Uzbekistan

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Uzbekistan	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering assessment Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Compliance with FATF 40 + 9 Recommendations

Major Investment Areas:

Agriculture - products:

cotton, vegetables, fruits, grain; livestock

Industries:

textiles, food processing, machine building, metallurgy, mining, hydrocarbon extraction, chemicals

Exports - commodities:

energy products, cotton, gold, mineral fertilizers, ferrous and nonferrous metals, textiles, food products, machinery, automobiles

Exports - partners:

China 18.5%, Kazakhstan 14.6%, Turkey 13.8%, Russia 12.8%, Ukraine 12.5%, Bangladesh 8.9% (2012)

Imports - commodities:

machinery and equipment, foodstuffs, chemicals, ferrous and nonferrous metals

Imports - partners:

Russia 20.6%, China 16.5%, South Korea 16.3%, Kazakhstan 12.8%, Germany 4.6%, Turkey 4.2% (2012)

Investment Restrictions:

Although the Government of Uzbekistan ("government" or “GOU”) declares that attracting foreign direct investment is a core priority in its policymaking, in practice foreign investors have limited business opportunities in Uzbekistan without support of the government or entities affiliated with the state. The government generally welcomes investors and investment projects that are in line with its import-substitution and export-oriented industrialization policy, and discourages investments in import-consuming sectors by controlling access to foreign exchange.

A foreign investor may participate in a variety of legal forms of business, ranging from partnerships to joint-stock companies to wholly-owned enterprises. Businesses with foreign investment must register with both the Ministry of Justice and the regional governor’s office (Khakimyat). Depending on the extent of foreign participation, a business may be considered an “enterprise with foreign capital” (less than 30% foreign-owned) or receive special status as an “enterprise with foreign investment” (more than 30%, with a minimum charter capital). Foreign companies may also maintain a physical presence in Uzbekistan as “permanent establishments” without registering if they do not conduct commercial activities and only have representative functions. A permanent establishment is not required to open a bank account or pay taxes.

The following rights are guaranteed under Uzbekistani law to foreign investors:

- To decide on the amount, kinds and channels of investments;
- To conclude agreements to carry-out investment activity;
- To own, use and dispose of investments and the results of investment activity;
- To patent inventions, models and industrial samples belonging to the foreign investor;
- To repatriate profits from Uzbekistan or to reinvest them into Uzbek entities;
- To obtain financial resources in the form of credits and loans;
- To convert local currency into foreign currency;
- To possess and use land on terms provided by the legislation;
- To receive compensation for investments/other assets in case of expropriation by the state; and
- To receive compensation for losses incurred due to the illegal activity or decisions of the state.

Despite these guarantees, the government's involvement and control in key industries can have discriminatory effects on foreign investors. The GOU retains strong control over all of the economic processes in the country and maintains controlling shares of key industries, including energy, telecommunications, airlines and mining. The government regulates investment and capital flows in the raw cotton market and also controls all silk sold in the country, dampening foreign investment in the textile and rug-weaving industries. Partial state ownership and influence are common in almost all sectors of the economy.

There are several official limits on foreign investment. Foreign ownership and control are prohibited for airlines, railways, power generation, and other sectors deemed to be related to national security. Restrictions also apply to media, banking, insurance and tourism. Foreign investment in media enterprises is limited to thirty percent. In banking, foreign investors may operate only as joint venture partners with Uzbek firms, and banks with foreign participation face set charter funding requirements (€10 million for commercial banks, €5 million for private banks), while the required size of the charter funds for Uzbek firms is set on a case-by-case basis. In the tourism sector, foreign ownership cannot exceed forty-nine percent.

The government closely scrutinizes all proposed foreign investments, with special emphasis on sectors of the economy that it considers strategic, including mining, cotton processing, oil and gas refining, and transportation. The aim of this policy is to protect domestic industries and limit competition from abroad. Screening can be used to limit investment in certain industries and by certain countries, depending on Uzbekistan's current policy priorities.

The government also uses licensing as a tool to control enterprises in sectors such as energy, telecommunications, retail sales, and tourism. Often licenses for business operations in these sectors are issued by agencies that themselves have commercial interests in the sector.

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Section 1 - Background

Russia conquered the territory of present-day Uzbekistan in the late 19th century. Stiff resistance to the Red Army after the Bolshevik Revolution was eventually suppressed and a socialist republic established in 1924. During the Soviet era, intensive production of "white gold" (cotton) and grain led to overuse of agrochemicals and the depletion of water supplies, which have left the land degraded and the Aral Sea and certain rivers half dry. Independent since 1991, the country seeks to gradually lessen its dependence on the cotton monoculture by diversifying agricultural production while developing its mineral and petroleum reserves and increasing its manufacturing base. Current concerns include terrorism by Islamic militants, economic stagnation, and the curtailment of human rights and democratization.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Uzbekistan is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Uzbekistan was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, Uzbekistan was deemed Compliant for 7 and Largely Compliant for 18 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2006):

The foundation of Uzbekistan's AML / CFT system was laid in 2001, when both ML and FT were criminalized. Law of the Republic of Uzbekistan No. 660-II "On Combating Money Laundering and Terrorist Financing" (AML/CFT Law) came into force on January 1, 2006. The original version of the AML / CFT Law required all financial institutions not only to report on all transactions meeting the specified by the law criteria or those valued at more than the amount equaling 4000 times of the size of the minimum wage, but also to suspend such transactions for a period of two business days. Such transactions could only be executed after a specified period in the absence of special instructions to the contrary. This system created a number of difficulties for the country's economy, leading to the suspension of the part of the AML/CFT Law related to reporting suspicious transactions on April 27, 2007, along with termination of the authority of the Financial Intelligence Unit (FIU). In April 2009, the Law was reinstated in a new version, with the necessary subordinate acts restoring the powers of the FIU adopted in September 2009. Despite the suspension of a number of legislative provisions, the AML / CFT system continued to function in 2007 – 2008 largely due to the efforts of the country's law-enforcement agencies. At this stage, the oversight and law-enforcement agencies are undergoing the necessary resource and structural reforms and stepping up the work on AML / CFT, both when it comes to finalizing the legal framework, conducting inspections and implementing enforcement measures. Despite the fact that the fundamentals of the AML / CFT system were established in 2006, some provisions of the legislation enacted in 2009 are being introduced for the first time, making it impossible to judge on their effectiveness (especially in regard to the powers of oversight agencies). There are certain concerns about the existence of gaps in the system of preventive measures (customer due diligence, data storage, internal controls, etc.) which are applied to financial institutions and designated non-financial businesses and professions (DNFBP).

The main sources of criminal proceeds in Uzbekistan are linked to drug-related offenses, given that Uzbekistan is used as a transit country for shipment of drugs from Afghanistan, along with offences related to fraud and abuse of public office. Uzbekistan faces an acute threat of terrorism from "Islamic Movement of Uzbekistan", "Hizb ut-Tahrir" and related to them organizations.

