor of supermarkets. This is too long for food producers. • Very high VAT on milk firms which buy raw milk from households.	• Gov't has to change legislation to shorten the payment period from supermarkets to food producers from maximum of 90 days to a maximum of 30 days. • Reduce VAT from 15% to 10% for milk producing firms in order to increase production of pasteurized milk and avoid situation when households sell unprocessed milk directly to population.	• There is no SOEs in this sector and domestic competition in this sector is very high. • In milk production, local firms do not rush going for higher value-added products (e.g. butter) and refer to stay at lower value-added products (milk, kefir, cream).
Pharmaceuticals industry	• Quality of local packaging materials for pharmaceuticals is low compared to the imported packaging materials. • Very low amount of centralized state procurement of pharmaceuticals for state hospitals and polyclinics. This creates high uncertainty for planning output production. As a result, all firms work at low productive capacity (less than 50% of potential capacity). As a result, attracting new firms with FDI does not make sense as existing firms work below 50% of their capacity. Decentralized procurement by state hospitals and polyclinics in small amounts make long-term planning for firms-producers impossible. Producer firms need to get certificates that take up to 4 weeks to obtain.	• Gov't should create more certainty in demand for pharmaceuticals and medical products on domestic market by ensuring state procurement for state medical institutions three times per year. This will create certainty for investment and investors, including FDI. • Reduce banking interest rates on loans, especially for those firms that export. • Eliminate unequal treatment of new and existing firms. • Gov't should develop a long-term (10 years) vision or national strategy for this sector.	

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	• Some state hospitals produce some sterilized pharmaceuticals internally at the hospitals, even though same pharmaceuticals are produced by private firms and available at local drugstores. • Lack of qualified specialists on domestic labor market. • Property tax and land from January 2022 is calculated based on the minimum square meters for a firm's office and production facilities, and not based on the actual size that a firm occupy. This leads to artificial over taxation by about 10 times. • High banking interest rates on loans in national currency (over 20%). • Unequal conditions – only newly established firms get preferences on VAT and customs duties; they get state contracts for 3 years. • In the Eurasian Union, there is no unified require-ments for firms in all country-members of Eurasian Union, so each country has its own requirements. • Lack of national statistics about pharmaceutical sector, lack of sector market studies.		
Fresh fruits & vegetables (horticulture)	• For greenhouses, legalizing infrastructure (electricity, gas supply) is difficult. To avoid impact of electricity cut-offs, farms install back-up arrangements. • Smaller firms have problems with upfront payments for gas and they often get gas supply cut-offs. • Gov't does not provide best land for horticulture production. Lower quality lands require more spending on fertilizers and other chemicals to get same productivity as in high quality lads.	• Gov't should consider prioritizing the development of organic horticulture production schemes with export to high-income countries. This needs careful approach to providing better quality lands to farms, seeds, specialized fertilizers, electricity, and gas supply, etc. • Simplify legalization of electricity and gas supply infrastructure for green houses.	Uzbekistan has opportunity and reputation of organic production and export of fresh horticulture output. In most markets Uzbek export products

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	• Gov't pushes farms to use local coal instead of natural gas in greenhouses.	• As all installations for greenhouses in Uzbekistan are imported and they are based on gas equipment only, the Gov't should provide to Uzbek farms modern equipment of using Uzbek coal instead of natural gas, before cutting farms from gas supply. Alternative decision is to set domestic price on gas for greenhouses at export price or at import price from Turkmenistan.	are on the premium segment. Gov't to improve legislation for using insurance mechanisms for greenhouse production.
Silk production (raw & processed)	• Due to low quantity and quality of locally produced raw materials for silk (grena cocoons), most Uzbek firms import high-quality raw materials from China, India, Vietnam. The share of imported raw materials is 50% of all raw materials in the sector. Most Uzbek firms export back to these countries the interim silk products (in fact, raw materials - silk wool, silk yarn), but not final products. • In addition to importing raw materials, Uzbek firms hire foreign specialists that teach local workers and monitor production processes. • Growing of grena cocoons is provided by local people in their houses that do not have conditions for high-quality cocoons. Silk production is dominated by small firms. • Customs clearance and payments takes 3 days, and customs administration press firms to reduce their prices of their products. • Electricity cut-offs damage output.	• Improve quantity and quality of local raw materials for silk (cocoons) by producing more leaves of mulberry trees (food for silk warms). Consider expanding land area under mulberry trees and increasing productivity up to levels in China and India. • As many firms aspire to move up the value-chain to produce silk garments, carpets and other final products, they need FDI in modern machinery and design. • Improve quality of silk from 2A and 3A class to 4A and 6A class to improve incomes of firms from export. • Simplify duration of customs clearance • Joining WTO will reduce export barriers to EU and other markets.	This sector has high potential for increasing value-added and job creation. About ¾ of Uzbek silk export is semi-processed raw materials, and only ¼ is final products, e.g. garments or carpets.

Sector	Investment impediments identified by private sector	Mitigation measures proposed by private sector	WBG team comments
	• Marketing and branding of Uzbek silk is a problem as all firms have different silk quality.		

9.5. Select Examples and Case Studies Related to Suggested Reform Actions

Reform Area	Relevant Reform Actions	Examples and Case Study weblinks
FDI Strategy Adoption and Sector Targeting	✓ Identifying priority sectors for FDI attraction and a reform program for attracting / retaining more investments in those target sectors. ✓ Regular reviews of sector-specific investment constraints and investment policy barriers in the sectors targeted by this strategy	*Adaptive FDI Strategy development:* An FDI strategy for Ireland: Driving Recovery and Sustainable Growth 2021-2024: https://www.idaireland.com/about-ida/driving-recovery-and-sustainable-growth-2021-2024 IDA Ireland COVID-19 Response Plan: https://www.idaireland.com/newsroom/publications/ida-ireland-covid-19-response-plan *FDI Sector Scan Example* Growth and Jobs in Slavonia, Baranja, and Srijem: Rapid Diagnostics. Sector Scan in Chapter 3: Foreign Investment https://openknowledge.worldbank.org/handle/10986/34182
Investment promotion: ▪ **Strengthening UZIPA's investor service delivery** ▪ **Preparation and implementation of targeted investment promotion campaigns**	✓ Reviewing UZIPA's services provided along the investment project lifecycle and strengthening key services provided in particular in stages post investment decision. ✓ Implementing targeted investor outreach programs aimed at attracting investors in priority sectors identified in this strategy. ✓ Reviewing UZIPA's website to improve its promotional effectiveness, in particular by providing additional sector linked information relevant to firm's investment motivation.	Strengthening Service Delivery of Investment Promotion Agencies: The Comprehensive Investor Services Framework: https://openknowledge.worldbank.org/handle/10986/33498 Increasing the Development Impact of Investment Promotion Agencies in: Global Investment Competitiveness Report 2019/2020: https://elibrary.worldbank.org/doi/full/10.1596/978-1-4648-1536-2_ch5 State of Investment Promotion Agencies – Evidence from a WAIPA-WBG joint global survey 2020: http://documents1.worldbank.org/curated/en/499971594008431029/pdf/State-of-Investment-Promotion-Agencies-Evidence-from-WAIPA-WBG-s-Joint-Global-Survey.pdf Investor Outreach in Tunisia: https://openknowledge.worldbank.org/handle/10986/34443 Lessons in Investment Promotion: The Case of Invest India

		https://documents.worldbank.org/en/publication/documents-reports/documentdetail/979801625833848120/lessons-in-investment-promotion-the-case-of-invest-india FDI Promotion leveraging technology solutions in Estonia: https://www.fdiintelligence.com/article/79557
FDI policy and legislation	✓ Adoption of a modernized Investment Law ✓ Development of a strategy to reform Bilateral investment treaties (BITs) ✓ Adoption and publication of a new model BIT ✓ Publication of a Negative List to harmonize and centralize all restrictions on FDI	Evidence based on a database analyzing laws affecting investment, shows that investor confidence and FDI flows increase with regulatory transparency, investment protection, and effective recourse: World Bank Group. 2020. Global Investment Competitiveness Report 2019/2020: Rebuilding Investor Confidence in Times of Uncertainty. Chapter 4. Regulatory Risk and FDI. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/33808 License: CC BY 3.0 IGO Regionally Accepted Standards for IIA negotiations in the Western Balkans Six: https://www.rcc.int/docs/562/wb6-regionally-accepted-standards-for-negotiating-iias Morocco Model BIT Example https://www.iisd.org/itn/en/2020/06/20/moroccos-new-model-bit-innovative-features-and-policy-considerations-hamed-el-kady-yvan-rwananga Video on impact of Ethiopia's adoption of a negative list (in the context of advocacy related reforms achieved by the investment promotion agency): https://youtu.be/swGprWp_HAE

9.6. M&E indicators – detailed profiles

KPI Cluster	KPI ID
FDI inflows	1.1
Type of KPI	
IMPACT	
Definition	
Macro-level data showing aggregate and sector-specific developments over time in relationship to GDP.	
Rationale of KPI	
This data set is necessary to benchmark Uzbekistan's overall FDI performance and assess the degree to which FDI is contributing to the needed restructuring of the economy away from overdependence on extractives and towards a more balanced blend of complex and knowledge-based FDI in manufacturing and service industries. Sector-specific FDI data is important to assess the extent to which the country's investment promotion efforts in priority areas are successful.	
Unit of measurement	
1.1.1. Values of aggregate FDI inflows and outflows (value and growth) over time against baseline. 1.1.2 Values of FDI/GDP ratio 1.1.3 FDI inflows by sector over time against baseline. 1.1.4 FDI inflows by type of investment (greenfield; reinvested earnings). 1.1.5 FDI inflows by source countries and sectors. 1.1.6 FDI inflows by world region in Uzbekistan.	
Data sources	
National	International
- UZIPA Investor Tracking System - State Statistics Committee of Uzbekistan - Uzbekistan National Bank	- UNCTAD FDI statistics - OECD FDI statistics - FDI Markets Data
Update cycle (period between updates)	
Semi-ANNUALLY	

<table>
<tr><th colspan="2">KPI Cluster</th><th colspan="2">KPI ID</th></tr>
<tr><td colspan="2">FDI type in FDI inflows</td><td colspan="2">1.2</td></tr>
<tr><th colspan="4">Type of KPI</th></tr>
<tr><td colspan="4">IMPACT</td></tr>
<tr><th colspan="4">Definition</th></tr>
<tr><td colspan="4">Share of resource-, market- and efficiency-seeking FDI in aggregate FDI inflows to Uzbekistan over time.</td></tr>
<tr><th colspan="4">Rationale of KPI</th></tr>
<tr><td colspan="4">Gaining a finer sense of the typology of investments attracted will help benchmark the success of Uzbekistan’s FDI and economic diversification strategy and highlight where investment promotion efforts need to be modified or strengthened.</td></tr>
<tr><th colspan="4">Unit of measurement</th></tr>
<tr><td colspan="4">1.2.1 % of FDI in resource-seeking activities in overall FDI inflows.
1.2.2 % of FDI in market-seeking activities in overall FDI inflows.
1.2.3 % of FDI in efficiency-seeking activities in overall FDI inflows.</td></tr>
<tr><th colspan="4">Data sources</th></tr>
<tr><td colspan="2">National</td><td colspan="2">International</td></tr>
<tr><td colspan="2">- UZIPA Investor Tracking System
- State Statistics Committee of Uzbekistan
- Uzbekistan National Bank</td><td colspan="2">- FDI Markets Data
- UNCTAD FDI statistics
- OECD FDI statistics</td></tr>
<tr><th colspan="4">Update cycle (period between updates)</th></tr>
<tr><td colspan="4">Semi-ANNUALLY</td></tr>
</table>

<table>
<tr><th colspan="2">KPI Cluster</th><th>KPI ID</th></tr>
<tr><td colspan="2">Employment in foreign-invested companies</td><td>1.3</td></tr>
<tr><th colspan="3">Type of KPI</th></tr>
<tr><td colspan="3">IMPACT</td></tr>
<tr><th colspan="3">Definition</th></tr>
<tr><td colspan="3">Number of employees hired and types of jobs held by domestic and foreign workers in companies that either have been created by FDI or have been invested in by a foreign investors.</td></tr>
<tr><th colspan="3">Rationale of KPI</th></tr>
<tr><td colspan="3">Data on the growth in number of jobs in FDI based companies can help to focus the government´s attention on the training and human capital needs of foreign invested companies, enlist them through supplier development programs to contribute to a strengthening of the local workforce, promote more local workers into positions of managerial responsibility.</td></tr>
<tr><th colspan="3">Unit of measurement</th></tr>
<tr><td colspan="3">1.3.1 Number of jobs in FDI related companies.
1.3.2 % of jobs in FDI related companies as a % of overall jobs.
1.3.3 % of change between last and current data point in both numbers above.
1.3.4 Number of jobs created in FDI related companies by sector and type of investment.</td></tr>
<tr><th colspan="3">Data sources</th></tr>
<tr><td>National</td><td colspan="2">International</td></tr>
<tr><td>- UZIPA Investor Tracking System
- State Statistics Committee of Uzbekistan
- Uzbekistan National Bank</td><td colspan="2">- FDI markets data</td></tr>
<tr><th colspan="3">Update cycle (period between updates)</th></tr>
<tr><td colspan="3">Semi-ANNUALLY</td></tr>
</table>

<table>
<tr><th>KPI Cluster</th><th>KPI ID</th></tr>
<tr><td>Changes to FDI related regulation</td><td>2.1</td></tr>
<tr><th colspan="2">Type of KPI</th></tr>
<tr><td colspan="2">OUTCOME</td></tr>
<tr><th colspan="2">Definition</th></tr>
<tr><td colspan="2">Any change to laws, regulations, processes that influence the ease of investing into Uzbekistan.</td></tr>
<tr><th colspan="2">Rationale of KPI</th></tr>
<tr><td colspan="2">It is essential to stay abreast and communicate clearly on any changes that affect the investment climate and the regulatory environment for FDI resulting from the decisions of the government, its regulatory agencies or related entities, such as SEZ administrations. Only by capturing changes in the regulatory environment for FDI can a link be created between reforms and the effects on the behavior of companies and investors.</td></tr>
<tr><th colspan="2">Unit of measurement</th></tr>
<tr><td colspan="2">2.1.1 Ranking/changes to ranking in: OECD Foreign Regulatory Restrictiveness Index, WB Services Trade Restrictiveness Index, WB Logistics Performance Index, WEF Global Competitiveness Index, WIPO Global Innovation Index.
2.1.2 Number and sectors in which new laws/regulations/amendments/codes/government policies adopted.
2.1.3 Number and sectors in which procedures/policies and practices/standards improved or eliminated.
2.1.4 Number and sectors in which new laws or regulations are published through official media.</td></tr>
<tr><th colspan="2">Data sources</th></tr>
<tr><td>National</td><td>International</td></tr>
<tr><td>- Ministries involved in changes to FDI related regulations
- Ministry of Justice
- MIFT</td><td>- OECD Foreign Regulatory Restrictiveness Index
- WB Services Trade Restrictiveness Index
- WB Logistics Performance Index
- WEF Global Competitiveness Index
- WIPO Global Innovation Index</td></tr>
<tr><th colspan="2">Update cycle (period between updates)</th></tr>
<tr><td colspan="2">ANNUALLY</td></tr>
</table>

KPI Cluster	KPI ID
Changes to investment entry regulation	2.2
Type of KPI	
OUTCOME	
Definition	
Any changes that affect the ease of entry of investment into the country that happen through the activities of the government, its institutions or connected entities.	
Rationale of KPI	
This data set offers greater details on changes in the regulatory environment by focusing on the specifics of investment entry, the procedures, cost, time and overall burdens attached to the process of establishing an investment in Uzbekistan. Changes that ease investment entry can be used for promotional activities by UZIPA to show the ongoing efforts of the government.	
Unit of measurement	
2.2.1 Number (in total and sector-wise) of improvements in policies, laws and regulations governing investment entry (substantive, procedural, de facto). 2.2.2 Number of meetings conducted by MIFT to receive feedback from investors and relevant stakeholders. 2.2.3 Number of consultations on proposed changes to FDI regulations with external stakeholders. 2.2.4 Number of steps taken to increase FDI regulatory transparency (media, publication of data and regulation, etc.). 2.2.5 Number (in total and sector-wise) of changes to laws/regulations/amendments/codes/government policies affecting target types of FDI. 2.2.6 Uzbekistan's ranking in the OECD FDI Regulatory Restrictiveness Index over time against baseline.	
Data sources	
National	International
- UZIPA - MIFT - Ministry of Justice	OECD FDI Restrictiveness Index
Update cycle (period between updates)	
ANNUALLY	

<table>
<tr><th>KPI Cluster</th><th>KPI ID</th></tr>
<tr><td>Investor Grievances Resolved</td><td>2.3</td></tr>
<tr><th colspan="2">Type of KPI</th></tr>
<tr><td colspan="2">OUTCOME</td></tr>
<tr><th colspan="2">Definition</th></tr>
<tr><td colspan="2">Investor grievances relate to complaints voiced by investors at unjust treatment by the host country authorities.</td></tr>
<tr><th colspan="2">Rationale of KPI</th></tr>
<tr><td colspan="2">This data set offers direct feedback on the quality of the relationship between foreign investors and the host government and the nature of the investment aftercare services rendered by the host country's investment promotion agency. A well-conceived investor grievance system helps with the early detection and mitigation of problems encountered by foreign-invested firms and helps to build a strong culture of dialogue between the host country and investors. Grievances may also be a sign of missed or poorly implemented reforms, procedural problems, and other potential issues caused by the evolving legal and regulatory framework governing FDI. Using this data set, the government can react in a fuller and more timely manner to the actual needs of the private sector and correct existing policies or enact new reforms with higher impact than would otherwise be possible.</td></tr>
<tr><th colspan="2">Unit of measurement</th></tr>
<tr><td colspan="2">2.3.1 Number of consultations initiated by foreign and domestic investors with the Investment Ombudsman or UZIPA by type of FDI, sector, nationality of the investor, amount of damages, nature of the complaint, risk of dispute, applicable IIA, applicable laws and regulations, affected institutions, status of grievance management process.
2.3.2 Number of grievances by foreign investors resolved (reported by type of FDI, sector, nationality of the investor, amount of damages, nature of the complaint, risk of dispute, applicable IIA, applicable laws and regulations, affected institutions, status of grievance management process).
2.3.3 Number of investor-state disputes and litigation procedures lodged against the host government by type of FDI, sector, nationality of the investor, amount of damages claimed, nature of the complaint, risk of dispute, applicable IIA, applicable laws and regulations, affected institutions, status of grievance management process, applicable ADR mechanism and treaty.
2.3.4 Number of changes to laws/regulations/amendments/codes/government policies affecting target types and sectors of FDI.</td></tr>
<tr><th colspan="2">Data sources</th></tr>
<tr><td>National</td><td>International</td></tr>
<tr><td>- UZIPA
- Ombudsman
- MIFT
- Ministry of Justice</td><td></td></tr>
<tr><th colspan="2">Update cycle (period between updates)</th></tr>
<tr><td colspan="2">ANNUALLY (or Semi-ANNUALLY)</td></tr>
</table>

KPI Cluster	KPI ID
Compliance with BITs and other investment treaties	2.4
Type of KPI	
OUTCOME	
Definition	
The legal and regulatory framework in place has to comply with the country's obligations under various international, regional and bilateral agreements governing trade and investment.	
Rationale of KPI	
This data measures if compliance is secured and if there are gaps in the implementation of the country´s obligations under its various international commitments. Failure to comply with the obligations of BITs, IIAs, and other treaties can lead to grievances and open up the possibility for litigation under the country's trade and investment agreements. In order to proactively address these problems, this data set can be used to scan all existing and new legislation and other government regulations for compliance. This reduces the risk of grievances, disputes and investment climate adverse reputational risks.	
Unit of measurement	
2.4.1 Number of new BITs and IIAs entered into during the reporting period. 2.4.2 Level of compliance of national laws and regulations with new international agreements/treaties (BITs/IIAs/WTO/Eurasian Economic Union). 2.4.3 Changes in the legal substance of latest agreements compared to existing BITs and IIAs. 2.4.4 Inventory of non-compliant investment laws/regulations/amendments/codes/government policies.	
Data sources	
National	International
- Ministry of justice - Ministry of Foreign Affairs - UZIPA - MIFT	
Update cycle (period between updates)	
ANNUALLY	

KPI Cluster	KPI ID
Effectiveness of locational incentives	2.5
Type of KPI	
OUTCOME	
Definition	
Effectiveness of incentives attracting investment.	
Rationale of KPI	
Assessing the financial and economy-wide returns on investment of incentive programs to attract FDI. A stringent monitoring of the impact of incentives is necessary to assess the efficiency and effectiveness of these instruments from a public finance and economic efficiency perspective. Incentives that do not produce expected results over a specific time horizon may need to be reconsidered and possibly replaced by other instruments of investment promotion.	
Unit of measurement	
2.5.1 Number of companies applying for incentives and number of receiving incentives. 2.5.2 Cost of incentives per investment generated. 2.5.3 Cost of incentives per export generated. 2.5.4 Cost of incentives per job created. 2.5.5 Value of exports generated by firms receiving investment incentives.	
Data sources	
National	International
- Tax Authority - Cutoms Authority - Enterprise census/surveys - Central Bank - Administrations of special economic zones - MIFT	
Update cycle (period between updates)	
ANNUALLY	

KPI Cluster	**KPI ID**
Investor Survey	2.6
Type of KPI	
OUTCOME	
Definition	
Investor surveys relate to the perception of investors about their activities and daily operations in the country. They establish a continued impression of the current thinking of investors about the investment climate, reinvestments and the overall state of the attractiveness of the country as an investment destination.	
Rationale of KPI	
This data set offers direct feedback on the perception of investors of the relationship between foreign investors, the host government, and the ease of doing business. A well-conceived investor survey helps with the early detection and mitigation of problems encountered by foreign-invested firms and helps to build a strong culture of dialogue between the host country and the investors. The survey also supports the creation of new value propositions, creates data for investment policy reform advocacy and help to pre-empt any potential grievances before they arise. Using this data set, the government can proactively design and develop its investment climate, incentives, and other measures to increase the perception and attractiveness of the country for investors. Finally, an regularly conducted investor survey helps to highlight the benefits and positive narratives about investing and operating in the country.	
Unit of measurement	
2.6.1 Annual firm level surveys on IC perception.	
Data sources	
National	International
- UZIPA - MIFT	
Update cycle (period between updates)	
ANNUALLY (or Semi-ANNUALLY)	

<table>
<tr><th colspan="2">KPI Cluster</th><th>KPI ID</th></tr>
<tr><td colspan="2">Investor Interests</td><td>2.7</td></tr>
<tr><th colspan="3">Type of KPI</th></tr>
<tr><td colspan="3">OUTCOME</td></tr>
<tr><th colspan="3">Definition</th></tr>
<tr><td colspan="3">Outcomes are the direct result of investors in targeted sectors benefiting from activities of the investment promotion agency (IPA) and/or other government actions.</td></tr>
<tr><th colspan="3">Rationale of KPI</th></tr>
<tr><td colspan="3">This data set helps to evaluate the effectiveness of the IPA’s outputs and to focus on more successful instruments of promotion. This set also helps to contrast the IPA´s performance compared to other regional peers and establishes the continued servicing of investors by the IPA at every stage of the investment lifecycle.</td></tr>
<tr><th colspan="3">Unit of measurement</th></tr>
<tr><td colspan="3">2.7.1 Number of first-time site visits by new investors organized by UZIPA in targeted sectors
2.7.2 Number of investors making return site visits organized by UZIPA in targeted sectors
2.7.3 Number of MOUs signed with investors in targeted sectors
2.7.4 Results of investor surveys of UZIPA services and responsiveness</td></tr>
<tr><th colspan="3">Data sources</th></tr>
<tr><td>National</td><td colspan="2">International</td></tr>
<tr><td>- UZIPA Investor Tracking System</td><td colspan="2">- WAIPA state of the IPAs survey</td></tr>
<tr><th colspan="3">Update cycle (period between updates)</th></tr>
<tr><td colspan="3">Reporting: QUARTERLY
Data update: WEEKLY</td></tr>
</table>

KPI Cluster	KPI ID
Investor Servicing and Facilitation	2.8
Type of KPI	
OUTCOME	
Definition	
This data set records the activities conducted by the IPA and is an important step in getting an actual picture of its performance.	
Rationale of KPI	
This data set establishes the basis upon which the impact of certain kinds of activities can be evaluated and amended accordingly. It also helps with directing more resources towards more effective instruments. It should help set up an Investor Tracking System.	
Unit of measurement	
2.8.1 Number of overseas events held by the IPA 2.8.2 Number of investors participating in overseas promotion events 2.8.3 Number of individual foreign investor meetings held 2.8.4 Number of meetings held with investors in target (priority) sectors and FDI source countries 2.8.5 Number of aftercare visits made with established foreign investors 2.8.6 Number and sectoral composition of investor grievances received 2.8.7 Number of FDI promotional materials prepared 2.8.8 Number of investor inquiries received 2.8.9 Number of investor inquiries responded to 2.8.10 Number of investor presentations made 2.8.11 Number of investment promotion website hits 2.8.12 Number of sector benchmark studies completed 2	
Data sources	
National	International
- UZIPA Investor Tracking System	- WAIPA state of the IPAs survey
Update cycle (period between updates)	
Reporting: QUARTERLY Data update: WEEKLY	

KPI Cluster	**KPI ID**
Performance of SEZs	2.9
Type of KPI	
OUTCOME	
Definition	
Return on the forgone taxes and other support measures provided by the government through the instrument of SEZs in form of additional jobs, increased exports, increased value added etc.	
Rationale of KPI	
SEZs have to be assessed regularly to determine if they serve agreed goals in terms of new jobs, higher productivity, higher R&D expenditure, higher exports, greater attractively of foreign-invested firms, etc. This data set allows monitoring and evaluation. It helps to adjust the offer of the SEZs to the actual needs of the prospective clients/investors quicker and closer to market dynamics.	
Unit of measurement	
2.9.1 Number and sectoral composition of domestic and foreign-invested companies investing in SEZs. 2.9.2 Number and sectoral composition of domestic and foreign-invested companies leaving SEZs. 2.9.3 Number and sectoral composition of jobs created by domestic and foreign-invested companies established in SEZs. 2.9.4 Export performance (value, growth and sectoral composition) of domestic and foreign-invested firms established in SEZs (and as a share of aggregate exports). 2.9.5 Impact of SEZs on imports of intermediate goods and services (value, growth and sectoral composition). 2.9.6 Number, value and sectoral composition of FDI projects in SEZs (announced and realized). 2.9.7 Cost of government support to SEZ administration.	
Data sources	
National	International
- SEZ administration	- *FDI* Markets data
Update cycle (period between updates)	
ANNUALLY	

KPI Cluster	KPI ID
Changes to regulations related to PPPs and privatizations	2.10
Type of KPI	
OUTCOME	
Definition	
Any change to laws, regulations, processes that enhance the quality of the legal, policy and institutional framework governing PPPs and privatizations in Uzbekistan.	
Rationale of KPI	
It is essential to stay abreast and communicate clearly on any changes related to PPP and privatization frameworks as far as they relate to enhancing the opportunities for foreign firms to participate in these processes.	
Unit of measurement	
2.1.1 Number of new laws/regulations/amendments/codes/government policies adopted. 2.1.2 Number of procedures/policies and practices/standards improved or eliminated. 2.1.3 Number and sectors in which new laws or regulations are published through official media.	
Data sources	
National	International
- MoF - SAMA - PPDA - MIFT	
Update cycle (period between updates)	
ANNUALLY	

10. Annexed Report: Investment Policy and Regulatory Review of Uzbekistan

INVESTMENT POLICY AND REGULATORY REVIEW

-

Uzbekistan

Updated and Revised Draft

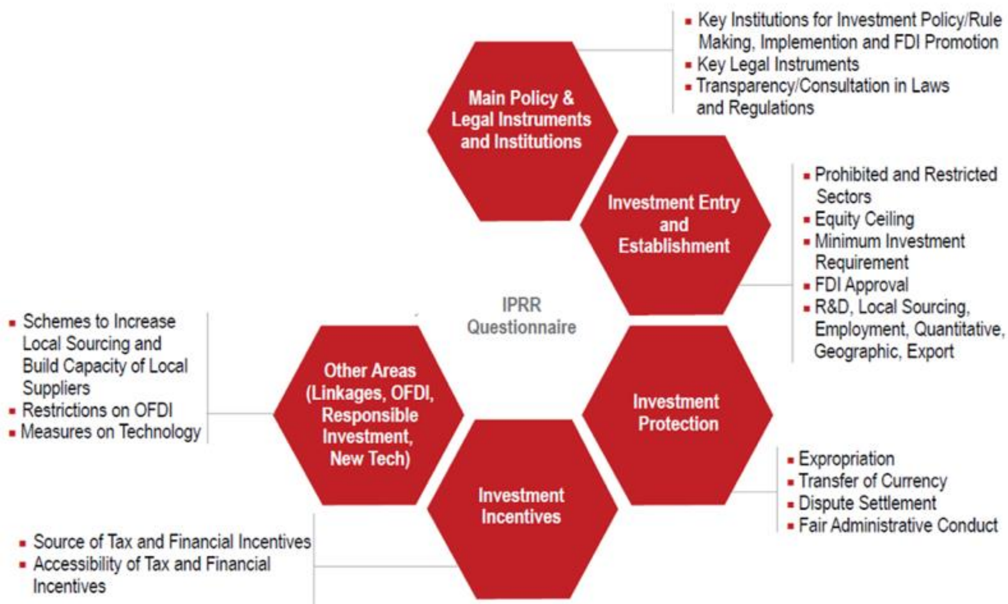
May 2022

WORLD BANK GROUP

10.1. Introduction

This Investment Policy and Regulatory Review (IPRR) provides a snapshot of legal and regulatory frameworks governing investment in Uzbekistan and identifies associated barriers on FDI that affect businesses and investors. It is prepared based on a standard methodology and framework developed by the World Bank Group and entails a comprehensive review of the main legal and regulatory instruments for foreign direct investment, the institutional landscape for investment promotion, the entry and establishment rules, and the level of investment protection.

Figure 1: Overview of topics covered by the IPRR



The IPRR generates up-to-date information on policy and regulatory frameworks governing investment in Uzbekistan in a standardized way that allows for benchmarking with relevant comparator countries to identify of potential areas for reforms. The research for this IPRR is based on a review of currently applicable policies, laws and regulations using a standardized questionnaire. The questionnaire is complemented by investor surveys that are being conducted in parallel. This will allow for comparison of *de jure* and *de facto* barriers to investments.

This following IPRR Country Profile for Uzbekistan covers a variety of investment policy and regulatory dimensions and is structured in the following main sections:

- **Section 2 provides an overview of Uzbekistan's investment policy framework**, including the legal instruments regulating foreign investment, key institutions involved in investment promotion, as well as the country's foreign investment promotion strategy;
- **Sections 3-6 cover Uzbekistan's policies and domestic legal framework concerning different dimensions of the lifecycle of an investment**: entry and establishment (Section 3), protection (4), incentives (5) and linkages (6); and
- **Section 7 delineates Uzbekistan's international legal investment framework**, including the country's commitments under the WTO and select international investment agreements (IIAs).