Uzbekistan is a sovereign, unitary, secular and democratic republic with a presidential form of government. Uzbekistan's GDP is approximately equal to 36.8 trillion Som (2008). The country's banking system, made up of 30 banks, is the most developed part of the financial sector, which is also the home to 100 credit unions, 31 micro credit organizations, 185 professional participants of the securities market, 30 insurance companies (including 2 life insurance companies) and 3 insurance brokers. The money and valuables remittance services are only available through banks and the postal service of Uzbekiston Pochtasi JSC. The DNFBP are represented by lottery companies and other gaming activities associated with risk, precious metal/stone merchants, real-estate intermediaries, public notaries, lawyers or their associations and audit companies.

US Department of State Money Laundering assessment (INCSR)

Uzbekistan is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Uzbekistan has made consistent efforts to meet international standards through new legislation. However, corruption and law enforcement's susceptibility to political influence limit the effectiveness of this legislative base. Connected individuals can circumvent established AML rules through private financial institutions, shell/mailbox companies, and bribery. The government's lack of transparency and reticence to engage with foreign partners makes verifying the effectiveness of law enforcement in countering money laundering difficult. Moreover, Uzbekistan prosecutes few cases on finance-related charges.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Uzbekistan is a transit country for Afghan opiates, which enter Uzbekistan mainly over its Afghan and Tajik borders. Corruption, narcotics trafficking, and smuggling generate the majority of illicit proceeds. Well-connected individuals launder money domestically or move it abroad using corruption, private banks, and circumventing regulations. Offshore shell companies that conceal financial interests and proceeds remain a favored laundering method.

Uzbekistan's high customs-clearance costs encourage a black market for smuggled goods. This black market does not appear to be significantly funded by narcotics proceeds but could be used to launder drug-related money.

KEY AML LAWS AND REGULATIONS

The Law on Combating Legalization of Proceeds Obtained through Crime and Financing of Terrorism is Uzbekistan's core AML legislation establishing comprehensive KYC and STR regulations, including for legal persons. This law specifies that the FIU, under the Office of the Prosecutor General, is the key governmental body responsible for AML enforcement. A 2016 amendment allows for asset freezes and suspension of transactions if transaction parties appear on a list of individuals/legal entities involved or suspected of involvement in proliferation of weapons of mass destruction. It also names the FIU as the body responsible for maintaining this list. In 2017, the FIU issued internal control procedures for commercial banks and credit institutions governing the suspension of transactions and freezing of funds or other assets and introducing enhanced due diligence for domestic PEPs.

Uzbekistan made progress toward meeting international standards through new legislation in 2017. The law "On combating corruption" came into force in 2017, and the President approved a 2017-2018 State Anti-Corruption Program, creating the Interagency Commission on Countering Corruption. Currency convertibility reform implemented in 2017 effectively eliminated the black market rate, and reduced unofficial markets and unofficial channels for remittances.

Uzbekistan's FIU has signed a MOU with the DEA, which provides for information sharing with FinCEN and the Office of Foreign Asset Control of the Department of the Treasury.

Uzbekistan is a member of the EAG, a FATF-style regional body.

AML DEFICIENCIES

Legal entities are not criminally liable for money laundering activity. Although government officials are required to disclose income earned outside their public employment, these records are not publicly available.

KYC rules cover insurance companies, insurance brokers, securities market players, stock exchange members, financial leasing companies, and postal service operators, but such internal control measures were only recently implemented. The AML legislation does not include measures to prevent criminals from assuming a controlling financial interest in such entities.

The FIU may face pressure to cease investigations when suspicious bank transactions are linked to politically powerful interests.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Uzbekistan has made progress in implementing recommendations and closing legislative gaps. AML experts have noted the political will and progress by Uzbekistan in addressing identified deficiencies.

In 2017, Uzbekistan largely abstained from substantive cooperation with the U.S. government in enforcement and information exchange. The FIU and counternarcotics agencies refused to substantively engage with the DEA, despite the established MOUs.

In 2015, Uzbekistan's FIU received over 4,000 money laundering-related STRs, but there were only eight money laundering-related prosecutions, with six convictions.

The United States and Uzbekistan do not have a bilateral MLAT. Uzbekistan is a signatory to relevant multilateral law enforcement conventions that have law enforcement cooperation provisions.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Uzbekistan does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

EU White list of Equivalent Jurisdictions

Uzbekistan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Uzbekistan is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017 (introduction):

Introduction

Uzbekistan remains a significant transit country for Afghan opiates. Uzbekistan shares an 85-mile border with Afghanistan and has extensive borders with all Central Asian countries. Afghanistan and Tajikistan are the two bordering countries most utilized by drug traffickers to smuggle narcotics into Uzbekistan. Traffickers utilizing the route from Afghanistan to Russia and Europe through Uzbekistan capitalize on Uzbekistan's infrastructure, corruption, and rugged border terrain.

Conclusion

The Government of Uzbekistan has adopted a go-it-alone approach to counternarcotics, eschewing substantive cooperation with foreign partners. Given the lack of independent data on narcotics trafficking in-country, it is difficult to estimate the true extent of the problem and whether Uzbekistan's low seizure statistics accurately reflect law enforcement efficacy. Nonetheless, modern training techniques and equipment and increased exposure to international best practices might promote sustainable improvements in overall law enforcement ability if Uzbekistan actively addresses endemic corruption issues.

US State Dept Trafficking in Persons Report 2014 (introduction):

Uzbekistan is classified a Tier 3 country - a country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

Uzbekistan is a source and destination country for men, women, and children subjected to forced labor and women and children subjected to sex trafficking. Uzbek women and children are subjected to sex trafficking in the Middle East, Eurasia, and Asia, and also internally in brothels, clubs, and private residences. Uzbek men, and to a lesser extent women, are subjected to forced labor in Kazakhstan, Russia, and Ukraine in the construction, oil, agricultural, retail, and food sectors. Internal trafficking is prevalent in the country. Government-compelled forced labor of adults remains endemic during the annual cotton harvest. Some adults who refuse to pick cotton, do not pay for a replacement worker, or do not fulfill their daily quota might have been threatened with, or faced the loss of, social benefits, termination of employment, or harassment. Private companies in some regions mobilized employees for the harvest under threat of increased government inspections of and taxes on their operations. An independent observer alleged several workers were injured and at least one died, due at least in part to harvest-related activities in 2015. There were isolated reports of some local officials mobilizing classes of students aged 14 to 16 years in the final weeks of the harvest in contravention of the central government's prohibition on child labor. Mobilizations of university and third-year college and lyceum (equivalent to a U.S. high school) students, who tend to be 18 years old but include some 17 year olds, continued to be endemic. There are reports some officials required state employees and adult students to sign labor agreements or statements that they would pick cotton voluntarily. Independent observers asserted that forced mobilization of adult workers increased in 2015 to compensate for the loss of underage workers. Local officials used forced adult labor, including employees of schools and medical facilities, for weeding cotton fields. There were also isolated reports stating local officials forced teachers, students (including children), private business employees, and others to work in construction, non-cotton agriculture, and the silk industry, as well as to clean parks, streets, and buildings. Authorities harassed, detained, and, in some cases, abused independent activists attempting to observe the spring weeding season and the fall harvest, and at least two activists faced criminal charges, potentially as retaliation for attempting to document labor violations in the cotton fields.