10.2. Main Findings and Recommendations

The following table provides a summary overview of the main findings and recommendations from the review. The recommended reform actions are organized by main area of reform, relevant international case studies are linked as appropriate to further illustrate the different reform proposals. Additional information related to individual reform recommendations is provided throughout the main sections of this review, including specific case studies and relevant examples of best practices to illustrate the proposed reforms.

Table 1: Main findings and recommendations from the IPRR

Findings	Recommendations	Reference and links to international best practice examples, case studies, etc.
FDI strategic framework		
Uzbekistan does not have an FDI strategy that links to its national development goals.	✓ Review sector priorities for FDI attraction in light of COVID-19 and other global FDI megatrends: conduct a rapid sector scan to identify a small number of priority target sectors for FDI attraction. ✓ Develop an FDI strategy that prioritizes sectors, reforms and activities according to the country's value proposition and economic and social development goals.	An FDI strategy for Ireland: Driving Recovery and Sustainable Growth 2021-2024: https://www.idaireland.com/about-ida/driving-recovery-and-sustainable-growth-2021-2024 IDA Ireland COVID-19 Response Plan: https://www.idaireland.com/newsroom/publications/ida-ireland-covid-19-response-plan Next Generation FDI Strategy and Roadmap 2018 2030 for Vietnam *[separate attachment to this report]* National Investment Strategy for 2018-2022 of Kazakhstan [*see Box 2 further below]*

FDI policy and legislation		
The new investment law of 2019 streamlined the legislation for investments. However, the law can still be strengthened to provide greater clarity and eliminate remaining ambiguities, specifically related to investor protections and guarantees.	✓ Review the Investment Law and benchmark it with international good practice. ✓ Adopt targeted amendments to the Investment Law, specifically related to modernizing investor protections and guarantees. ✓ Ensure alignment with bilateral investment treaties (BITs) and International Investment Agreements (IIAs) that Uzbekistan has ratified.	World Bank Group / IFC detailed review and assessment of the 2019 Investment Law, including specific, clause-by-clause guidance for improvements *[will be delivered as a separate report]*
Uzbekistan has a large number of 'old-style' investment treaties in place, including unqualified definitions and ambiguous formulations that expose the country to a high risk for investor state disputes.	✓ Develop and officially adopt a new model BIT aligned with modern standards of investment treaty making. ✓ Develop a strategy for upgrading and re-negotiating 'old style' BITs.	World Bank Group IIA guidebook including detailed guidance, options and sample provisions for developing a model BIT based on good international practice and 'new generation' IIAs *[separate attachment to this report]*
Legislative transparency		
There is no centralized online portal where laws and regulations are published, and few official portals provide English language translations of local laws and regulations relevant to investors.	✓ Establish a central online portal with an up-to-date library of all primary and secondary legislation governing business. ✓ Provide English translations and / or other language translations for foreign investors (through automated online translation services).	Kazakhstan national legislative database https://online.zakon.kz/. Kyrgyz Republic online portal with all legal acts maintained by the Ministry of Justice (according to Art. 6d of government Decree No. 764 "On the Ministry of Justice, 2009): http://cbd.minjust.gov.kg/ru-ru/npakr/Search.

A significant part of regulations take the form of by-laws and ministerial rulemakings, effectively circumventing the requirement of public consultation for primary legislation.	✓ Mandate the online publication of all draft legislation / regulation concerning investment climate and require a minimum of 4 weeks for public consultations ✓ Establish consultation requirements also for by-laws and ministerial rulemakings that impact the establishment and operation of businesses. ✓ Require the publication of an annual report on all legislative changes related to investment climate. ✓ If necessary, the legislation on the legal process needs to be amended accordingly.	Kazakhstan portal for online consultations of laws and regulations: www.egov.kz, "Open Government" section Kyrgyz Republic Art. 18-20 of the Law "On Legal Acts" mandating stakeholder consultations prior to passing any law [*see Box 1 further below*]
FDI entry and establishment		
Restrictions on FDI are scattered across several sectoral laws – for example in insurance, mass media and banking sectors. The dispersed restrictions on FDI can make it difficult for foreign investors to identify upfront the rules applicable to them.	✓ Consider introducing a regularly reviewed Negative List that contains all market access restrictions for foreign investors as part of the Investment Law.	World Bank Group Investment Law Reform, A Handbook for Practitioners, Chapter 4 (Considerations for Entry of Foreign Investment) https://openknowledge.worldbank.org/handle/10986/25206 Example of a provision enabling a Negative List in an Investment Law [*see Box 3 further below]*
There is wide discretionary authority in implementation of the licensing approval requirement for investment in strategic activities. There is no standard or transparent screening mechanism for granting of individual licenses. The conditions for granting of an approval are also not pre-determined and well defined, and can in fact be imposed on a case by case basis. The approval process	✓ Publish administrative provisions related to the granting of licenses to increase the transparency of regulatory procedures, decision criteria and timelines. ✓ Establish a grievance mechanism to support compliance of the administration with the rules (see further below).	

itself is time consuming and is known to have lasted even upto a year or longer. The government has implemented measures to reduce the number of activities requiring licensing and permits, but the regulatory landscape continues to be quite complex and opaque for foreign investors.		
Investor rights and their enforcement		
The enforcement of investor rights and protections in practice is weak, because it depends mostly on the State authorities responsible for their implementation. Investors lack an effective recourse mechanism.	✓ Enhance the effectiveness of the Commissioner for the protection of Rights and Legitimate Interests of Entrepreneurs and / or introduce an independent investor grievance mechanism to identify and resolve investor grievances before they reach the local courts or international arbitration. ✓ Adopt the legal foundations to empower a lead government agency for investor grievance management ✓ Develop implementing regulations defining its mandate, key processes and powers ✓ Introduce an interactive public electronic platform that allows investors to submit and follow grievances easily	Short case studies on Bosnia and Herzegovina, Ethiopia and Georgia [*See Annex 1*] Key characteristics of effective investor grievance mechanisms [*See Annex 2*] Short summary descriptions of Investment Ombudsman operations in Kazakhstan and Kyrgyz Republic [*see Box 4 further below]*
No procedures and instruments exist to ensure due process or fair compensation in case of expropriation. Lower level courts tend to rule in favor of local governments and local companies that have failed to compensate	✓ Adopt legislation on the procedure and calculation of compensation in case of lawful expropriation.	Paper summarizing best practice on expropriation compensation: Compensation for Expropriation, International Institute for Sustainable Development, 2013, https://www.iisd.org/system/files/publications/best_practice_compensation_expropriation_en.pdf

foreign plaintiffs for the full market value of expropriated property.		
Investors experience delays in foreign currency transfers due to the balance of payment situation in Uzbekistan.	✓ Transfers abroad may temporarily be suspended or delayed in specifically defined cases. This should be a rare occurrence based on law. Causes of delays and their legal basis should be clarified.	Sample clause for a Transfer of Funds provision in an Investment Law [*see Box 5 further below*]
Investment promotion institutions		
The Investment Promotion Agency under MIFT needs to be empowered to become an effective national lead agency for the implementation of the government's investment attraction and promotion policies and programs.	✓ Strengthen the governance framework for the agency by effectively putting in place a Board of Directors to oversee strategic matters and operational results in line with international best practice. ✓ Strengthen the agency's operational effectiveness through defining standard operating procedures in line with international best practices, enhancing the agency's financial, human and technical resources, and developing a corporate business plan including specific priorities and annual targets. ✓ Develop and implement an outcome-oriented, focused and proactive outreach program targeting a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities. ✓ Develop and implement an outcome-oriented, focused and proactive aftercare program targeting a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities. ✓ Improve inter-agency cooperation among national and municipal level agencies and actors involved in various investment functions by implementing formal coordination tools.	Strengthening Service Delivery of Investment Promotion Agencies - The Comprehensive Investor Services Framework: https://openknowledge.worldbank.org/handle/10986/33498 Increasing the Development Impact of Investment Promotion Agencies in: Global Investment Competitiveness Report 2019/2020: https://elibrary.worldbank.org/doi/full/10.1596/978-1-4648-1536-2_ch5 State of Investment Promotion Agencies – Evidence from a WAIPA-WBG joint global survey 2020: http://documents1.worldbank.org/curated/en/499971594008431029/pdf/State-of-Investment-Promotion-Agencies-Evidence-from-WAIPA-WBG-s-Joint-Global-Survey.pdf Investor Outreach in Tunisia: https://openknowledge.worldbank.org/handle/10986/34443

		IDA Ireland COVID-19 Response Plan: https://www.idaireland.com/newsroom/publications/ida-ireland-covid-19-response-plan Case Study: Invest India *[See Annex 3]* National-Subnational Coordination for Investment Attraction – the case of Spain: http://documents1.worldbank.org/curated/en/503651614752434734/pdf/National-Subnational-Coordination-for-Investment-Attraction-The-Case-of-Spain.pdf Upcoming World Bank Group / IFC rapid assessment of the investment agency including detailed recommendations for enhancing its operational effectiveness *[will be delivered as a separate report]*

10.3. Overview of Investment Policy Framework

10.3.1. Legal Instruments Regulating Foreign Investment

Uzbekistan regulates foreign direct investment (FDI) through a framework of investment laws and sector specific regulations. In addition, other general laws and regulations governing both domestic and foreign investments apply, as described below. Uzbekistan also has bilateral investment treaties and is a signatory to numerous multilateral treaties that impact foreign investment environment in the country. The government of Uzbekistan has declared foreign direct investment as a core priority for the country and by law foreign investment is permitted in all sectors of the economy without discrimination against foreign investors based on nationality.

10.3.2. FDI Law and Regulation

On December 25, 2019, Uzbekistan adopted the Law of the Republic of Uzbekistan № ZRU-598 "On Investments and Investment Activities" ("Investment Law"), which entered into force on January 27, 2020. The new Investment Law regulates all aspects of investments and investing activities carried out by foreign and domestic investors in the country, and provides national treatment and non-discrimination guarantees to foreign investors. The Investment Law consolidates and liberalizes the foreign investment rules that were in place since the 1990s and repeals several laws regulating foreign investments prior to its enactment: more specifically, the Law *"On Foreign Investments"* No. 609-I dated 30 April 1998, the Law *"On Guarantees and Protective Measures of Foreign Investors' Rights"* No. 611-I dated 30 April 1998, and the Law *"On Investment Activity"* No. 719-I dated 24 December 1998.

The Investment Law establishes the basic principles of transparency, openness, legality, freedom to undertake investment activity, fairness and equality of subjects of investment activities, non-discrimination against investors, and presumption of good faith on the part of investors. Further, it stipulates fair and equal treatment for foreign investors and foreign investments, with no less favorable treatment than accorded to nationals of Uzbekistan, and it guarantees full and permanent protection and security. State bodies and their officials are granted no authority to interfere in the activities of investment entities carried out in accordance with the Investment Law. Further, the statute clearly enumerates investor rights and provides tax incentives and numerous guarantees to investors such as state guarantees of protection, guarantees of free transfer of funds in foreign currency to and from Uzbekistan without any restrictions, including currency conversion for repatriation, guarantees against adverse changes in laws, and guarantees of transparency and openness.

Other main laws, presidential decrees and government resolutions regulating investments in Uzbekistan are:

- Law On Currency Regulation № ZRU-573 dated 22 October 2019
- Law On Amendments to the Tax Code of the Republic of Uzbekistan № ZRU-599 dated 30 December 2019
- Law On Special Economic Zones № ZRU-604 dated 17 February 2020
- Law On Public-Private Partnership № ZRU-537 dated 10 May 2019
- Law On Concessions № 110-I dated 30 August 1995
- Law On Production Sharing Agreements № 312-II dated 07 December 2001
- Law On Investment and Mutual Funds № ZRU-392 dated 25 August 2015

- Law On Denationalization and Privatization № 425-XII dated 19 November 1991
- Decree on the State Program for the Implementation of the Action Strategy on Five Priority Development Areas in the Year of Science, Education and Digital Economy (March 2, 2020).
- Decree on Improvement of Investments and Foreign Trade Governance through Establishment of the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan (UP-5643, January 28, 2019).
- Decree on Measures to Improve Uzbekistan's position in International Ratings and Indexes (UP-5687, March 7, 2019).
- Decree of the President of the Republic of Uzbekistan "On additional measures for stimulation of attraction of direct foreign investment" № UP-4434 dated 10 April 2012.
- Decree of the President of the Republic of Uzbekistan "On additional measures for stimulation of attraction of direct foreign investment" № UP-3594 dated 11 April 2005.
- Resolution of Cabinet of Ministers of the Republic of Uzbekistan "On measures for implementation of the Decree of the President of the Republic of Uzbekistan" № 180 dated 2 August 2005.

In response to Covid-19, the government of Uzbekistan ("GOU") has implemented a number of laws and measures in order to provide certain guarantees and protections. These provide tax deferrals, tax rates reduction, tax related waivers and exemptions, as well as liquidity support measures.

- Decree of the President of the Republic of Uzbekistan *"On Priority Measures to Mitigate the Negative Impact on Economic Sectors of the Coronavirus Pandemic and the Global Crisis"* No. 5969 dated 19 March 2020, stipulating the ability of business entities to obtain force majeure certificates from the MIFT to mitigate contractual obligations impacted by COVID 19; and

- Resolution of the Cabinet of Ministers of the Republic of Uzbekistan *"On Additional Measures Against the Spread of Coronavirus Infection"* No. 176 dated 23 March 2020, stipulating incentives and assistance from the state for businesses.

10.3.3. Sector Specific Laws

Foreign investment in certain sectors is subject to sector-specific laws and regulations that generally apply equally to both domestic and foreign investors, with a few exceptions where restrictions are placed on foreign ownership. Some of the regulated sectors in Uzbekistan include banking, insurance, airlines, railways, power generation, mass media and other sectors deemed related to national security. For instance, the Law of the Republic of Uzbekistan *"On Amendments and Additions to Banks and Banking Activities Act"* No. SRU-580 dated 5 November 2019 restricts the total share of non-residents (that are not international financial institutions, foreign banks and other credit organizations) to not exceed 50 % of the bank's charter capital. Further, prior authorization of the Central Bank is required in case non-residents want to buy more than 5% of local bank's shares.

10.3.4. Public Access to Foreign Investment Laws and Policies

Publication of laws is a mandatory condition for the laws to come into force and effect in Uzbekistan. More specifically, Article 28 of the Law of the Republic of Uzbekistan *"On Normative Legal Acts"* № ZRU-342 dated 24 December 2014 ("Law on Normative Legal Acts") stipulates that all normative legal acts and regulations must be published in official publications to be effective. All laws and regulations come into force from the date of their official publication, unless the acts themselves specify a later date. The law further stipulates that no one can be convicted, punished, or deprived of property or any rights under a law that has not been officially published. It also mandates the publication of regulations of ministries, government committees, departments and public authorities on the official websites of the authorities that have adopted them within one day after the official publication of the legislation.

Similarly, Article 20 of the Investment Law states that legal acts that are not officially published for public information do not entail legal consequences and cannot serve as a basis for regulating investments or imposing sanctions for any noncompliance with the requirements of the unpublished legal acts. It also mandates governmental bodies and public authorities to publish information about their participation and decisions in relation to investment activities through the mass media, including on their official website, so as to provide individuals and legal entities with open and unimpeded access to information about the activities of governmental bodies and public authorities and their decisions in the field of investment activities. Normative acts that were not published cannot become a ground for regulation, imposition of sanctions for non-compliance, and they cannot be referred to in courts. The Law on Normative Legal Acts stipulates the official publication sources for the Constitution, the laws of the Republic of Uzbekistan, the rulings of the Chambers of Oli Majlis of the Republic of Uzbekistan, the decrees, and decrees of the President of the Republic of Uzbekistan which are the *"Bulletin of Chambers of Oliy Majlis"* and *"Assembly of Legislation of the Republic of Uzbekistan",* among others.