The Government of Uzbekistan does not fully meet the minimum standards for the elimination of trafficking and is not making significant efforts to do so. Government-compelled forced labor of adults remained endemic in the 2015 cotton harvest. The central government continued to demand farmers and local officials fulfill state-assigned cotton production quotas and set insufficiently low prices for cotton and labor to attract voluntary workers, which led to the wide-scale mobilizations of adult laborers and a smaller number of child laborers. The government also increased its attempts to conceal possible labor violations in cotton fields by aggressively confronting, harassing, and detaining independent monitors attempting to observe and document the harvest. However, the government took a number of steps this year regarding the cotton harvest. The government continued to collaborate with ILO and fulfilled its agreement with the World Bank and ILO to allow ILO officials to conduct a labor recruitment survey under the Decent Work Country Program and, separately, monitor the 2015 harvest for risks of child and forced labor in 11 of Uzbekistan's 14 regions, comprising 60 percent of Uzbekistan's cotton producing territory. For the fifth consecutive year, Uzbekistan reduced its use of child labor, largely, effectively enforcing its decree prohibiting the participation of children younger than age 18 in the harvest. The 2015 cotton harvest marked the second year the government conducted a nationwide campaign to raise awareness of the prohibition of child labor in the cotton harvest, and the first time the government included anti-forced labor messaging in the campaign. Further, the government enacted a national action plan aimed at ending forced labor that it developed in consultation with the World Bank and ILO. It has already identified sources of funding for the various steps in this plan. Separately, the government committed to keep college and lyceum students (equivalent to a U.S. high school) out of the 2016 cotton harvest, including those aged 18. On transnational trafficking, authorities continued to prosecute suspected traffickers and continued to fund a rehabilitation center for trafficking victims. The government also provided trafficking-specific training to police, judges, and other authorities. Uzbek authorities collaborated with foreign governments on several transnational investigations in 2015.

US State Dept Terrorism Report 2016

Overview: With the death of President Islam Karimov in September and the election of Shavkat Mirziyoyev as president in December, Uzbekistan is experiencing its first significant political transition since independence. Uzbekistan's security policy has prioritized counterterrorism along with countering narcotics trafficking.

With the drawdown of U.S. troops from Afghanistan, the Government of Uzbekistan continued to express concern about the potential for spillover of terrorism from bordering Afghanistan and its Central Asian neighbors. Uzbek officials expressed confidence that Uzbekistan can control its border with Afghanistan, but doubted its neighbors' ability to do so. The Government of Uzbekistan is particularly concerned with infiltration of violent extremists through Uzbekistan's long borders with Tajikistan and Turkmenistan. In the past, Uzbekistan did not foster close cooperation with its neighbors on security matters. President Mirziyoyev, however, has prioritized improving relations with Uzbekistan's neighbors in his statements and may change Uzbekistan's stance towards regional collaboration. Uzbekistan has actively participated in the C5+1 regional framework of cooperation between the United States and the Central Asian countries (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan), which includes a program related to countering violent extremism (CVE).

The Government of Uzbekistan restricts information on internal matters, making it difficult to analyze the extent of the terrorist threat and the effectiveness of Uzbek law enforcement efforts to counter it. Uzbekistan does share U.S. interests in combating ISIS, but did not formally join in Global Coalition to Defeat ISIS efforts and does not participate in similar efforts as a longstanding matter of policy.

An ethnic Uzbek allegedly participated in the terrorist attack at the Istanbul airport in Turkey on June 28. In November, two Uzbeks were arrested in Turkey for preparing to be ISIS suicide bombers. Russia's Federal Security Service also reported that it foiled several terrorist plots planned by groups of Central Asian extremists, which included Uzbek nationals. An Uzbek national who worked as a nanny in Moscow beheaded a child in a possible terrorist act in February. Additionally, Uzbeks have participated in attacks in Afghanistan and Syria. The Government of Uzbekistan did not issue comments regarding reports of these incidents.

Legislation, Law Enforcement, and Border Security: The overarching legislation governing terrorism-related investigations and prosecutions is the "Law on Combating Terrorism" passed in 2000. Uzbekistan also criminalizes terrorism under Article 155 of the criminal code. This legislative basis identifies the National Security Service (NSS) as the lead counterterrorism law enforcement agency, with primary responsibility for the coordination and supervision of all interagency efforts.

In 2016, Uzbekistan amended the criminal code to include prison sentences of eight to 10 years for individuals acting as terrorist recruiters or trainers. New measures also instituted sentences of up to eight years for propagating ideas of religious "extremism" and three to five years for displaying symbols of "extremist" or terrorist organizations. The Government of Uzbekistan additionally enacted regulations establishing compensation for damages resulting from counterterrorism operations.

Beyond these measures, Uzbekistan passed a judicial reform package to reinforce the independence of the judiciary and defendants' rights in October. Notably, this reform shortened the maximum period of suspect detention from 72 to 48 hours, pre-trial detention from one year to seven months, revised judges' appointment terms, and transferred responsibilities for court financing from the Ministry of Justice to the Supreme Court.
Despite these positive developments, the Government of Uzbekistan routinely uses security concerns related to terrorism as a pretext for detention of suspects, including of religious

activists and political dissidents. For example, in 2016, the Government of Uzbekistan prosecuted an ethnic Armenian Christian, Aramais Avakian, on terrorism charges based on dubious evidence in an internationally publicized case. Uzbekistan also periodically blocks social media sites and networking platforms, such as Skype, to purportedly prevent the spread of terrorist messaging. The April amendments to the criminal code prohibiting the spread of “extremist” propaganda via the internet are vaguely worded and can be used to suppress criticism or dissent.

Uzbekistan does not publicly share any information regarding operational counterterrorism activities. Both the NSS and the Ministry of Interior (MIA) have dedicated counterterrorism units, with specialized equipment. For example, the MIA explosives lab has advanced chromatography equipment obtained with U.S. support.

Uzbekistan’s border control infrastructure varies widely, from a highly militarized stretch on the Afghan border to loosely controlled zones along the borders with its Central Asian neighbors. Most border posts and airports are equipped with biometric data scanners. Uzbekistan began issuing biometric passports in 2011 and plans to convert all passports to the new biometric version by July 1, 2018. Uzbek law enforcement maintains its own terrorist watchlist and contributed to INTERPOL databases. The state airline collects and disseminates advance passenger information. The U.S. Transportation Security Administration conducted several inspections of the Tashkent airport in 2016.

The Government of Uzbekistan has not reported taking specific actions to implement UN Security Council resolutions (UNSCRs) 2178 (2014) and 2199 (2015). The government has voiced concerns, however, about the return of foreign terrorist fighters and the recruitment of Uzbeks by ISIS and other groups operating in Syria and Iraq, as well as terrorist groups operating in Afghanistan and Pakistan, such as the Islamic Movement of Uzbekistan and the Islamic Jihad Union. Enhanced security measures that include frequent document checks and house-to-house resident-list checks seek to identify potential foreign terrorist fighters transiting or active in Uzbekistan. According to press reports, Uzbek law enforcement detained approximately 550 people on suspicion of involvement in “extremist” or terrorist activities during the first half of 2016. In the majority of trials related to terrorism covered by the press, suspects were charged with the spread of extremist materials or association with banned organizations, particularly Hizb ut-Tahrir and ISIS. All publicized trials resulted in convictions.

Both law enforcement and the judicial system in Uzbekistan are subject to political influence and corruption. The government’s approach to stifling terrorism, such as detaining suspects without strong evidence and invasive document checks, are not necessarily effective in detecting terrorism networks and could contribute to anti-government sentiment. Secrecy surrounding counterterrorism efforts and compartmentalized information sharing among stakeholder law enforcement agencies also could diminish Uzbekistan’s capabilities to effectively counter terrorism.

Countering the Financing of Terrorism: Uzbekistan belongs to the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force-style regional body. The EAG conducted its most recent mutual evaluation of Uzbekistan in 2009. In the 2016 follow-up report, EAG found Uzbekistan to be adequately progressing in implementing its recommendations.

Uzbekistan criminalizes terrorist financing under Article 155 of the criminal code. In April 2016, the Article was amended to introduce prison sentences of eight to 10 years for terrorist financing. In the same month, Uzbekistan also amended its basic anti-money laundering/countering the financing of terrorism (AML/CFT) law to introduce and define the terms "freezing of funds or other assets" and "suspension of a transaction," mandating that all financial entities check parties to a transaction against lists of persons involved or suspected of involvement in terrorist activities. Additional amendments to the terrorism law designated Uzbekistan's financial intelligence unit (FIU), the Department for Combating Tax and Currency Crimes and Money Laundering of the Office of Prosecutor General, the body responsible for money laundering and terrorist financing investigations, as a counterterrorism agency.

Despite these amendments, Uzbekistan's AML/CFT regime does not clearly define the FIU-maintained procedures that govern the freezing of assets or suspension of transactions. The Government of Uzbekistan has not released the procedures or relevant statistics related to amount of assets frozen in 2016. This led international experts to conclude that financial institutions may face difficulties in fulfilling their obligations due to lack of procedural clarity, raising questions as to the effectiveness of implementation of UN Security Council resolution 1373 and the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime.

Legislation governing the creation of lists of those involved or suspected of involvement in terrorist activities, which are maintained by the FIU based on information provided by a number of ministries, has not been updated since 2009. It does not establish a specific mechanism for review and incorporation of information received from foreign countries, beyond inclusion of information passed by other foreign affairs ministries. Nor does it establish a procedure for delisting requests. The FIU announced in October that it would release a single consolidated list on its website in 2017.

International Sanctions

None applicable

Bribery & Corruption

Index	**Rating (100-Good / 0-Bad)**
Transparency International Corruption Index	22
World Governance Indicator – Control of Corruption	10

Uzbekistan is one of the most corrupt countries in the world: Corruption is endemic and penetrates all levels of the business, government and social environment. The judiciary is significantly influenced by the presidential administration and foreign companies regularly experience expropriations. In addition, abuse of office, kickbacks and favoritism regularly occur during court proceedings, making dispute settlement mechanisms very inefficient. The anti-corruption legal framework is deficient and lacks regulations on conflicts of interest, gifts and hospitality, facilitation payments, public procurement, and whistleblower protection. Uzbekistan's Criminal Code, which forbids major forms of corruption including active and passive bribery, abuse of office, and extortion is poorly enforced. High-level government officials act with impunity, and the presidential family is currently involved in high-profile international corruption investigations. **Information provided by GAN Integrity.**

US State Department

Uzbekistan's legislation and Criminal Code prohibit corruption. Enforcement is arbitrary, however, and there is considerable anecdotal evidence that a large portion of officials use their latitude in interpreting regulations to extract bribes. The government prosecutes a number of officials under anti-corruption laws every year and punishment can vary from a fine to imprisonment with confiscation of property. Often, prosecutions tend to focus on political dissenters rather than on corrupt but loyal government officials or individuals affiliated with the elite. Foreign and local individuals have reported numerous incidents of bribe solicitation to U.S. Embassy officers, and foreign investors who refuse to pay bribes have had difficulty in their business operations as a direct result. Uzbekistan ranked 168th out of 177 rated countries in Transparency International's 2013 Corruption Perceptions Index.

There has been no substantial evidence to suggest that the government encourages or requires companies to establish internal codes of conduct that prohibit bribery of public officials. Only a few local companies created by or with foreign investors have effective internal ethics programs.

Uzbekistan joined the UN Anticorruption Convention in 2008, but is not a signatory of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and does not participate in any notable local or regional anti-corruption initiatives.

U.S. businesses have cited corruption as one of the main obstacles to foreign direct investment in Uzbekistan. Lack of transparency in bureaucratic processes, including procurement tenders and auctions, and limited access to currency convertibility, stimulate rent seeking, which public sector employees often justify by pointing out their low wages. Bribery is a common tool for obtaining lucrative positions, government contracts, preferences, and exemptions from regulations, as well as escaping criminal prosecution. Citizens are routinely required to pay bribes to receive public services.

Corruption and Government Transparency - Report by Global Security

Political Climate

President Karimov has ruled Uzbekistan since 1991 and has created a centralist state controlling all economic and political aspects of the country. The US Department of State 2012 further notes that that legal and political penalties for abuse of office are limited to the removal of those who have acquired too much political and economic power. The Uzbek government does not take any significant measures to curb the country’s widespread corruption, and corruption charges are instead often used to intimidate those who have fallen out of favour with the head of the state.

According to the Bertelsmann Foundation 2012, the judiciary is severely constrained by functional deficits, such as limited resources and rampant corruption. The report further notes that court rulings are subject to the so-called 'telephone law', under which judicial decisions are often influenced by telephone calls from powerful officials in the presidential administration and security services. In the absence of an independent judiciary, corruption in Uzbekistan has become highly institutionalised and impunity is pervasive. Corruption is reportedly widespread among high-ranking officials, and in 2012, 420 officials were convicted of corruption, out of which, 220 received prison terms. During the same year, the former state adviser to the president for law enforcement issues, Ravshan Muhiddinov, was found guilty of corruption and abuse of office. Muhiddinov, who was also the former justice minister and the deputy prosecutor general, received a sentence of 15 years in prison. Nevertheless, despite these successes in the prosecution of government officials, impunity remains a problem, as reported by the US Department of State 2012. Corruption is also widespread within the inner circles of the president’s family. In 2011, Lola and Gulnara Karimova, daughters of President Karimov, came under the media spotlight, after WikiLeaks documents confirmed them as owners of the recently bankrupt conglomerate Zeromax, which had allegedly contributed significant amounts to the personal enrichment of the Karimov family, according to several sources such as a December 2010 article by the Guardian.

Uzbekistan has passed laws aimed at curbing corruption, but according to the US Department of State 2012, these are not effectively implemented and legislative enforcement is severely lacking. According to an OECD 2012 Monitoring Report, the development of a national anti-corruption program began in 2008, but has so far not been finalised, and despite political promises to fight corruption, a set of concrete actions has not yet been adopted. Furthermore, there are no significant changes in the area of prevention of conflict of interest and protection of whistleblowers. While Uzbekistan plans to gradually introduce a system of asset declarations, no concrete steps have so far been taken in this direction. Currently there is no separate and independent public body in charge of developing and implementing a national anti-corruption strategy and policy. However, on a more positive note, the aforementioned report states that in the aim of fighting corruption, the government enhanced public service ethics training. Various anti-corruption workshops, seminars, training courses and conferences were held at state agencies and universities. Nevertheless, reforms still remain at a reduced level and Uzbekistan's efforts to curbing corruption are reflected in various corruption rankings and indices from around the world, which all place the country at the bottom.