Public review of the legislation, presidential decrees and government decisions is achieved through the website https://regulation.gov.uz. Uzbekistan's legislation digest (http://www.lex.uz/) serves as a centralized online location for current legislation in effect. Also, legal acts relating to particular state bodies are published on their official websites. For example, the website of Ministry of Investment and Foreign Trade (MIFT) publishes the legal acts that govern the agency at: https://mift.uz/ru/menu/pravovye-osnovy-vneshneekonomicheskoj-brdejatelnosti-i-dejatelnosti-ministerstva. Another example is the website of the Ministry of Economy Development and Poverty Reduction: https://mineconomy.uz/ru/node/73. The MIFT website (http://mift.uz/) also provides general information on laws and procedures, but mainly in the Uzbek and Russian languages.

10.3.5. Consultation with Stakeholders

The Law on Normative Legal Acts provides for public and stakeholder consultations before a new bill is enacted into law, but does not mandate such consultations. It specifically states that a working group may be set up comprising of representatives of the relevant development units, ministries, government committees or departments responsible for relevant industries, other interested government bodies, scientific organizations, as well as citizens having the relevant knowledge and experience necessary to prepare draft regulations and provide recommendations. It also states that the drafted legislation may be submitted for public discussion and any proposals and comments made during the discussion of the draft regulation are advisory in nature and are subject to review by the drafting ministry or agency.

Further, the law states the drafting organization will post the draft bill on the joint portal of interactive government services of the Republic of Uzbekistan with the aim of holding public discussions. Drafts of some legislation are published on a government website (https://regulation.gov.uz) for public consideration and comments. However, no timeline or statutory period is prescribed for which the laws, regulations, or other measures are required to be made publicly available for comments prior to their passing and lack of specific information and transparency can inhibit public engagement. The Law *"On the Rules of Procedure of the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan",* Section III on the Procedure for Considering Laws and Regulations in the Legislative Chamber, as amended by Law No ZRU-369 dated 29 December 2015, as amended 8 January 2019, also provides for public consultations on draft laws and the Law "*On the Public Discussions of Bills*" No. 166-II dated 14 December 2000, sets out principles of public discussions including their publication in newspapers and other mass media. The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "*On Measures for the Introduction of a System of Assessing the Impact of Legislative Acts on Business Activity*" No. 328 dated no. 328 dated 2 December 2014 also calls for a single portal of interactive state services of the Republic of Uzbekistan for discussion and assessment of impact of new laws on business activity and the proposals of the participants are subject to mandatory consideration by the state and economic authorities and the drafters of the new legislation.

Notably, however, the majority of laws take the form of by-laws and ministerial rulemakings and only a small percentage of the primary legislation being passed may undergo public consultation process. The heavy reliance on secondary law-making leads to effectively circumventing any requirement for public consultation.

10.4. Key Institutions for Investment Promotion

Uzbekistan has a national-level investment promotion agency charged with investment promotion functions for all economic sectors, including attracting FDI into Uzbekistan. There are also sub-national level or local agencies specifically charged with promoting investments in their respective regions.

10.4.1. National Level Institutions

The Ministry of Investment and Foreign Trade (MIFT), established in 2019, is the central government agency responsible for forming, managing and overseeing investment policy and regulating various areas of economic activity and developing business in Uzbekistan, including promotion of foreign investment in Uzbekistan. Pursuant to Article 26 of the Investment Law, the MIFT is empowered with the following strategic functions:

- **Consulting with potential investors** on legal, economic and other business issues and providing necessary assistance in resolving emerging issues;
- **Implementing the unified state investment policy** and coordination of activities of state bodies in the field of investment regulation;
- **Ensuring interaction on investment cooperation of public administration bodies**, local government bodies and economic management bodies with foreign competent authorities;
- **Attracting foreign investment**, implementing effective interaction with international economic and financial institutions, foreign governmental financial organizations bilaterally and multilaterally;
- **Participating in preparation, coordination and signing of international agreements** of the Republic of Uzbekistan on investment cooperation;

- **Providing continuous feedback to investors**, assistance to regions and domestic companies in attracting investments, and organization of investment proposals development;
- **Expansion and strengthening of trade cooperation** of the Republic of Uzbekistan with foreign countries, support of export of commodities, works and services;
- **Promotion of the foreign trade infrastructure development**; and
- **Improving the normative-legal base for attracting investments**, development of investment climate and investment activity in Uzbekistan.

The Investment Promotion Agency ("Agency"), a subordinate agency under the aegis of MIFT, was established in 2019 in accordance with the Decree of the President of 28 January 2019 "*On the Organization of the Activities of the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan*" to attract foreign investment.

The Agency's mandate and strategic objectives are set forth in the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "*On the Organization of Activities of the Agency on Attraction of Foreign Investments under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan*" No. 621 dated 24 July 24 2019, which include:

- **Participation in the implementation of a unified state investment policy aimed at attracting foreign investment** into the country, creating favorable conditions for foreign investors, taking into account the country's economic, social and environmental interests
- **Providing informational, legal and other support to foreign investors**, and providing assistance with organizing interaction with government bodies and organizations and domestic investors, and providing assistance in solving emerging issues in the field of investment activity;
- **Conducting outreach to foreign business circles through media** about the advantages created in the Republic for foreign investors, including favourable conditions, guarantees, privileges and preferences provided to foreign investors;
- **Serving as a reliable intermediary between foreign investors and domestic entrepreneurs** in the implementation of beneficial investment projects; and
- **Forming and maintaining information databases of investment projects** in the country with participation of foreign investments and conducting system monitoring of the implemented projects; and
- **Promoting the Republic of Uzbekistan as an investment destination.**

The Agency is not empowered with any regulatory functions but rather its mandate is to promote and attract foreign investment in the country.

The Office of the Commissioner for Protection of Rights and Legitimate Interests of Investors under the President of the Republic of Uzbekistan was established in 2019 pursuant to Article 33 of the Investment Law and the Presidential Decree "*On Measures to Radically Improve the System of Protection of Business Activities and Optimization of the Activities of the Prosecutor's Office*" dated 1 April 2019. More details about the objectives and the functioning of the Commissioner's Office are available at the official website https://biznesvakil.uz/en/menu/directions/. Among other functions, the Commissioner is empowered to participate in the design and implementation of state policy in the field of entrepreneurship development, protection of rights and legitimate interests of business entities, oversee the observance by state bodies of rights and legitimate interests of business entities and provide them legal support, deal with appeals of investors arising in the course of investment activities in the country, and make recommendations for their resolution, including interacting with public authorities and local authorities. The public administration body and the local government body that receive the recommendations are mandated to provide a written response to the Commissioner for the protection of the rights of investors on issues under consideration.

10.4.2. Facilitation Services to Foreign Investors

While there are no specific laws or regulations mandating governmental bodies or agencies to provide facilitation services to foreign investors, such services are provided by the Agency as part of its mandate. General information on the investment climate and opportunities overview, investment legislation, investment offers, investment projects implementation database, incentives, special economic zones, and other information about foreign investment activities are available at the Agency's Portal at: http://invest.gov.uz/. Certain facilitation services are also provided by the Chamber of Commerce and Industry of Uzbekistan (http://www.chamber.uz/en/index).

10.4.3. Sub-National Investment Promotion Agencies

At the sub-national level, investment promotion is undertaken by Territorial Administration Offices of the MIFT and the Regional Representatives of the Agency. Both representatives of the Agency and MIFT are located in all 12 regions of the Republic of Uzbekistan. The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan № 4 dated 04 January 2019 and the Decree of the President of the Republic of Uzbekistan № UP-5511 dated 15 August 2018 introduced an experiment on the development of investment climate in the Republic of Uzbekistan, granting the local municipal authority of Tashkent city (Khakimiyat, equivalent to the Governor's Office) additional authority for attracting foreign investments. The Agency coordinates with its Regional Representatives and the MIFT coordinates with Territorial Administration Offices and local authorities in the regions to attract foreign investments.

10.5. Foreign Investment Promotion Strategy

In 2017, the government published its core "Strategy of Actions in Five Priority Areas for the Development of Uzbekistan, 2017-2021" ("Development Strategy"). The strategy sets out a comprehensive program of reforms, including political, administrative and judicial aspects, economic liberalization, foreign policy, rule of law and good governance, and it includes specific sectoral plans in transport, energy and industry. The priority areas of economic development and liberalization are:

- **Strengthening of the macroeconomic stability** and the maintenance of high rates of economic growth;
- **Improving the economy's competitiveness** through structural reforms, modernization and diversification of its leading industries;
- **Continuing of institutional and structural reforms aimed at reducing the state's presence in the economy**, strengthening the protection of rights and priority role for private property;

- **Integrated and balanced socio-economic development of provinces**, districts and cities, optimum and efficient use of their potential;
- **Modernization and acceleration of the development of agriculture**;
- **Removing barriers and creating a favorable business environment**.

Each year, the government issues annual strategies to reinforce the Development Strategy and highlight the areas of economic priorities for the country. In October 2020, the Decree of the President of the Republic of Uzbekistan "*On Approval of Strategy "Digital Uzbekistan-2030" and Measures for its Effective Realization*" No. UP-6079 dated 5 October 2020 issued by the GOU sets forth various measures to accelerate the development of digital industry and the digital transformation of regions and industries in the country to realize the goals of the Development Strategy.

In 2019, the President of Uzbekistan established the Foreign Investors Council ("Council"). The Council represents an advisory body to the President responsible for advising the government on improving the investment climate and the most important areas of investment, industrial, technological and innovative development of the country. he establishment and organization of activities of the Foreign Investors Council was approved by the Resolution of the President of the Republic of Uzbekistan No. PP-451 dated 13 November 2019. The Council serves as an institutional platform for direct dialogue between the GOU and representatives of investors, including foreign companies, banks, and international financial institutions operating in the Republic of Uzbekistan, coordinated by the MIFT. The Council's main tasks and functions are:

- **Development of a favorable, non-discriminatory, transparent and constructive business environment in Uzbekistan** to attract foreign investment through facilitating constructive dialogue between local government bodies and representatives of foreign investors to address the most pressing issues of economic and private sector development, improve the business environment and stimulate investment;
- **Effective identification of main barriers to attracting foreign investment in various sectors** and developing measures to ensure a favorable business environment and investment climate in the country, as well as developing and proposing appropriate amendments to the laws of the country;
- **Development of recommendations to eliminate barriers** through the joint efforts of government bodies and representatives of foreign investors, including drafting of relevant regulatory legal acts for consideration by the government and other state bodies; and
- **Facilitating the exchange of experience and best practices in the field of reform from other countries** and participating in the development of a strategy for coordinating and prioritizing the investment policy of the country and attracting foreign investment.

The Council consists of an executive committee, working groups, and a secretariat. The Council meeting is in the form of plenary annually and interim sessions at least twice a year.

10.5.1. Findings and Recommendations

The following table summarizes the main findings and recommendations from this chapter and provides useful references to practical toolkits, cases studies and other relevant materials.

Table 2: Main findings and recommendations from this section

Findings	Recommendations	Reference and links to international best practice examples, case studies, etc.
FDI strategic framework		
Uzbekistan does not have an FDI strategy that links to its national development goals.	✓ Review sector priorities for FDI attraction in light of COVID-19 and other global FDI megatrends: conduct a rapid sector scan to identify a small number of priority target sectors for FDI attraction. ✓ Develop an FDI strategy that prioritizes sectors, reforms and activities according to the country's value proposition and economic and social development goals.	An FDI strategy for Ireland: Driving Recovery and Sustainable Growth 2021-2024: https://www.idaireland.com/about-ida/driving-recovery-and-sustainable-growth-2021-2024 IDA Ireland COVID-19 Response Plan: https://www.idaireland.com/newsroom/publications/ida-ireland-covid-19-response-plan Next Generation FDI Strategy and Roadmap 2018 2030 for Vietnam *[separate attachment to this report]* National Investment Strategy for 2018-2022 of Kazakhstan [*see Box 2 below]*
FDI policy and legislation		
The new Investment Law of 2019 streamlined the legislation for investments. However, the law can still be strengthened to provide greater clarity and eliminate remaining ambiguities, specifically related to investor protections and guarantees.	✓ Review the Investment Law and benchmark it with international good practice. ✓ Adopt targeted amendments to the Investment Law, specifically related to modernizing investor protections and guarantees. ✓ Ensure alignment with bilateral investment treaties (BITs) and International Investment Agreements (IIAs) that Uzbekistan has ratified.	World Bank Group / IFC detailed review and assessment of the 2019 Investment Law, including specific, clause-by-clause guidance for improvements *[separate attachment to this report]*

Uzbekistan has a large number of 'old-style' investment treaties in place, including unqualified definitions and ambiguous formulations that expose the country to a high risk for investor state disputes.	✓ Develop and officially adopt a new model BIT aligned with modern standards of investment treaty making. ✓ Develop a strategy for upgrading and re-negotiating 'old style' BITs.	World Bank Group IIA guidebook including detailed guidance, options and sample provisions for developing a model BIT based on good international practice and 'new generation' IIAs *[separate attachment to this report]*
Legislative transparency		
There is no centralized online portal where laws and regulations are published, and few official portals provide English language translations of local laws and regulations relevant to investors.	✓ Establish a central online portal with an up-to-date library of all primary and secondary legislation governing business. ✓ Provide English translations and / or other language translations for foreign investors (through automated online translation services).	Kazakhstan national legislative database https://online.zakon.kz/. Kyrgyz Republic online portal with all legal acts maintained by the Ministry of Justice (according to Art. 6d of government Decree No. 764 "On the Ministry of Justice, 2009): http://cbd.minjust.gov.kg/ru-ru/npakr/Search.
A significant part of regulations take the form of by-laws and ministerial rulemakings, effectively circumventing the requirement of public consultation for primary legislation.	✓ Mandate the online publication of all draft legislation / regulation concerning investment climate and require a minimum of 4 weeks for public consultations ✓ Establish consultation requirements also for by-laws and ministerial rulemakings that impact the establishment and operation of businesses. ✓ Require the publication of an annual report on all legislative changes related to investment climate. ✓ If necessary, the legislation on the legal process needs to be amended accordingly.	Kazakhstan portal for online consultations of laws and regulations: www.egov.kz, "Open Government" section Kyrgyz Republic Art. 18-20 of the Law "On Legal Acts" mandating stakeholder consultations prior to passing any law [*see Box 1 below*]
Investment promotion institutions		

The Investment Promotion Agency under MIFT needs to be empowered to become an effective national lead agency for the implementation of the government's investment attraction and promotion policies and programs.	✓ Strengthen the governance framework for the agency by effectively putting in place a Board of Directors to oversee strategic matters and operational results in line with international best practice. ✓ Strengthen the agency's operational effectiveness through defining standard operating procedures in line with international best practices, enhancing the agency's financial, human and technical resources, and developing a corporate business plan including specific priorities and annual targets. ✓ Develop and implement an outcome-oriented, focused and proactive outreach program targeting a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities. ✓ Develop and implement an outcome-oriented, focused and proactive aftercare program targeting a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities. ✓ Improve inter-agency cooperation among national and municipal level agencies and actors involved in various investment functions by implementing formal coordination tools.	Strengthening Service Delivery of Investment Promotion Agencies - The Comprehensive Investor Services Framework: https://openknowledge.worldbank.org/handle/10986/33498 Increasing the Development Impact of Investment Promotion Agencies in: Global Investment Competitiveness Report 2019/2020: https://elibrary.worldbank.org/doi/full/10.1596/978-1-4648-1536-2_ch5 State of Investment Promotion Agencies – Evidence from a WAIPA-WBG joint global survey 2020: http://documents1.worldbank.org/curated/en/499971594008431029/pdf/State-of-Investment-Promotion-Agencies-Evidence-from-WAIPA-WBG-s-Joint-Global-Survey.pdf Investor Outreach in Tunisia: https://openknowledge.worldbank.org/handle/10986/34443 IDA Ireland COVID-19 Response Plan: https://www.idaireland.com/newsroom/publications/ida-ireland-covid-19-response-plan Case Study: Invest India [*See Annex 3*] National-Subnational Coordination for Investment Attraction – the case of Spain: http://documents1.worldban

		k.org/curated/en/503651614752434734/pdf/National-Subnational-Coordination-for-Investment-Attraction-The-Case-of-Spain.pdf Upcoming World Bank Group / IFC rapid assessment of the investment agency including detailed recommendations for enhancing its operational effectiveness

Box 1: Public consultations on draft legislation in the Kyrgyz Republic according to the Law "On Legal Acts"

According to Art. 18-20 of the Law "On Legal Acts" the government is required to ensure consultation on draft laws with stakeholders through the following mechanisms:

- The planning of the draft laws must take into account the proposals made by the President, members of Parliament, public sector stakeholders, think tanks and civil society.
- The draft laws targeting business activity must undergo the regulatory impact analysis.
- The draft laws covering new types of government regulation of the entrepreneurship must undergo legal, environmental, anti-corruption and other types of expert evaluation.
- With the exception of the draft laws produced by the Supreme Court of the Kyrgyz Republic all other draft laws targeting business activity must undergo public hearings and be accessible on the website of the law initiating body and/or mass media. The public hearings process includes publication of the draft law text, collection and consideration of feedback, and preparation of the summary report on feedback considered or not considered in the draft law and included in the background statement.