Business and Corruption

According to the US Commercial Service 2012 report, Uzbekistan is very selective in its approach to foreign investment, as the government encourages investments that are oriented towards the country's industrialisation policy and discourages investments in import-consuming sectors. This is manifested in the country's legislation, which grants incentives to foreign investors on a case-by-case basis. The same report notes that there is no standard or transparent screening mechanism of foreign investment, and the legal framework is designed to protect domestic industries and limit foreign competition. Subsequently, the lack of transparency and predictability has deterred many potential investors. Nevertheless, some positive aspects of Uzbekistan's investment climate are highlighted in a June 2013 article published by Transformation, in which business executives describes their relations with local authorities to be positive, praised the availability of information on legislation and considered tax rules and rates to be fair. Nevertheless, Uzbekistan's poor infrastructure and utilities' services constituted a problem to doing business in the country. A 2012 report published by the World Bank also contains a mixed review of Uzbekistan's investment climate, as positive improvements have been recorded, such as the simplification of company registration and tax reporting procedures and the abolishment of several licences and permits. Nevertheless, the report notes that the overall business environment remains difficult.

Partial state-ownership and influence are common in many sectors of the economy. Officeholders are not only often involved in private business affairs, but also use their positions to promote their business; this can be either through changing regulations to benefit close partners or by directing state budget resources into the hands of these partners. In addition, the Bertelsmann Foundation 2012 reports that the notion of conflict of interest is widely ignored by state and civil servants, and that this conceptual gap has created space for frequent abuses of office. Free market competition is thus only present in small and insignificant segments of the economy, while free competition and fairness is significantly limited by rampant corruption, nepotism and biased application of laws. Furthermore, the US Department of State 2013 notes that the government of Uzbekistan does not direct any effort toward encouraging enterprises to establish internal codes of conduct and anti-corruption policies that prohibit the bribery of government officials. The report further notes that only a small proportion of foreign investors have effective anti-corruption programmes. Nevertheless, improvements were recorded by the OECD in its 2012 Monitoring report, according to which the government has taken steps to improve the business climate. A state program, "Year of Small Business and Private Entrepreneurship", initiated by a presidential resolution in 2011, focuses on simplifying business regulations and removing bureaucratic obstacles to doing business, obstacles that stimulate corruption which in turn, has a negative effect on the development of business.

According to the US Department of State 2013, businesses cite corruption as one of the main obstacles to foreign direct investment in Uzbekistan. Businesses are often subjected to harassment and extortion by various state agencies and countless inspections. Companies can for example be forced to make charitable donations, which can only be avoided if companies obtain patronage relationships with government officials and pay them bribes as reported by the Bertelsmann Foundation 2012. Requests for gifts amongst government officials have also increased over the years, as reported by the Enterprise Surveys 2011. The report notes that manufacturing companies in particular are the targets of 'gift requests'. Public procurement corruption is also a major problem, illustrated by almost 50% of the surveyed companies that expect to give gifts to secure government contracts, as reported by the Enterprise Surveys 2008. Companies are recommended to develop, implement and strengthen integrity systems and to conduct extensive due diligence when planning to invest and when already doing business in Uzbekistan.

Regulatory Environment

Corruption is institutionalised in Uzbekistan and permeates through all levels of government, including the regulatory bodies. The regulatory environment is highly unpredictable, making the requirements for obtaining permits and utilities ambiguous, the procedures burdensome, and the legislation contradictory and easily changeable. This is further aggravated by the widespread practice of bribery and extortion by local government officials, tax and law enforcement agencies. This is supported by the US Commercial Service 2012, which notes that the enforcement of regulations is undermined by the widespread corruption. Uzbekistan is one of a few post-Soviet countries that have not yet introduced the civil service law. As a result, state employees are not accountable to society or its representative bodies and conflict of interest is commonly practised within the civil service, as reported by the Bertelsmann Foundation 2012. Thus, the US Commercial Service 2012 reports that bribes are used to obtain a wide range of public services, government contracts, exceptions from regulations, and even to escape criminal prosecutions. In fact, the US Department of State 2013 notes that public officials themselves use their positions to interpret regulations as they wish and subsequently extract bribes. Furthermore, due to the absence of an independent judiciary, lawbreakers within the government do not have to fear legal consequences.

According to the US Department of State 2013, Uzbekistan has undertaken both institutional and economic reform, such as restructuring and privatisation, but implementation has been very limited. Uzbekistan’s commercial laws and regulations are weak in scope and do not comply with internationally accepted standards. This is also supported by the aforementioned report, which notes that only a few of the local regulatory, legal and accounting systems are transparent and consistent with international norms. This lack of structural reforms and their ineffective implementation has exacerbated bureaucratic inefficiencies and contributed to widespread corruption. In fact, Uzbekistan is reported to be among the most difficult countries in the world to conduct business in relation to licensing and taxes both in terms of time and number of procedures. According to the EBRD & World Bank BEEPS Uzbekistan 2012, more than 50% of the surveyed companies identify the tax administration as a major constraint to doing business, while almost a quarter of the surveyed companies expect to make informal payments when meeting with tax officials, whereas almost a quarter of the surveyed companies report to have paid a bribe to obtain a licence.

On a more positive note, the World Bank & IFC Doing Business 2013 report points out that the government in Uzbekistan did introduce several reforms, these include improving access to credit information, introducing a single window for customs clearance and reducing the number of documents needed for importing. The country also strengthened its insolvency process by introducing new time limits for insolvency proceedings and made starting a business easier. It now takes 6 procedures and 12 days to start a business in Uzbekistan, which matches the OECD average; however, it costs 27.4% of the income per capita, a percentage that is five times higher than the Eastern Europe and Central Asia average. This is also reinforced in the 2012 Monitoring Report by the OECD, which notes that in 2011, Uzbekistan made progress in the area of simplifying business regulation. The report reveals that 62 permits and 3 internal regulations relevant to doing business were removed. Furthermore, an electronic public procurement system was introduced. According to a January 2013 article by E-Invoicing Platform, the changes have helped, among others, to increase the transparency of electronic bidding and decrease the risks of impunity of corrupt suppliers and customers. Uzbekistan is signatory to several international conventions regulating the mutual acceptance and enforcement of foreign arbitration, including the New York Convention 1958 and the Washington Convention 1965. Access the Lexadin World Law Guide for a collection of laws in Uzbekistan.

Section 3 - Economy

Uzbekistan is a landlocked country with more than 60% of the population living in densely populated rural communities. Since its independence in September 1991, the government maintained its Soviet-style command economy with subsidies and tight controls on production and prices. Despite ongoing efforts to diversify crops, Uzbekistani agriculture remains largely cantered on cotton; Uzbekistan is the world's fifth largest cotton exporter and sixth largest producer. Uzbekistan's growth has been driven primarily by state-led investments, and export of natural gas, gold, and cotton provides a significant share of foreign exchange earnings. In 2015, Russia's Gazprom announced it would reduce its natural gas imports from Uzbekistan but Tashkent continues to export natural gas to China and Chinese investments in the country have substantially increased.

While aware of the need to improve the investment climate, the government continues to intervene in the business sector and has not addressed the impediments to foreign investment in the country. In the past, Uzbekistani authorities have accused US and other foreign companies operating in Uzbekistan of violating Uzbekistani laws and have frozen and seized their assets. At the same time, the Uzbekistani Government has actively courted several major US and international corporations, offering financing and tax advantages.

In 2003, the government accepted Article VIII obligations under the IMF, providing for full currency convertibility. However, strict currency controls and tightening of borders have lessened the effects of convertibility and have also led to some shortages that have further stifled economic activity. Recently, lower global commodity prices and economic slowdown in neighbouring Russia and China have been hurting Uzbekistan's trade and investment and worsening its problem of currency shortage.

Agriculture - products:

cotton, vegetables, fruits, grain; livestock

Industries:

textiles, food processing, machine building, metallurgy, mining, hydrocarbon extraction, chemicals

Exports - commodities:

energy products, cotton, gold, mineral fertilizers, ferrous and nonferrous metals, textiles, foodstuffs, machinery, automobiles

Exports - partners:

Switzerland 25.8%, China 17.6%, Kazakhstan 14.2%, Turkey 9.9%, Russia 8.4%, Bangladesh 6.9% (2015)

Imports - commodities:

machinery and equipment, foodstuffs, chemicals, ferrous and nonferrous metals

Imports - partners:

China 20.8%, Russia 20.8%, South Korea 12%, Kazakhstan 10.8%, Turkey 4.6%, Germany 4.4% (2015)

Banking

The banking system in Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations, and practices. Most banking assets remain in state-owned or controlled banks, and most loans are directed by the government. The banking sector includes government-controlled banks (National Bank of Uzbekistan (NBU), Uzpromstroybank, Asaka Bank, Uzjilsberbank etc.); banks with foreign investments (RBS Bank, NB Uzbekistan A.O., KDB Bank, Uzbekistan-Turkish Bank, Soderat Bank); and medium and small size private banks. There are 31 banks operating in total.

Lack of reform in the banking system constrains banks' profits and limits their role as financial intermediaries, thus inhibiting the ability of citizens or private companies to obtain credit and other banking services. Only foreign investors who enjoy joint venture status may obtain credit on the local market through government-run banking institutions. Joint ventures often request supplemental local financing to complete projects. Although Uzbek law guarantees the Central Bank"s independence, this independence is, in fact, only nominal. The Central Bank is unable to enforce bank regulations properly, leaving banks free to operate with little regard for applicable banking regulations or fiscally sound practices.

Stock Exchange

In general the government welcomes portfolio investments, and many international fund management companies have worked in the country. Some of these specialized in investing in various sectors of the economy through stock markets (e.g., Tashkent Stock Exchange, or TSE); others invested in the real estate and construction sectors. In 2009 most portfolio investors left the market due to capital outflows caused by the Global Financial Crisis.

Section 4 - Investment Climate

Executive Summary

Uzbekistan has a long entrepreneurial heritage, and with a population of over 31.5 million has the potential to become the largest economy in Central Asia. Its overall investment climate demonstrated some improvement in recent years – the government has simplified business registration procedures, introduced some additional tax incentives for investors, improved private property protection legislation and streamlined customs regulations.

Concerns remain. The greatest concerns facing foreign and private investors are access to currency conversion, frustrating bureaucratic processes, an onerous system of taxation, an overregulated banking system, and punitive customs laws and procedures. In addition, expropriations and politically motivated inspections of businesses have damaged Uzbekistan's reputation as an investment destination and sharpened a critical element of risk in its business climate.

The government has been directing almost all foreign investments into export-oriented industries. Over 75 percent of Foreign Direct Investment (FDI) traditionally was consumed by the oil and gas industry, which generate 26 percent of the country's export earnings. But with low oil prices, a number of large international investors became more cautious and suspended their projects in the country.

As a result of continued decline of the regional economic environment in 2015, Uzbek exports and remittances declined by 9 percent and 50 percent respectively.. In order to generate additional sources of foreign currency inflow, the government initiated ambitious privatization programs. However, the government has yet to demonstrate its will to achieve real improvements in the overall investment climate of Uzbekistan.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	153 of 168	https://www.transparency.org/cpi2015
World Bank's Doing Business Report "Ease of Doing Business"	2016	87 of 189	http://www.doingbusiness.org/rankings
Global Innovation Index	2015	122 of 141	http://www.wipo.int/econ_stat/en/economics/gii/
U.S. FDI in partner country ($M	2014	$73 million	http://bea.gov/international/di1usdbal.htm

USD, stock positions)			
World Bank GNI per capita	2014	USD 2,090	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of $4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The government of Uzbekistan ("the government" or "the GOU") has declared attracting foreign direct investment a core policy priority. According to official statistics, there are over 4,800 companies with participation of foreign capital operating in the country. At the same time, Uzbekistan has one of the lowest cumulative inflows of FDI in the former Soviet Bloc due to a range of factors. These include limited access to foreign currency, an underdeveloped and overregulated banking sector, trade restrictions, government involvement in trade and commerce, and widespread corruption.

Without support of the government or state-affiliated entities, foreign investors have limited business opportunities in Uzbekistan. The government generally welcomes investors and investment projects that are in line with its import-substitution and export-oriented industrialization policy, and discourages investments in import-consuming sectors by controlling access to currency exchange.

In 2012, when FDI levels fell well below government targets, President Karimov created the Working Committee on Improvement of Uzbekistan's Ranking on the World Bank's Doing Business report, and issued a number of decrees aimed at improving the business environment. These decrees emphasized one-window practices and electronic reporting systems aimed at reducing direct contacts between entrepreneurs and government entities. Although Uzbekistan's ranking has improved from 166th in 2012 to 103rd in 2015 and 87th in 2016, the GOU's measures have not addressed a number of fundamental problems plaguing businesses and investors.

Formally, foreign investors are welcome in all sectors of the Uzbek economy. According to law, the government cannot discriminate against foreign investors based on nationality, place of residence, or country of origin. However, government control of key industries can have discriminatory effects on foreign investors. For example, the GOU retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government regulates investment and capital flows in the raw cotton market and controls all silk sold in the country, dampening foreign investment in the textile and rug-weaving industries. Partial state ownership and influence are common in almost all key sectors of the economy.

Other Investment Policy Reviews

There were no investment policy reviews of Uzbekistan completed by the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), or the United Nations Conference on Trade and Development (UNCTAD) in recent years.

Laws/Regulations on Foreign Direct Investment

Legislation protecting foreign investors includes the Law on Foreign Investments, the Law on Guarantees and Measures on Protection of Foreign Investments, the Law on Guarantees of the Freedoms of Entrepreneurial Activity, the Production Sharing Agreements Law, the Law on Investment Activities, and a number of other decrees and resolutions.