Art. 23 of the Law "On Legal Acts" requires the government to hold public hearings of a draft law shall last at least one month following its publication. However, this duration is not applicable to the draft laws regulating the rights of citizens and legal entities under force majeure.

Box 2: National Investment Strategy for 2018-2022 of Kazakhstan

Kazakhstan has an investment strategy adopted in 2015 and updated in 2017[125] and valid from 2018-2022. It includes the programs to attract FDI to the country. The objectives of the program for attracting investments are the (1) improvement of the investment climate of the Republic of Kazakhstan, (2) the implementation of effective operational measures and development of new approaches to attract investment, and (3) compliance of the privatization plan and public-private partnership mechanisms with the priorities of attracting foreign investment. Each of the objectives includes specific actions and indicators of achievements. The main institutions in charge of implementing the program are the government Council on attracting investors and the Ministry for Investments and Development.

10.6. Investment Entry and Establishment

10.6.1. Market Entry and Sectoral Limitations

The Investment Law does not expressly prohibit or otherwise restrict foreign participation in any business activities and there is no negative list published by the GOU. However, it expressly excludes certain areas of investments from its ambit, such as centralized investments, concessions, the conclusion, execution and termination of production sharing agreements, regulation of the capital market, including operations with securities, public-private partnership, and special economic zones, which are regulated by separate laws. Further, the Investment Law generally states that laws may, in accordance with the country's international treaties and generally recognized principles and norms of international law, restrict foreign investment in certain areas of the economy and for the protection of public health, animal and plant life, the environment, as well as protection of the country's national security interests.

Certain sector specific federal laws and regulations issues by the relevant ministry or government agencies may also prescribe restrictions on FDI. For example, the Uzbek banking regulations "***On Amendments and Additions to Banks and Banking Activities Act***" No. SRU-580 dated 5 November 2019 limit foreign participation in Uzbek banks to 50%.

Overall, the Investment Law provides a framework which appears to be substantially open for foreign investment in all forms and in all areas of business activities available to a domestic investor, and the general position is that 100% foreign equity is permitted in a sector or sub-sector. In reality, however, foreign investment in certain sectors, particularly those dominated by state-owned enterprises or SOEs (such as energy, metallurgy, mining, telecommunications, and transportation), may not present a permissive environment in the country. Further, investments in certain areas of national security, public health and safety, natural resources, financial services, broadcasting, education, tourism and power plants require investors to obtain a license as described below.

[125] Resolution No. 498 of 2017 On approval of the Programme for attracting investments "National Investment Strategy" and making amendments to the Resolution No. 1136 of the government of the Republic of Kazakhstan dated December 30, 2015 On Approval of the List of Government Programmes and Repeal of Certain Decisions of the government of the Republic of Kazakhstan.

10.6.2. Restricted Sectors

The Law on Denationalization and Privatization adopted in 1991 (amended in 2017) prohibits denationalization and privatization of a number of areas operated by the State. Pursuant to Article 4 of the Law, these areas include strategic state-owned facilities that affect national interests, such as: land with mineral and water resources; air basin; flora and fauna; cultural heritage sites; state budget funds; enterprises that facilitate monetary circulation; the Central Bank of Uzbekistan; gold reserves; military and security-related assets and enterprises; weapons, hunting/sporting firearms and ammunition producers; nuclear research and development enterprises; producers of narcotics and toxic chemicals; emergency response, civil protection and mobilization facilities; transportation of explosives; public roads; and cemeteries. Article 4 also enumerates certain areas and state-owned entities (SOEs) that may be privatized at the GOU's discretion upon the issuance of the relevant presidential resolution, which areas include: mining, telecommunications, printing and publication houses, encryption equipment production, repair and sale, metallurgy, postal services, health care facilities, transportation and infrastructure facilities.

This Law and several decrees and regulations govern the scope of specific privatization programs in Uzbekistan as well as related regulatory and administrative frameworks. In recent years, the GOU has undertaken several measures via specific decrees to simplify the privatization process and privatize SOEs in certain non-strategic sectors. In particular, the Decree of the President of the Republic of Uzbekistan "*On the Strategy of Actions on Further Development of Uzbekistan*" dated 7 February 2017 underscores the necessity to simplify the process and extension of the scope of privatization programs in the country. Further, the Presidential Decree of the Republic of Uzbekistan "*About Measures for the Accelerated Reforming of the Companies with Participation of the State and Privatization of the State Assets*" No. UP-6096 dated 27 October 2020, as amended on 11 February 2021, identifies 32 of the largest SOEs to be fully or partially privatized as part of the GOU's broader economic reform program launched in 2017.

By law, foreign investors are permitted to participate in the privatization process similar to the local investors without any discriminatory limitations. However, the scope of such efforts remains largely limited and in most cases only up to 49% of shares in the charter capital of SOEs are offered for privatization as a result of which the expansion of the private sector in key sectors of the economy remains constrained. As noted above, SOEs dominate the key sectors of the country's economy, such as energy, metallurgy, mining, telecommunications, and transportation, and this is likely to continue in the near future.

Listed below is a summary of the Restricted Sectors under certain sector specific regulations.

Table 3: Sector specific restrictions for foreign equity participation

Sector	Foreign Equity Participation Restrictions
Banking	Up to 50% foreign equity
Insurance	Up to 50% foreign equity
Mass media	Up to 30% foreign equity

Foreign investors are not generally required to form a joint venture in order to establish a business in Uzbekistan. However, the Restricted Sectors mandate a threshold percentage of Uzbek participation. In such sectors, a foreign investor must by default form a joint venture with a local partner in order to meet the Uzbek participation requirements. Similarly, mergers and acquisitions by foreign investors are not restricted in the country but they may be subject to clearance from the Uzbek antimonopoly regulator if they meet certain thresholds. However, certain Restricted Sectors impose local participation requirements for shareholding that must be complied with.

10.6.3. Forms of Establishment

Foreign investors may do business in Uzbekistan either by incorporating legal entities in Uzbekistan (a limited liability company or joint stock company) or acting through foreign registered companies by establishing representative or branch offices of foreign legal entities in the country. Apart from the Restricted Sectors, there is no statutory prohibition against the establishment of a wholly foreign-owned subsidiary, subject to obtaining the necessary regulatory approvals to carry on its business activities in the country. Further, no special restrictions apply on the legal forms of companies that foreign investors can establish or invest in the country.

Foreign investors must follow specific rules to establish branch office and representative office in the country, which are treated as a subdivision of a foreign legal entity. Both are subject to mandatory accreditation with the MIFT but certain industries can have special accreditation bodies. For example, the Central Bank of Uzbekistan is responsible for the accreditation of representative offices of foreign banks. Accreditation provides an official status for the branch and representative office for the specified period of 1-3 years, and allows the branch office to engage in commercial activities in the country (whereas representative offices cannot engage in commercial activities). The procedure of accreditation and permitted activities of representative offices are prescribed by the Resolution of the Cabinet of Ministers No. 410 dated 23 October 2000.

10.6.4. Economic Needs Test for FDI

Under Uzbek law, in principle the FDI is not subject to an economics needs test. However, in case of investments in special economic zones, an investor is required to demonstrate that the investment relates to the production of new types of products that are not manufactured in the country or whose production volumes in the country do not cover the needs of the domestic market.

10.6.5. Minimum Investment Requirements

There are no general minimum investment requirements for FDI in Uzbekistan. Particular investment forms and projects (e.g., public-private partnership, special investment project) may entail minimum threshold investment amounts in the investment agreements entered between the investor and the State, but they are not specific to foreign investors as they can apply equally to both domestic and foreign investors. However, under the Presidential Decree "*On Measures for Cardinal Improvement of Investment Climate in the Republic of Uzbekistan*" No. DP-5495 dated 1 August 2018, for a local company to qualify as an "enterprise with foreign investment" ("EFI"), it must have authorized capital of at least 400 million UZS (circa USD 40,000), and at least 15% of the authorized capital should be owned by a foreign investor. Without meeting the foregoing criteria, a local company will not be considered an EFI, as a result of which it will not be eligible for additional preferences and exemptions provided to EFIs under the Investment Law, such as: (i) the right to open accounts in foreign banks and receive and repay loans in foreign currency; (ii) the right to import products for its own production needs without a license; (iii) exemption from customs duty payment for products imported for its production needs for a period of two years; and (iv) the right to long term lease of non-agricultural land for up to 50 years for investment projects.

10.6.6. Quantitative and Geographical Limits

There are generally no mandatory quantitative limits on the number of foreign service providers, enterprises or market players that can operate in a given sector.

10.6.7. Restrictions on Expatriate Appointments

No special conditions or restrictions are generally placed on foreign investors with respect to the appointment of expatriates on the boards of local companies or in key managerial positions, subject to obtaining work permits or visas and complying with immigration rules. The Presidential Decree "*On Measures for Creation of Favorable Conditions for Labor Activity of Qualified Specialists from Foreign Countries in the Territory of the Republic of Uzbekistan*" No. PP-4008 dated 7 November 2018 aims at simplifying the employment procedure for highly qualified and qualified foreign specialists.

There are no laws or regulations that require foreign investors to hire local staff in order to establish business in the country, with few exceptions. For example, product sharing agreements granting the exclusive prospecting, exploration and mining rights to foreign investors within the territory of Uzbekistan, must ensure that at least 80% of the total employees are Uzbek citizens and the foreign staff cannot exceed 20% of the total workforce unless there is a shortage of skilled local workforce, pursuant to the Law of the Republic of Uzbekistan "*On Product Sharing Agreements*" № 312-II dated 7 December 2001. Similarly, the Law of the Republic of Uzbekistan "*On Special Economic Zones*" № ZRU-604 dated 17 February 2020 requires that at least 90% of the workers employed by an enterprise in a free economic zone are Uzbek citizens.

10.6.8. Local Sourcing and Local R&D Requirements

There are no general laws in Uzbekistan that require foreign investors to use locally produced materials or contractors in order to establish a business in the country. However, local sourcing requirements and preferences may apply to public procurement for state controlled companies and their subsidiaries (e.g., more than 50% shares owned by the State). For example, the Presidential Resolution "*On Additional Measures to Create Favorable Conditions for Further Development of the Electrical Industry and to Increase the Investment and Export Potential of the Industry*" №PP-4348 dated 30 May 2019 applies a price preference of up to 20% in public procurement of electrical and electrical products, including strategic public procurement, from local producers. Similarly, the Presidential Decree "*On Further Measures for the Accelerated Development of Pharmaceutical Industry of the Republic in 2019 – 2021*" №UP-5707 dated 10 April 2019 provides for priority to be given to local producers for public procurement in pharmaceutical and medical spheres.

Foreign investors are not required to invest in local R&D in order to establish a business in Uzbekistan. However, it may be beneficial for a foreign investor to make investments in local R&D to sell products to public customers (including state-owned companies and other customers that must observe public procurement requirements). Due to the import substitution trend, public customers often have to give preference to "local" products that originate from Uzbekistan. Product localization implies that a product undergoes "sufficient processing" locally and, in certain cases, contains locally added value, such as local R&D, local components, etc. Hence, in such cases investment in local R&D may allow the investor to duly localize a product and confirm the product's local origin for purposes of selling to the state.

In 2020, in response to the global coronavirus pandemic's restrictive impact on the production activities of enterprises in a number of industries and sectors of the economy, the Presidential Resolution "On Additional Measures to Support Domestic Producers" No. PP-4812 dated 21 August 2020, established measures to increase participation of domestic producers in the country's public procurement system. It also calls for a mechanism of temporary prohibition and restrictions on procurement of certain goods of foreign origin as well as services from foreign persons by state companies, requiring localization for products to qualify for certain preferences over foreign products in public procurement.

Similarly, the Resolution of the Cabinet of Ministers "**On Measures to Organize the Activities of the Technology Park of Software Products and Information Technology**" No. 17 dated 10 January 2017, provides incentives to start-ups and enterprises engaged in local R&D in priority areas of software products and information technology.

10.6.9. National Treatment and Discriminatory Conditions

The Investment Law guarantees fair and equal treatment of foreign investors, and full and permanent protection and security, stipulating that the legal treatment of activities of foreign investors and the use of profits received from investments cannot be less favorable than that applicable to domestic investors, subject to certain exceptions only to the extent necessary to protect public health, animal and plant life, the environment, as well as to protect the country's national security interests.

10.6.10. Foreign Investment Approval

No FDI approval is required from the government authorities. Instead, all investors (whether domestic or foreign) engaging in any activities specified under the Law "On licensing, permitting and notification procedures" #ЗРУ-701 of July 14, 2021, are required to obtain a license from the appropriate licensing authority. A license is defined as a permission to carry out a licensed activity, subject to mandatory compliance with licensing requirements and conditions, issued by the licensing authority to an investor. It is a prevalent tool of state control in Uzbekistan, which the GOU utilizes to scrutinize and control foreign investments in strategic sectors of the country's economy.

Under this Law, the regulatory body of licensing is the Cabinet of Ministers of the Republic of Uzbekistan. The Agency of state services under the Ministry of Justice conducts permanent monitoring over the licensing practice through special electronic system (which the Agency operates) and undertakes its analysis, prepares proposals on improvements.

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10.6.11. Predictability and Stability of Regulatory Environment

The 2019 Investment Law guarantees regulatory predictability and stability to foreign investors. The law stipulates that newly introduced legislative provisions that worsen the investment conditions will not apply to detrimentally impacted investors and the legislation in force on the date of investment will continue to apply to investors within ten years from the date of investment in the certain cases enumerated in Article 19, which include:

- **Changes that complicate repatriation or reduce the size of income (profit) investor**, transferred abroad;
- **Imposition of quantitative restrictions on the volume of investment** and other additional requirements for the amount of investment;
- **Imposition of restrictions on the share participation of a foreign investor** in the authorized funds of enterprises of the Republic of Uzbekistan; and
- **Imposition of additional procedures for registration and extension of visas** for foreign investors, as well as other additional requirements for foreign investment.

The same law allows foreign investors at their own discretion to apply those provisions of a new legislation which make conditions for investment better. However, the guarantee does not apply if the new regulation or amendments to legislative acts, or new federal laws and other regulatory acts are introduced or adopted for national security interests of the country.

10.6.12. Findings and Recommendations

The following table summarizes the main findings and recommendations from this chapter and provides useful references to practical toolkits, cases studies and other relevant materials.