Uzbek law provides the following rights to foreign investors:

- To decide the amount, kinds, and channels of investments;
- To conclude agreements to carry out investment activity;
- To own, use and dispose of investments and the results of investment activity;
- To patent inventions, models and industrial samples belonging to the foreign investor;
- To repatriate profits from Uzbekistan or to reinvest them into Uzbek entities;
- To obtain financial resources in the form of credits and loans;
- To convert local currency into foreign currency;
- To possess and use land on terms provided by the legislation;
- To receive compensation for investments/assets in case of expropriation by the state; and
- To receive compensation for losses incurred due to illegal activity/decisions of the state.

Uzbekistan's investment legislation provides a range of guarantees for foreign investors, including:

- Protection against discrimination based on nationality, place of residence, or country of origin;
- Fair and equitable treatment;
- Protection from harm caused by retroactive implementation of legislation;
- In the case of changes to legislation, the right to apply at their own discretion those provisions of the new legislation which provide for better conditions for their investments;

- Protection from interference by the state in the economic activity of foreign investors which are carried out in accordance with the law; and

- Any change in legislation that worsens foreign investment conditions shall not be applied to those investments until ten years following the date of the investments.

Though the government nominally guarantees these rights, the legislation and regulatory acts are ambiguous and contradictory. Several of the rights, such as converting and repatriating profits and conducting business without government interference, are routinely violated, with currency conversion difficulties most frequently cited by foreign firms as the greatest impediment to doing business in Uzbekistan.

In principle, the judicial system upholds investor rights and the sanctity of contracts. The judiciary is not independent, however, and regularly favors state-owned or government-affiliated entities. Foreign investors have reported numerous procedural infractions in both the Economic and Criminal courts of Uzbekistan and the Embassy is aware of a number of cases in which foreign companies did not receive timely payments from local partners.

Local legislation contains a number of exceptions allowing for state interference and impunity. Corruption is a constituent factor in legal proceedings, primarily in disputes between private businesses.

More information on the laws, rules, procedures and registration requirements for foreign investors is available through www.lex.uz - Uzbekistan's legislation digest, or in the specialized website of the Uzbek Ministry for Foreign Economic Relations, Investment and Trade: http://www.uzinfoinvest.uz/eng/.

Business Registration

Foreign and domestic private investors and entities may establish and participate in a variety of legal forms of business, ranging from partnerships to joint-stock companies to wholly owned enterprises. Depending on the extent of foreign participation, a business can be defined as an “enterprise with foreign capital,” or EFC (less than 30 percent foreign-owned), or as an “enterprise with foreign investment,” or EFI (more than 30 percent foreign-owned and with a minimum charter capital of $150,000).

Legislation, including the Law on Joint-Stock Companies and Protection of Shareholder’s Rights, issued in 1996 and last updated in 2014, sets a range of standards to protect the interests of minority shareholders.

EFI businesses must register with the Ministry of Justice while EFCs can be registered by the regional governor’s office (Khokimyat). In theory, EFCs can register their business online through the Electronic Government website - https://my.gov.uz/en – if the size of the equity capital is smaller than $150,000. According to the law, the registration process should take no more than seven business days after submission of a complete application package. The World Bank has raised Uzbekistan’s Starting a Business indicator to 42 in 2016 from 64 last year, reflecting the introduction of an online one-stop shop and streamlined registration procedures. More information about business registration procedures in Uzbekistan can be obtained here: http://www.uzinfoinvest.uz/eng/investment_guide/fdi_notification_and_registration/, and here: http://www.doingbusiness.org/data/exploreeconomies/uzbekistan/starting-a-business

Foreign companies may also maintain a physical presence in Uzbekistan as permanent establishments without registering as a separate legal entity (other than with tax authorities). A permanent establishment may have a bank account.

Foreign investors can get consultations, business registration and other legal assistance from Uzinfoinvest agency, which operates as a branch of the Ministry of Foreign Economic Relations, Investments and Trade (http://www.uzinfoinvest.uz/eng/), or from the Chamber of Commerce and Industry of Uzbekistan on a contractual basis (http://www.chamber.uz/en/index). Formally, there are no criteria set for investors to be eligible for applying.

Businesses with a foreign share of ownership may choose to be qualified as small enterprises or micro firms. Small businesses in Uzbekistan are eligible for a range of incentives, including registration and taxation. These include easing registration – no mandatory requirement to have a company seal – and simplified or unified taxation, which replaces profit tax, VAT, property tax, land tax, social infrastructure development tax, as well as contributions to the road fund, school development fund and pension fund. The current average rate of the unified tax is 5 percent on gross revenue (established for FY2016). By the law, newly registered micro-firms and small enterprises can get a one-year grace period for unified tax payments, with subsequent repayment of the tax within 12 months after the grace period is over. Small businesses also can get a two-year grace period for any additional taxes that can be imposed by the legislation. Uzbek legislation provides additional tax incentives to small businesses that produce goods subject to excise tax, IT software, and agricultural products, as well as for those who generate exports.

According to the current legislation, the category of small business can be applied to micro-firms and small enterprises. To be qualified, businesses should meet the following criteria:

- Micro-firms are businesses with:
- 20 or fewer employees in manufacturing;
- 10 or fewer employees in services or other non-manufacturing areas; and
- 5 or fewer employees in retail and catering.
- Small enterprises are businesses with:
- 100 or fewer employees in light and the food-processing industries, metal works and instrument manufacturing, wood processing, furniture and building-materials industries;
- 50 or fewer employees in mechanical engineering, metallurgy, fuel, energy and chemical industries, agriculture, construction and some other manufacturing industries; and
- 25 or fewer employees in science, transport, communication, services (except for insurance companies), trade, public catering and other non-production areas.

Note: All numbers above indicate the average annual number of employees.

According to official statistics, in 2015 small businesses contributed 56.7 percent to the GDP and provided 77.9 percent of all active jobs in Uzbekistan.

Industrial Promotion

The GOU encourages FDI through various tax incentives offered to companies investing in the following industries:

- Agricultural, Construction, Building & Heavy Equipment
- Chemicals, Petrochemicals, Plastics & Composites
- Consumer Goods & Home Furnishings
- Energy & Mining
- Food Processing & Packaging
- Health Technologies
- Industrial Equipment & Supplies
- Information & Communication
- Metal Manufacturing & Products
- Textiles, Apparel & Sporting Goods
- Travel

Please see Performance Requirements and Investment Incentives in this document for more details.

The government maintains the following list of projects where it is seeking foreign investors and technical assistance:

http://www.uzinfoinvest.uz/eng/investment_projects/list_of_prospective_investment_proposals_for_attraction_of_direct_foreign_investment/

For detailed information on GOU programs to attract foreign investments, visit the Ministry for Foreign Economic Relations, Investment and Trade's dedicated website: http://www.uzinfoinvest.uz/eng/.

Limits on Foreign Control and Right to Private Ownership and Establishment

Formally, Uzbekistan guarantees the right of foreign and domestic private entities to establish and own business enterprises and to engage in most forms of remunerative activity. The state reserves the right to export gold, and the government maintains a monopoly on cotton exports. Natural gas, cotton and gold are Uzbekistan's largest sources of foreign exchange earnings. There are isolated cases of foreign companies that have entered the natural gas and cotton production sectors with some success. In theory, private enterprises may freely establish, acquire, and dispose of equity interests in private businesses, but in practice, this is difficult to do because Uzbekistan's securities markets are underdeveloped.