Table 4: Main findings and recommendations from this section

Findings	Recommendations	Reference and links to international best practice examples, case studies, etc.
FDI entry and establishment		
Restrictions on FDI are scattered across several sectoral laws – for example in insurance, mass media and banking sectors. The dispersed restrictions on FDI can make it difficult for foreign investors to identify upfront the rules applicable to them.	✓ Consider introducing a regularly reviewed Negative List that contains all market access restrictions for foreign investors as part of the Investment Law.	World Bank Group Investment Law Reform, A Handbook for Practitioners, Chapter 4 (Considerations for Entry of Foreign Investment) *[separate attachment to this report]* Example of a provision enabling a Negative List in an Investment Law [*see Box 3 below]*
There is wide discretionary authority in implementation of the licensing approval requirement for investment in strategic activities. There is no standard or transparent screening mechanism for granting of individual licenses.	✓ Publish administrative provisions related to the granting of licenses to increase the transparency of regulatory procedures, decision criteria and timelines. ✓ Establish a grievance mechanism to support compliance of the	

The conditions for granting of an approval are also not pre-determined and well defined, and can in fact be imposed on a case by case basis. The approval process itself is time consuming and is known to have lasted even upto a year or longer. The Government has implemented measures to reduce the number of activities requiring licensing and permits, but the regulatory landscape continues to be quite complex and opaque for foreign investors.	administration with the rules (see further below).	

Box 3. Example for empowering the government to establish a Negative List

List of restricted and reserved areas

(1) The Minister has the right to adopt a Regulation containing a list of areas restricted for foreign investments and areas reserved for domestic investments.

(2) The list adopted by the Minister according to Paragraph (1) shall be complete and exclusive.

(3) The instruments of reservation and restriction shall be applied as an exception and only in areas of the economy where domestic businesses are considered vulnerable and a restriction shall have preference over a reservation where the objective can be achieved by both measures.

(4) The Minister has the authority and duty to review the list regularly after consultation with the relevant Government stakeholders.

10.7. Investment Protection

10.7.1. Protection Against Expropriation

Investments in Uzbekistan are protected against nationalization and expropriation under the Civil Code of Uzbekistan and the Investment Law as well as under various laws and bilateral investment treaties and international treaties that Uzbekistan is a signatory to. Article 21 of the Investment Law expressly guarantees protection against nationalization and expropriation of investments, which applies to both foreign and domestic investors. It stipulates that investments and other assets of investors are not subject to expropriation, except in cases of natural disasters, accidents, epidemics, epizootics and other circumstances of an emergency nature. As such, any expropriation may take place only in the public interest on a non-discriminatory basis. The decision on expropriation of investments vests with the Cabinet of Ministers of the Republic of Uzbekistan, subject to the conditions that the expropriation:

a) Is limited to the minimum size of investments or assets necessary for the emergency;

b) It is not carried out on a discriminatory basis;

c) The investor is adequately compensated for the value of the seized assets in a transferrable currency and the state acts as a guarantor of the timely implementation of these compensation payments; and

d) The investor has the right to challenge in a court or by arbitration.

While the Investment Law uses the general term "investments" in connection with the expropriation guarantees, it can be inferred from the statute’s definition of "investment" that this protection would extend to a wide array of tangible and intangible values, cash, securities, lost profits, movable and immovable property, rights in rem, exclusive rights to intellectual property and services and information.

Pursuant to the Investment Law, foreign investors may be granted additional guarantees and support measures depending on the priority sectors of investments, which may include protection against expropriation granted under the investment agreements signed between the foreign investor and the State, as well as other benefits and preferences.

Further, pursuant to Article 61 of the Investment Law, investors may appeal the decisions of state bodies and actions of officials that violate or restrict their rights or interests. The Law also obligates the State to reimburse or compensate for any losses caused to investors as a result of an illegal administrative act of a state body (official) on the basis of a court decision, although no procedures and instruments exist to ensure fair compensation.

In practice, however, local courts tend to agree with state-assigned compensations and reject investor claims. In recent years, many lower level court rulings have been in favour of local governments and companies which failed to compensate foreign plaintiffs for the full market value of expropriated property, as required under the law. Thereby, in practice, the remedy to appeal in local courts on compensation amount for expropriation is ineffective. The overall quality of level of protection provided to foreign investors in Uzbekistan is weak, mostly due to the fact that despite strong legal protection (many protective measures and guarantees being formally provided by the law), actual enforcement of such provisions depends mostly on the State authorities responsible for their implementation and current political environment.

Article 203 of the Civil Code also provides protection against uncompensated taking of property. It stipulates that in cases of natural disasters, accidents, epidemics, epizootics and other circumstances of an emergency nature, property may be taken from the owner for public interest purposes by a decision of a state body in accordance with the relevant law, in which case the state must compensate for the property and the owner is entitled to demand in court the return of the property if the said emergency circumstances no longer exist. The Civil Code also permits the property to be nationalized in accordance with the relevant law, provided the state must compensate not only the full value of the property but also damages incurred by the owner.

In addition, the Resolution of the President No. 5491 (“Land Code”) provides that the State has a right to seize the land plots of an individuals or legal entities for the state or public purposes. Such seizure can be conducted only upon the payment of full compensation, which includes the market price of the seized land plot (including the market value of immovable property which is located on such plot) and damages which occur as a result of such seizure.

10.7.2. Restrictions on Inflow and Outflow of Funds

The Investment Law guarantees foreign investors the right to independently and freely dispose of income (including unimpeded repatriation) obtained as a result of investment activity, after paying taxes and other obligatory payments. The Law also expressly states that investors are guaranteed free transfer of funds in foreign currency to and from Uzbekistan without any restrictions, except in limited cases of insolvency and bankruptcy, criminal acts by the foreign investor, creditors rights, or when so directed by arbitration or a court decision.

Under the Investment Law, foreign investors are guaranteed the ability to freely convert their dividends, interest and other incomes to foreign currencies and transfer to their accounts in foreign banks for current cross-border or capital movement transactions without any limitations, subject to payment of taxes and other financial obligations in compliance with local legislation. Such transfers include:

- Initial and additional inflow of funds to support or increase foreign investment;
- Return on investment;
- Funds received as compensation for damages caused in accordance with the law;
- Payments made in order to fulfill contract terms;
- Proceeds from the sale of all or part of foreign investments;
- Payments arising from dispute settlements;
- Wages and other payments to employees; and
- Funds from other sources received in accordance with the law.

Further, Article 18 of the Investment Law guarantees the foreign investor's ability to repatriate its assets (in cash or kind) received as a result of the termination of investment activity in the country.

Uzbekistan's foreign currency regulations are set out in the Law On Currency Regulation No. ZRU-573 dated 22 October 2019 ("Law on Currency Control") and the various regulations issued by the Central Bank of the Republic of Uzbekistan ("Central Bank"). The Central Bank is the central monetary authority that regulates currency transactions in the country. The Law on Currency Control repealed the old Law On Currency Regulation No. ZRU 556 - II of December 11, 2003 and fully liberalized currency transactions.

The Law on Currency Control defines two types of currency transactions: current cross-border transactions and capital movement transactions. Article 15 of the Law on Currency Control defines the current cross border transactions to include payments in connection with foreign trade, other current activities, including services; interest and other income, bank deposits, loans, leasing, net income from investments; loan repayment with each installment not exceeding two times the amount to be paid for the given period per the loan agreement (if it exceeds the threshold, the loan transaction is classified as capital movement transaction); non-trade transfers (such as payment for goods for personal use, education, salaries etc.). Such transactions can be freely carried out by residents and non-residents without any limitations. Article 16 of the statute defines the capital movement transactions to include all cross border currency transactions that are not classified as current cross-border transactions, including:

implementation of investment activities, working capital injections by residents-legal entitles of their branches abroad; receiving and granting of credits and loans, implementation of leasing operations; purchase and sale of real estate; placement of funds to accounts and deposits in foreign countries; and acquisition or sale of the exclusive right to intellectual property. Such transactions are subject to certain compliances. The Article expressly stipulates that FDI investments in the country and repatriation as well as the realization of the rights acquired in connection with the FDI, can be freely carried out without any restrictions.

Inflow of Funds

Pursuant to the Investment Law and the Law on Currency Control, there are no limitations or restrictions on inflow of initial equity investment and foreign loans. Investors have a right to freely attract foreign loans and there are no restrictions on the amount that may be borrowed from foreign lenders.

The Presidential Resolution "On Measures to Improve the Process of Attracting and Developing Foreign Investments and Loans" No. RP-927 dated 24 July 2008 requires that the foreign loan agreements to be registered with the Central Bank prior to the disbursement of a loan. In addition, the law requires that all foreign loans are disbursed to the onshore bank account of the borrower located in Uzbekistan denominated in the respective currency. Pursuant to Article 11 of the "*Law on Currency Control***"**, residents engaging in foreign trade activity are required to "repatriate" (i.e., ensure receipt of monies) foreign currency proceeds from non-residents due under their foreign trade contracts (i.e., contracts providing for import/export of goods, performance of work, provision of services, provision of information and intellectual property, etc.) or loan agreements into their bank accounts with authorized Uzbekistan banks in accordance with the time periods in the relevant contracts (the "repatriation requirement"). The repatriation requirement is a mandatory provision of the law and applies to transactions between residents and its foreign counterparties irrespective of the provisions of the agreement between them. If the repatriation requirement is not met within 180 days from the date when non-resident's obligation arises, the underlying transaction would be qualified as a capital movement transaction.

Outflow/Repatriation of Funds

The Law on Currency Control does not impose any currency control restrictions or barriers to remitting investment returns overseas, including outflow of proceeds, payment of loans, dividends, return of capital, provided that the relevant contract/inflow proceeds or investment were compliant with the currency control requirements noted above. Article 21 of the Law on Currency Control permits the Central Bank to impose restrictions on currency transactions in the event of a threat to economic security or stability of the country or to counter the legalization of proceeds from crime, but it limits the term of such restrictions to no more than 1 year from the date they are introduced, following which period the restrictions are deemed cancelled, unless cancelled earlier by the Central Bank. Article 17 of the Investment Law also empowers the State to suspend the repatriation of funds of foreign investor on limited grounds, provided the suspension is imposed on a non-discriminatory basis. The grounds for suspension of outbound repatriation include insolvency and bankruptcy of a foreign capital enterprise, violations of the rights of creditors of foreign investor, criminal acts or administrative offences committed by foreign investor, or any other need for suspension of such repatriation according to judicial or arbitral awards.

The Resolution of the Board of the Central Bank No. 3281 stipulates the process of converting outbound currency, covering the following aspects:

1. Foreign currency account management of residents and non-residents;
2. Foreign currency sale and purchase in the domestic foreign currency exchange market by legal entities; and
3. Foreign currency exchange operations with individuals.

Uzbek laws do not establish any specific period of time within which the outbound transfers should be processed by the banks. In practice, however, the outbound transfers can be delayed due to the shortage of foreign currency reserves with local banks.

The Presidential Decree "On Priority Measures to Liberalize Exchange Rate Policy" dated 2 September 2017 abolished the administrative regulation of the foreign exchange market by the Central Bank and provided for full conversion of the national currency without restrictions. Consequently, investors can acquire foreign currency from commercial banks to pay for current cross border transactions, such as import of goods, works and services, repatriation of profits, repayment of loans, payment of travel expenses and other non-commercial transfers.

10.8. Dispute Resolution

Article 63 of the Investment Law prescribes the dispute resolution mechanism for disputes relating to foreign investment in the country or involving a foreign investor. Pursuant to the Article, the parties to the investment dispute must first try to resolve the dispute through negotiations, and if negotiations are unsuccessful, then mediation. If the dispute remain unresolved following negotiations and mediation, only then may the parties litigate the dispute in an economic court in Uzbekistan. If the dispute is "impossible" to be resolved after exhausting the foregoing remedies, the parties may resort to international arbitration but only if the corresponding international treaty or an investment agreement concluded between the foreign investor and the Republic of Uzbekistan includes a valid arbitration clause. The Law does not shed any light on when or at what stage would a dispute be deemed "impossible" to settle, which can raise challenging issues for foreign investors if the parties to an investment agreement did not provide their explicit consent for arbitration or, in case if there is no arbitration contemplated in the international treaty of the Republic of Uzbekistan relative to the foreign investor. Further, it is unclear whether the word "impossible" would include cases when foreign investor is not satisfied with the decision of the local court, and whether dissatisfaction may yield a right to the investor to submit the dispute to international arbitration.

The Resolution of the Cabinet of Ministers "On Additional Measures to Stimulate the Attraction of Private Foreign Direct Investment" No. 180 dated 11 April 2005, explicitly provides that the disputes arising from an investment agreement between a foreign investor and the State can be settled in foreign courts or by international arbitration. Further, the Resolution No. 180 provides a model investment agreement between the government of Uzbekistan and the foreign investor, and Article 11 provides that it is upon the discretion of the parties to choose the dispute settlement mechanism, and there is no requirement to exhaust the national remedies before initiating international arbitration. Thereby, the application of dispute settlement mechanism does not require to exhaust all local remedies prior to applying to international arbitration. If the both parties explicitly provided their consent to international arbitration (without going to local courts), such consent will be valid.

In accordance with Article 23 of Investment Law, in case of discrepancies between Investment Law and other local legislative acts, or between local acts and foreign agreements to which Uzbekistan is a party, provisions which are the most beneficial for the investor shall be applicable. Thereby, provision of Resolution No. 180 providing that the disputes arising from the investment agreements can be settled in foreign courts or in international arbitration, may release the foreign investor from following the dispute settlement mechanism provided under the Article 63 of Investment Law.

Further, the Investment Law recognizes the primacy of international law and provides that in case of discrepancy between provisions of Uzbek regulations and international treaties to which Uzbekistan is a party, provisions of international treaties shall prevail. Accordingly, if an international or intergovernmental agreement provides for the resolution of disputes between the investor and the government in international arbitration, such an agreement will prevail.

Table 5. Uzbekistan and selected neighboring countries on various protection and governance indicators

Organization	Indicator	Uzbekistan	Kazakhstan	Kyrgyz Republic	Russia	Tajikistan
Heritage Foundation-Index of Economic Freedom	*Overall Rank (2020)*	114/180 (mostly free)	39/180 (moderately free)	81/180 (moderately free)	94/180 (moderately free)	155/180 (mostly unfree)
World Bank's Doing Business (2020)	*Overall Rank (2020)*	69/190	25/190	80/190	28/190	106/190
Transparency International	*Corruption Perception Index 2019*	153/198	113/198	126/198	137/198	153/198
World Justice Project (2020)	*Rule of Law Index*	92/128	62/128	87/128	94/128	n/a
	Regulatory Enforcement[126]	96/128	65/128	95/128	73/128	n/a
Credendo (No ranking)	*Expropriation Risk*	6/7 (High risk)	4/7 (Medium risk)	5/7 (Medium to high risk)	5/7 (Medium to high risk)	5/7 (Medium to high risk)
	Currency Inconvertibility Risk	5/7 (Medium to high risk)	5/7 (Medium to high risk)	6/7 (High risk)	4/7 (Medium risk)	7/7 (High risk)
Milken Institute (Global Opportunity Index – 2020)[127]	*Global Opportunity Index*	n/a	39/136	79/136	55/136	87/136
World Economic Forum – Global Competitiveness Index (2019)	*Global competitiveness overall*	n/a	55/141	96/141	43/141	104/141
	Institutions Pillar	n/a	64/141	93/141	74/141	78/141
	Efficiency of legal framework in settling disputes	n/a	56/141	105/141	83/141	34/141
	Property rights	n/a	64/141	68/141	56/141	n/a
	Transparency of gvt. policymaking	n/a	107/141	111/141	116/141	n/a
	Judicial independence	n/a	71/141	106/141	91/141	n/a

[126] This indicator measures whether government regulations are effectively enforced, government regulations are applied and enforced without improper influence, administrative proceedings are conducted without unreasonable delay, Due process is respected in administrative proceedings, the government does not expropriate without lawful process and adequate compensation.

[127] The overall ranking in the Global Opportunity Index tracks countries' performances using five categories: business perception, financial services, institutional framework, economic fundamentals and international standards & policy.

	Efficiency of legal framework in challenging regulations	n/a		n/a	93/141	60/141

10.8.1. Findings and Recommendations

The following table summarizes the main findings and recommendations from this chapter and provides useful references to practical toolkits, cases studies and other relevant materials.

Table 6: Main findings and recommendations from this section

Findings	Recommendations	Reference and links to international best practice examples, case studies, etc.
Investor rights and their enforcement		
The enforcement of investor rights and protections in practice is weak, because it depends mostly on the State authorities responsible for their implementation. Investors lack an effective recourse mechanism.	✓ Enhance the effectiveness of the Commissioner for the protection of Rights and Legitimate Interests of Entrepreneurs and / or introduce an independent investor grievance mechanism to identify and resolve investor grievances before they reach the local courts or international arbitration. ✓ Adopt the legal foundations to empower a lead government agency for investor grievance management ✓ Develop implementing regulations defining its mandate, key processes and powers ✓ Introduce an interactive public electronic platform that allows investors to submit and follow grievances easily	Short case studies on Bosnia and Herzegovina, Ethiopia and Georgia [*See Annex 1*] Key characteristics of effective investor grievance mechanisms [*See Annex 2*] Short summary descriptions of Investment Ombudsman operations in Kazakhstan and Kyrgyz Republic [*see Box 4 further below]*
No procedures and instruments exist to ensure due process or fair compensation in case of expropriation. Lower level courts tend to rule in favor of local governments and local companies that have failed to compensate foreign plaintiffs for the full market value of expropriated property.	✓ Adopt legislation on the procedure and calculation of compensation in case of lawful expropriation.	Paper summarizing best practice on expropriation compensation: Compensation for Expropriation, International Institute for Sustainable Development, 2013, https://www.iisd.org/system/files/publications/best_practice_compensation_expropriation_en.pdf

Investors experience delays in foreign currency transfers due to the balance of payment situation in Uzbekistan.	✓ Transfers abroad may temporarily be suspended or delayed in specifically defined cases. This should be a rare occurrence based on law. Causes of delays and their legal basis should be clarified.	Sample clause for a Transfer of Funds provision in an Investment Law [*see Box 5 below*]

Box 4: Investment Ombudsman in Kazakhstan and the Business Ombudsman Institute in the Kyrgyz Republic

In **Kazakhstan**, the Investment Ombudsman operates under Kazakh Invest and the actual Investment Ombudsman is an official appointed by the government with the role to assist investors in the protection of their rights and legitimate interests prior to a potential escalation into formal legal disputes. The institution of an Investment Ombudsman is established by the Entrepreneurial Code and its functions and responsibilities are set by government Provision (Art. 317 Entrepreneurial Code and Provision No. 1069 On the Activity of the Investment Ombudsman (2019)). The Investment Ombudsman may engage individual consultants and experts, including those from Kazakh legal entities in the preparation of opinions on the issues outlined in the investor's application.

The Investment Ombudsman performs the following main functions:

- Considers the issues raised by the investors and provides recommendations on their resolution in cooperation with government authorities;
- Facilitates the dispute resolution between the investors and the government prior to their escalation to the courts;
- Develops and directs recommendations to the RK government on further improvement of the investment climate.

The investor can appeal a decision of the Ombudsman within 30 days.

In the **Kyrgyz Republic**, the Business Ombudsman Institute (BOI) was established in 2019 by government Decree (No. 647 of 2018) and is mandated to protect the rights, freedoms and interest of business entities (see https://boi.kg). The Institute is a non-state body funded by external sources and open to both Kyrgyz and foreign citizens to hold this position for no more than two consecutive five-year terms. The BOI has its own secretariat, which consists of the Deputies Business Ombudsmen, specialists and administrative and technical staff. The BOI issues quarterly reports but as an independent body is not directly supervised by any state body. The Supervisory Board includes representatives from the Ministry of Economy, the European Bank for Reconstruction and Development and the business community (Chambers and Associations). Complaints can be submitted by foreign and domestic investors in Kyrgyz, Russian and English.

Box 5: Sample Transfer of Funds clause

Transfer of funds

(1) Investors shall be entitled to convert and transfer funds overseas, freely and without delay, in freely convertible currency, including:

a. Contributions to capital;
b. Profits, dividends, capital gains generated by investment activities;
c. Proceeds from the sale or liquidation of all or any part of the investment;
d. Interest, royalty payments and management fees;
e. Payments made under a contract, including a loan agreement;
f. Compensations for expropriation; and
g. Payments arising from a dispute.

(2) Notwithstanding Paragraph (1), the government may delay or prevent a transfer through the equitable, non-discriminatory and good faith application of its laws relating to:

a. Bankruptcy, insolvency or the protection of the rights of creditors;
b. Issuing, trading or dealing in securities, futures, options or derivatives;
d. Criminal or penal offences;
e. Financial reporting or record keeping of transfers when necessary to assist law enforcement or financial regulatory authorities; or
f. Fiscal prudential rules specified and published by the Central Bank.

10.9. Investment Incentives

10.9.1. Tax and Financial Incentives

Investment incentives for foreign investments are regulated and provided for at the national level, with regional and local state bodies having limited authority to offer additional preferences. The Investment Law envisages various types of state support for investments and investment activities, including the provision of benefits and preferences, such as transfer of state property or property rights on preferential basis or zero redemption value, tax and payment benefits, and subsidized interest rates on loans. Such benefits and preferences are conferred based on established criteria, such as the volume and geography of investments, impact on job creation and other socio-economic aspects, and priority areas and industries targeted for investments.

The Investment Law also introduces additional instruments to support investors, such as investment tax credits and investment subsidies. Some of these incentives are provided under the "*Tax Code*" and the "*Customs Code*" and some are granted on a case-by-case basis for investments made to high priority sectors or regions through government resolutions and presidential decrees, or via concluding an investment agreement with the GOU. In addition to the incentives available to any enterprise in Uzbekistan, a number of special benefits such as tax exemptions are provided to enterprises that attract foreign direct investment.

Foreign investments in certain targeted industries are exempt from a number of taxes: computer technology products; textile, apparel and silk; construction materials, food; chemicals and pharmaceuticals; petrochemicals; medical; engineering and metalworking; machinery and tools; glass; packaging; renewable energy stations; coal industry; microbiology; toys; tourism services; hospitality; and waste management. Pursuant to the Presidential Decree "*On additional means for stimulating foreign* *direct investment*" No. UP-3594 dated 11 April 2005, the term of these benefits depend on the value of the foreign direct investment and meeting the established conditions:

- from USD 300,000 to USD 3 million – for a period of 3 years;
- over USD 3 million to USD 10 million – for a period of 5 years;
- over USD 10 million – for a period of 7 years

The above incentives are granted if the following conditions are met:

- Location of these enterprises is in any cities or rural area settlements of Uzbekistan except Tashkent city and Tashkent region;
- Foreign investment is without the provision of sovereign guarantee of the Republic of Uzbekistan;
- Share of foreign capital of the enterprise must be at least 33 %;
- Foreign investment is in the form of freely convertible currencies or new modern technological equipment; and
- Not less than 50 % of the respective tax savings should be reinvested for further development of the enterprise.

Foreign investments in manufacturing enterprises exporting products of own production for freely convertible currency enjoy additional benefits and preferences. These include in particular exemptions from export customs duties on products of own production and exemptions from prepayment and opening a letter of credit.

Similarly, foreign companies engaged in oil and gas prospecting and exploration and their foreign contractors and subcontractors engaged in such works are exempt from payment of all forms of taxes and mandatory contributions to state trust funds during the exploration period. They are also exempt from VAT and customs duties when importing equipment, material and technical resources and services necessary for prospecting, exploration and related works. Tax incentives are also provided to investments in the textile industry and other industries targeted as high priority for the Uzbek economy.

The new Tax Code, effective as of January 1, 2020, stipulates that as a rule any tax incentives many be provided only in the Tax Code. However, as an exception, the President may grant tax incentives for certain taxes, with the exception of VAT, tax for subsoil use and excise tax for production and/or sale of excisable goods, but only in the form of a tax rate reduction not exceeding 50% reduction and for a period not exceeding three years. Pursuant to the new Tax Code, enterprises with foreign direct investments operating in priority areas/projects are exempt from land tax, property tax and water use tax for the period stipulated by Resolution of the President. To support investments and develop infrastructure, the State takes an obligation of construction of the necessary engineering and communication networks at the expense of the state budget funds and other sources of funding within the framework of investment projects worth more than USD 50 million and a foreign investor's share of at least 50%.

The Law of the Republic of Uzbekistan "On Special Economic Zones" № ZRU-604 dated 17 February 2020 ("Law on SEZ") provides substantial privileges in tax and custom duties to the participants of special economic zones. The SEZs are classified as free economic zones, special scientific and technological zones, tourist recreational zones, free trade zones and special industrial zones. Pursuant to the Law on SEZ and the Tax Code, investors participating in the SEZs enjoy certain investment guarantees and are eligible for a variety of tax holidays such as exemptions from land tax, property tax, and water usage tax, including

VAT exemptions. The term of the tax holiday is subject to the size of investments. Exemptions from customs payments for importing construction materials that cannot be sourced locally; technological equipment that cannot be sourced locally; and raw materials and spare parts used in production of goods intended for export. The Law imposes certain mandatory criteria for placement of investments projects in free economic zones, such as creation of import-substituting production in accordance with localization projects; providing export-oriented production; and ensuring that at least 90% of the employees are represented by local workforce.

Pursuant to the Resolution of the Cabinet of Ministers "On Measures to Organize the Activities of the Technology Park of Software Products and Information Technology" No. 17 dated 10 January 2017, certain tax incentives and relief from customs duties, in addition to comprehensive support and financing for start-up projects. They are also available for registered residents of the Technology Park of software products and IT. Priority areas for start-up projects are information technology, as well as the introduction of advanced information technologies in e-finance, e-commerce, e-education, agriculture, biotechnology, food industry, medicine, logistics, integration of digital technologies into production, etc.

To boost the country's export potential, certain tax incentives are provided to exporting organizations having not less than 15% export revenue, subject to a few exceptions involving export of commodities, pursuant to the Presidential Decree "*On Measures to Further Stimulate the Export Potential of Domestic Producers*" № UP-5587 dated 29 November 2018.

10.9.2. Public Access to Incentives Information

There is no centralized public portal enumerating all tax and financial incentives offered to investors in Uzbekistan. There is also no centralized registry of firms receiving investment incentives. The following are various publicly available resources on the type of incentives available to investors. Only some information on these portals is in English language which is unofficial translation. The information on these portals is not regularly updated, hence it is advisable to monitor the legislative acts.

- There portal of the Agency under the MIFT available at link: http://invest.gov.uz/ru/.
- The portal of the MIFT available via link: https://mift.uz/ru/investp.
- The portal of the Chamber of Commerce and Industry of the Republic of Uzbekistan has an investment Q&A available at link: https://chamber.uz/ru/page/4795.
- The portal of the State Tax Committee available at link: https://www.soliq.uz/page/ayrim-toifadagi-soliq-tolovchilarga-soliq-solishning-oziga-xos-xususiyatlari.

10.9.3. Eligibility Criteria and Approval Process

Key incentives available to investors in Uzbekistan are based on clear and objective eligibility criteria, usually connected with the types of business activities and particular industry in which the investments are made, and amount of investments, localization requirements etc. The Tax Code defines the general eligibility criteria, in addition to the following regulations which further specify the detailed eligibility criteria indicated in the Tax Code:

- Regulation №2822 "*On the order of application of tax incentives for the legal entities attracting foreign direct investments*" dated 26 August 2016.

- Regulation №196 "*On the order of application of tax and customs incentives on the FEZ territory*" dated 10 April 2017.

The specific set of requirements would vary depending on the type of incentive to be applied for. Financial incentives are typically provided on a case-by-case basis, upon the application of the prospective recipient that shall be considered by the respective (federal or regional) authority. The specifics of the approval process for the application of respective tax or financial incentives is stipulated by the legislation offering the incentives.

10.10. Linkages

There is no specific investment scheme in place to encourage foreign investors to increase local sourcing or build capacity of local suppliers, other than the investment incentives discussed above. However, certain measures recently introduced in response to the global coronavirus pandemic may discourage the local sourcing to some extent. The Decree of the President of the Republic of Uzbekistan "*On Additional Measures to Support the Public, Economic Sectors and Businesses During the Period of Coronavirus Pandemic*" № UP-5978 dated 03 April 2020, introduced zero customs duty for import of construction materials, express tests for coronavirus, as well as special equipment and consumable spare parts to be used for the construction and functioning of medical and quarantine facilities to combat coronavirus pandemic (as well as several other measures for the period of pandemic). The Resolution of the Cabinet of Ministers dated 29 June 2016, № PP-3818, also established zero or low customs duties for certain categories of goods.

10.11. International Legal Framework

Uzbekistan has undertaken legally binding international investment commitments through a variety of international investment agreements ("IIAs") signed at the bilateral, plurilateral and multilateral level. These commitments mainly cover entry and establishment conditions, protection, as well as the legality of specific types of incentives (see Table 7). Since 2014 Uzbekistan is also member of the CIS-FTA that establishes a free trade area among 9 CIS states[128], but the agreement does not include a chapter on cross-border investment. Uzbekistan is not member of any existing economic bloc. It is not member of the Eurasian Economic Union and not yet member of the WTO but conducts accession negotiations with the organization. It is important for Uzbekistan to reflect these commitments in its domestic legal framework to ensure consistency as well as to monitor compliance.

[128] *Russia, Ukraine, Belarus, Uzbekistan, Moldova, Armenia, Kyrgyzstan, Kazakhstan, and Tajikistan.*

Table 7: Uzbekistan's International Investment Framework

Agreement(s) as basis of Commitments	Type of Agreement	Investment Policy Dimensions Covered
ICSID Convention	Multilateral	Settlement of investment disputes between states and nationals of other states
Treaties with Investment Provisions (4 in force)	Plurilateral or Bilateral	May cover entry and establishment, protection, incentives
Bilateral Investment Treaties (5 signed, 4 terminated, 45 in force)	Bilateral	May cover entry and establishment, protection, incentives
Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention)	Multilateral	Protection
IMF Articles of Agreement (Art. VIII Acceptance)	Multilateral	Protection
Double Taxation Avoidance Agreements (52 treaties in effect)	Bilateral	Taxation

Source: World Bank Analysis

IIAs play an important role in the attraction of FDI. Foreign investors are particularly concerned about arbitrary host government action and lack of transparency, burdensome regulations and governmental interference, risk of direct and indirect (so called creeping) expropriation, breach of contract and weak contract enforcement, restrictions on currency transfer and convertibility and inadequate dispute resolution mechanisms. IIAs protect investors against these types of risks.

Currently, the Uzbekistan has 49 international investment agreements (IIAs) in force, including 45 bilateral investment treaties (BITs)[129] and four other treaties with investment provisions (TIPs), among which we find plurilateral investment agreements (PIAs) [130] and preferential trade agreements (PTAs).[131] Uzbekistan has concluded IIAs with many countries that have significant FDI inflows including Russia (2013), Kazakhstan (1997), Kyrgyzstan (1996), China (2011). Since 2013, no new BIT came into force. However three new BITs were signed since then with Belarus, Republic of Korea, and Turkey. Table 8 provides an overview of select IIAs, including the country's latest BIT available in English (Turkey, 2017), a BIT with a neighboring country (Kyrgyzstan, 1996), and a BIT with a country with large FDI potential (China 2011). The important BIT with the Russian Federation was only available in Russian and could not be reviewed.

Table 8: Comparison of Uzbekistan's Select IIAs

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[129] Unless expressly mentioned, all treaties cited in this report are available at UNCTAD, Investment Policy Hub, International Investment Agreements Navigator, <https://investmentpolicy.unctad.org/international-investment-agreements> accessed 15 March 2021.

[130] Plurilateral Investment Agreements are treaties concluded between more than two sovereign States for the promotion and protection of investments by investors of the one State in the territory of the other State.

[131] Preferential Trade Agreements (PTAs) are reciprocal trade agreements between two or more partners. They include free trade agreements (FTAs) and customs unions (CUs).

	Latest IIA (Turkey 2017), signed, not in force	Neighboring country (Kyrgyz Republic 1996)	Large Source Country (China 2011)
Covers pre-establishment	No	Yes	Yes
Exclusion from scope	Disputes based on act or fact before agreement entered into force	No	No
National Treatment (NT)	Post-establishment; exclusion of acquisition of land and real estate	Post-establishment	Post-establishment
Most-favored Treatment (MFN)	Pre-establishment; exclusion of acquisition of land and real estate	Post-establishment	Pre-establishment
Fair and Equitable Treatment (FET)	Yes; exclusion of acquisition of land and real estate	Yes	"fair treatment" is provided
Full Protection & Security	Yes; exclusion of acquisition of land and real estate	No	"protection" is provided
Expropriation	Direct and equivalent measures, payment of compensation	Direct and indirect measures, payment of compensation	Direct and indirect measures covered, payment of compensation
Rights to transfer funds	Yes	Yes, after payment of taxes, duties and fees	Yes, after payment of taxes
State-State Dispute Settlement	Yes	Yes	Yes
Investor-State Dispute Settlement	Application of MFN clause excluded, investor has choice (mutual exclusive) between local judiciary and international dispute resolution	Consent to dispute settlement at ICSID, no prior requirements	Investor has choice of domestic courts and international arbitration. The choice is final.

Source: World Bank Analysis

In addition to the 45 IIAs, the Uzbekistan has signed Double Taxation Agreements with 52 countries.

Uzbekistan already has treaties with a broad scope of application (Table 9). Although the large majority of IIAs only apply to investments established in Uzbekistan according to its legislation, the definition of investment is significantly broad and may lead to cover all kinds of "assets" owned or controlled by an investor. New generation IIAs do have a broader scope than traditional BITs in the sense that they apply both to the investor seeking to invest in Uzbekistan as well as to investment established in the country. It should also be noted that Uzbekistan's newer IIAs differ from the older ones significantly in terms of scope, detail, complexity and the way the State's and investors' rights and obligations are balanced.

Table 9: Scope of application of treaties

	Uzbekistan's IIAs	New Generation IIAs
Definition of investment	Very broad, asset-based definition. Includes public debt.	Qualified asset-based definition, complemented by more detailed clarifying footnotes and annexes with respect to public debt
Definition of investor	Any company constituted under the laws of the host country is an investor.	Same as BITs, but include more detailed provisions on qualification of economic activities and denial of benefits clauses
Application in time	Majority of IIAs can apply 10 + years after denunciation for existing investments	CPTPP and the EU IPAs with Vietnam and Singapore can be withdrawn upon a notice of 6 months. No part of the agreement will remain in force thereafter. CETA can be terminated upon a note of 180 days, but investment chapter remains in force for 20 years for prior investments. USMCA does not have duration beyond and initial period of 16 years, unless an extension is agreed by the Parties.
Pre- or post-establishment application	Many IIAs apply only to investments admitted according to domestic laws	Non-discrimination (National Treatment and MFN) – subject to reservations- applies to the establishment, acquisition, operation and expansion of an investment.

Uzbekistan's IIAs contain obligations with respect to basically the same matters. However, the distinction lies in the level of detail and reach of each of the obligations affecting the treatment and protection to covered investments. Particularly Uzbekistan's older BITs tend to use very short and yet broad language to refer to the investment protections granted to investors. This has enabled investors to bring claims with arguments supporting expansive interpretations of the IIAs, and at the same time, has also forced arbitration tribunals to interpret those general provisions in concrete situations.

Table 10: Main Substantive investment protection provisions

	Uzbekistan's IIAs	New Generation IIAs
National Treatment	Some do not have an NT clause. Those that do have it largely provide unqualified national treatment	Subject to "like circumstances" and reservations. Clarification of best "in State treatment" included.
Most Favoured-Nation Treatment	Largely unqualified, do not clarify if it applies to ISDS (with only one exception)	Subject to "like circumstances" and reservations. Does not apply to ISDS
Minimum Standard of Treatment: Fair and Equitable Treatment and Full Protection and Security	General, unqualified language.	More specific language, at times clarifying content of standard and at times clarifying that it only provides standard according to customary international law.
Expropriation	General unqualified language for indirect expropriation	Very specific language, clarifying that it only provides standard according to customary international law and

		defines guidelines for determination of indirect expropriation. Clarifies that obligation is not intended to prevent regulatory powers of the State.
Transfers	General language. Some include balance of payments exception. Some IIAs only protect outbound transfers	Very specific language includes exceptions plus balance of payments exception.
Performance Requirements	Most do not contain obligation.	Very specific TRIMs+ language, extends performance requirements to services, additional obligations applicable to services but subject to reservations and exceptions
Compensation for Strife	Basic language. No obligation to compensate except national treatment in case the State opts to do so to its own investors, or MFN treatment if compensate other foreign investors. Obligation to compensate in cases of undue requisition of property by armed forces.	
Transparency	Largely not included	Very detailed clauses.
Exceptions and Reservations	Only exceptions: regional integration and double taxation agreements. No reservations.	Exceptions and Reservations

Eight international dispute settlement cases are reported for Uzbekistan with a mixed record. Uzbekistan won 3 cases, the investor 2 cases, 1 case was settled and 2 are still pending. Table 11 provides a summary of these cases.

Table 11: Uzbekistan's International Dispute Settlement Cases

	Year	Short Case Name	Outcome	Home State of Investor
1	2017	Bursel Tekstil v. Uzbekistan	Pending	Turkey
2	2013	Federal Elektrik Yatirim v. Uzbekistan	Settled	Turkey
3	2013	Guenes Tekstil v. Uzbekistan	Investor won	Turkey
4	2013	Kim and others v. Uzbekistan	Pending	Kazakhstan
5	2013	Spentex v. Uzbekistan	State won	Netherlands
6	2011	Oxus Gold v. Uzbekistan	Investor won	U.K.
7	2010	Metal-Tech v. Uzbekistan	State won	Israel
8	2006	Romak v. Uzbekistan	State won	Switzerland

Source: UNCTAD Investment Policy Hub, Investment Dispute Settlement Navigator, Uzbekistan

10.11.1. Findings and Recommendations

Uzbekistan concluded a wide range of IIAs, with 45 BITs and several multilateral treaties. It is, however, a disadvantage for Uzbekistan's ability to attract FDI not to be a WTO member. The accession negotiations are underway and should be finalized as soon as possible.

Uzbekistan's IIAs are not in line with recent developments in this field. They include mostly unqualified FET clauses and broad expropriation clauses, both carry an imminent risk for the country to be sued. Particularly considering the fact that the IIAs often include a general consent of the state to ISDS. Furthermore, the IIAs have often umbrella clauses expanding BITs to investor-state agreements and a long validity through automatic renewals. They also do not include sustainable development considerations such as social rights and the protection of labor safety and the environment.

The following table summarizes the main findings and recommendations from this chapter and provides useful references to practical toolkits, cases studies and other relevant materials.

Table 12: Main findings and recommendations from this section

Findings	Recommendations	Reference and links to international best practice examples, case studies, etc.
FDI policy and legislation		
Uzbekistan has a large number of 'old-style' investment treaties in place, including unqualified definitions and ambiguous formulations that expose the country to a high risk for investor state disputes.	✓ Develop and officially adopt a new model BIT aligned with modern standards of investment treaty making. ✓ Develop a strategy for upgrading and re-negotiating 'old style' BITs.	World Bank Group IIA guidebook including detailed guidance, options and sample provisions for developing a model BIT based on good international practice and 'new generation' IIAs *[separate attachment to this report]*

10.12. Annex of Investment Policy and Regulatory Review of Uzbekistan

10.12.1. IPRR Annex 1: Short Case Studies of Investor Grievance Mechanisms

Ethiopia set up an IGM with the objective of retaining the sizeable investment attracted over the past few years by reducing post-establishment cancellation of investment projects (that is, after registration with the Ethiopian Investment Commission). A Grievance Management Unit comprising 3 staff was established within the Ethiopian Investment Commission, reporting directly to the Commissioner. The IGM unit has its legal foundation in the newly adopted Investment Proclamation. Sections 25-27 of the Investment Proclamation allow investors to lodge complaints, laying down the grievance management process. It also clarifies that the Ethiopia Investment Board, which is an inter-ministerial body, will serve as the escalation mechanism. As of March 2020, the IGM unit has registered eight grievances and resolved four. The timely resolution of grievances has led to the retention of about US$ 20.9 million in investment and 550 jobs. An automated IGM tracking tool has also been set up to help the lead agency track the grievance resolution process, and effectively monitor its results.

Bosnia and Herzegovina: Many countries have implemented mechanisms to ensure that the concerns of investors are understood and addressed in a systematic way with great success. For example, in Bosnia and Herzegovina, the country faced a number of problems with reinvestment and investor concerns that went unaddressed as there was not a system in place working to collect and resolve investor issues as they arose. A targeted aftercare program was implemented through what they call a "Collaborative Network" of institutions, including municipalities, which works at all levels to identify investor concerns and ensure they are addressed. In the first two years of operation, the aftercare activities of the Collaborative Network resulted in an almost 20% increase in investor issue resolution and allowed for over $25 million in reinvestment.

Georgia: The Business Ombudsman office's (BO) mandate is to resolve grievances between firms and government agencies. The BO helps firms by providing legal advice and written opinion, and by advocating for firms within the other government agencies. An important feature of the BO in Georgia is that although it is an institution with its own budget and the Business Ombudsman is approved by Parliament by suggestion of the Executive, the BO is not an "external" instance to the government. In fact, for many years the BO used to sit in Prime Minister's Cabinet meetings. This approach enabled the BO to be highly effective in addressing grievances with other government agencies. The fact that the BO could escalate any matter to the highest political instance of the Executive, empowered the BO to effectively negotiate with other government agencies involved in grievances with investors.

10.12.2. IPRR Annex 2: Good Practice in Design and Implementation of an Investor Grievance Mechanism

Excerpt from the World Bank Group's Investment Policy and Promotion Operational Guide (forthcoming):

- **Empowerment of a Lead Agency**: There should be a government agency with power and attributions ideally conferred by regulation that is responsible for implementing IGM. The Lead Agency should coordinate problem solving process and the diffusion of relevant information to national, subnational and sector-specific agencies more likely to generate or become involved in investment grievances.
- **Early Alert Mechanism & Tracking Tool:** Early alert mechanism enables the Lead Agency to learn about the existence of problems as soon as they arise. Lead Agency's response can be proactive (e.g. Lead Agency visits the private sector) or reactive (e.g. private sector communicates with the Lead Agency). Once a problem is identified, it is captured by the tracking tool that also monitors the investment at risk due to the problem. It monitors whether the problem is resolved and how much investment is retained and expanded as a result of the resolution of the problem.
- **Legal and economic assessment**: It is crucial that the grievance be analyzed from an economic and a legal perspective before the Lead Agency coordinates with other agencies to resolve the grievance. The economic assessment estimates the potential impact of the grievance in terms of the amount of investment and the number of jobs at risk. The economic assessment is complemented by a legal analysis to determine the likelihood of liability of the host state should the grievance escalate into a full-blown investor-State dispute.
- **Problem Solving Methods:** Based on the political economy of the country, IGM would empower the Lead Agency to use different problem-solving methods to directly address and negotiate a solution with the agencies involved in the problem. These methods range from simple exchanges of information to mechanisms of peer pressure or legal advisory opinions.
- **Political Decision Making:** Often the Lead Agency may not have the political authority to discipline another peer agency. In this case, the problem is elevated to higher political levels, such as the Ministerial Cabinet and in some countries special Ministerial Councils chaired by the President or Prime Minister. Once a decision is taken at this higher level, the Lead Agency monitors and tracks the resolution, positive or negative, and the impact on investments.

10.12.3. IPRR Annex 3: Invest India - Building a High-Performing IPA from the Ground Up in Record Time

Invest India illustrates how a new investment promotion agency (IPA) can be built up over just a few years by following a few key principles while avoiding many typical mistakes. Invest India was established in 2009 as a joint venture of the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry, the Federation of Indian Chambers of Commerce and Industry (FICCI), and state governments of India. The agency lay dormant for many years and, even as recently as 2015, had no more than a handful of staff reactively answering investor queries, with little or no traction with potential foreign investors.

Then, in September 2014, Prime Minister Narendra Modi launched "Make in India," a government initiative to persuade and encourage companies globally to manufacture their products in India (http://www.makeinindia.com). As part of this initiative, the government decided in 2015 to reinvigorate "Invest India," recognizing the need for a government agency to proactively tackle the attraction of foreign firms. Invest India was mandated to ramp up its investment promotion efforts and capitalize on the potential of India's economy.

Following international good practices, Invest India received the full support of senior-level government officials. A new chief executive officer (CEO) was appointed and given direct access to the line minister and the prime minister's office. The IPA's goals were linked to the country's broader development goals, and it was officially mandated to lead the country's national investment promotion as the single point of contact for foreign investors. Following global good practices, it was not assigned any regulatory functions. It was given sound financial support from the Department for Promotion of Industry and Internal Trade (DPIIT, formerly DIPP) and a functioning board with 51 percent private sector representation.

Invest India was permitted to adopt a much flatter organizational structure than typical Indian civil service entities and to recruit high-caliber management and staff outside the normal civil service recruitment procedures. It adopted a consultancy-like operating model designed to offer quality services to investors. The agency has now developed into a dynamic, service-oriented organization with highly qualified staff. As of mid-2019, 51 percent of the staff were women, 90 percent of its 138 dedicated professional staff had private sector experience, and 60 percent had graduate degrees.

Invest India also set about developing strong relationships with state-level IPAs across India. It took a proactive approach to better understand the strengths and the needs of each state in terms of competitiveness to attract new investment and capacity to support incoming investors. It provided direct support to subnational IPAs and invited all state IPAs to participate in a World Bank Group IPA assessment designed to further strengthen capacity. Confidential reports were delivered in March 2018 to 21 state IPAs offering tailored advice on areas for improvement.

Since the agency's rejuvenation in 2015, Invest India has been transformed into an award-winning IPA, receiving the United Nations Conference on Trade and Development's (UNCTAD) global award for best-practice IPA in 2016 and for sustainable development investments in 2019. It was also named best IPA in South Asia, East Asia, and Oceania at Dubai's Annual Investment Meeting (AIM) in 2016, 2017, 2018, and 2019, and was elected as co-vice president of WAIPA for 2019–20.

By mid-2019, Invest India had responded to more than 193,000 business requests from 126 countries and 41 sectors, 92 percent of which were answered within 72 hours. Working with some 760 companies, it had generated a project pipeline of US$138 billion, of which an estimated US$22.7 billion had been executed, with 135,000 direct jobs in the process of being created and contributing to making India the world's top-five greenfield destination in 2018.[132]

[132] *Sources: Invest India website: https://www.investindia.gov.in/; interviews with Invest India management.*
Notes: Data on Invest India's outcomes from fDi Markets, a Financial Times dataset (https://www.fdimarkets.com/).