Private capital is not allowed in some industries and enterprises. The Law on Denationalization and Privatization (1991) lists state assets that cannot be privatized, including: land with mineral and water resources, the air basin, flora and fauna, cultural heritage sites, state budget funds, foreign and gold reserves, state trust funds, the Central Bank, enterprises that facilitate monetary circulation, military and security-related assets and enterprises, firearms and ammunition producers, nuclear research and development enterprises, some specialized producers of drugs and toxic chemicals, emergency response, civil protection and mobilization facilities, public roads, and cemeteries.

There are several official limits to foreign investment. Foreign ownership and control are prohibited for airlines, railways, power generation, long distance telecommunication networks, and other sectors deemed to be related to national security. Foreign nationals cannot obtain a patent for individual entrepreneurship in Uzbekistan.

Restrictions also apply to media, finance, insurance, and travel. Foreign investment in media enterprises is limited to 30 percent. In finance, foreign investors may operate only as joint venture partners with Uzbek firms, and banks with foreign participation face fixed charter funding requirements – €10 million ($11.3 million) for commercial banks, €5 million ($5.7 million) for private banks, and €1.5-6 million ($1.7 million - $6.8 million) for insurance companies – while the required size of the charter funds for Uzbek firms is set on a case-by-case basis. In the tourism sector, foreign ownership cannot exceed 49 percent.

Privatization Program

Although in 1998 the government declared a policy of institutional and economic reforms (such as restructuring and privatization) in order to attract more investment into the country, in general, it has made limited progress despite ongoing privatization attempts. The GOU has banned privatization of large state-owned enterprises, such as international telecommunications providers, power generation and distribution companies, railways and airlines, explaining that these have national strategic interest. Many investors note a lack of transparency at the final stage of the bidding process, when the government negotiates directly with bidders before announcing the results. In some cases, the bidders have been front companies associated with influential Uzbek families registered abroad.

At the end of December 2015, the GOU set a requirement for joint stock companies registered in Uzbekistan to have at least a 15 percent share owned by foreign investors by July 1, 2016. Exceptions will be made for companies that produce and process primary strategic raw materials, natural monopolies and suppliers of socially important goods and services at state-regulated prices. Joint stock companies with a 15 to 33 percent share owned by foreign investors are getting a range of privileges, including holidays for income, property, and social infrastructure taxes, unified tax payments and mandatory contributions to the Road Fund. Foreign shareholders of local joint stock companies are exempted from paying dividend taxes for the period before January 1, 2020. After July 1, 2016, joint stock companies that fail to comply with the new foreign ownership requirements will be liquidated or reorganized.

On February 10, 2016, the GOU issued a follow-up resolution with a list of 25 joint stock companies where at least 15 percent of state shares should be offered to foreign investors. The list includes some large state-owned companies such as Uzbekyengilsanoat (light industry), Uzbektelecom (fixed-line and long-distance telecommunications), Uzbekiston Pochtasi (postal services), Matbuot Tarqatuvchi (printed media distribution), Uzsanoatexport (machinery exports), Markaziy Ipodrom (Tashkent hippodrome), and the Uzbekistan Stock Exchange, as well as five commercial banks – Asaka Bank, Qishloq Qurilish Bank, Agrobank, Ipoteka Bank and Microkreditbank. The resolution also provides a larger list of 64 joint stock companies for 15 percent privatization through emission of additional shares. It includes wine and vodka producers, construction subsidiaries in the energy industry, and others.

Uzbekistan's most recent denationalization and privatization program was finalized by the GOU on April 28, 2015. It provides for sale of state-owned shares in 68 enterprises to foreign investors, sale of state-owned shares and assets in 1,179 enterprises to the private sector under condition of a specific investment commitment or through public transparent auctions, and liquidation of 609 non-performing enterprises (such as underutilized public facilities and warehouses and maintenance shops of irrigation-construction and maintenance divisions in rural areas).

In 22 out of the 68 so-called "strategic enterprises" where part of the state-owned shares are being offered to strategic foreign investors, the state or state-owned organizations will hold the majority of shares (51 percent). The list includes four chemical plants: two large fertilizer producers – Navoiazot and Ferganaazot, in which the state is offering a 49 percent share to potential foreign investors and will continue to hold the remaining 51 percent, and two polymer plants, where almost 100 percent of shares are being offered for sale. Others of the so-called "strategic enterprises" are smaller or have been in a non-operational condition for nearly 15 years. There are also two commercial banks, one of which is a former private bank that was nationalized, two insurance companies, and a 60 percent share in a bankrupt company registered in Russia.

The main mechanisms for selling state assets are usually open tender or auction, but often the process is transparent only at the initial stage. In some cases the government uses local or international financial consultants for privatization of large enterprises, and foreign investors are invited to participate only after an enterprise has been evaluated. In June 2012, the government allowed foreign investors to buy state-owned, low-liquidity facilities at zero redemption cost under condition of a specific investment commitment.

Screening of FDI

The government closely scrutinizes all foreign investment, with special emphasis on sectors of the economy that it considers strategic, including mining, cotton processing, oil and gas refining, and transportation. There is no standard and transparent screening mechanism, and the legal framework is designed to protect domestic industries and limit competition from abroad. Outcomes of such screening reviews are frequently predetermined. Screening can be used to limit investment in certain industries and by certain countries, depending on Uzbekistan's current policy priorities, and can also contribute to a lack of transparency and benefit local elites.

The government also uses licensing as a tool to control enterprises in several important sectors such as energy, telecommunications, wholesale trade businesses, and tourism. Often licenses for business operations in these sectors are issued by agencies that themselves have commercial interests in the sector.

A charter fund of an enterprise with foreign investment of $20 million or more needs special government approval, usually in the form of a Cabinet of Ministers resolution, to register the enterprise. Smaller investments in certain sectors of the economy also require permission from government authorities, although there is no official list of what these sectors are and enforcement is perceived to be random. In any case, filing for a standard business license is mandatory.

Large privatization deals with involvement of foreign investment require approval of the State Tender Commission (STC), an interagency body created in 2006. The STC is authorized to select investors for offered packages of shares without going through tenders or other transparent procedures. It will also decide on the privatization of enterprises that have foreign loans taken under GOU guarantee, and the sale of state assets and shares in enterprises to foreign investors. The IFC is providing technical and advisory assistance to the government in regard to this program.

The government reserves the right to cancel the registration of any business or withdraw licenses at will. Lengthy government inspections may lead to punitive sanctions or subsequent closures. The main GOU agency that makes the decision on the outcome of business screening reviews is the Ministry of Justice. This ministry registers a business and may also initiate termination of its registration. According to legislation issued in January 2016, it is also responsible for the protection of private businesses and foreign investors from meritless claims, unjustified inspections and other abusive practices of state bodies: on February 1, 2016, the ministry created a new specialized department to handle these responsibilities.

Uzbekistan’s Economic Court can also decide to close an enterprise, and its decisions can be appealed in the Superior Economic Court in accordance with the Economic Procedural Code or other applicable local law. Reviews usually are quite slow. Some foreign investors, including U.S. firms, have characterized the process as unpredictable and non-transparent, making it a potential tool for forcible takeovers of businesses.

Competition Law

The main entity that reviews transactions for competition-related concerns is the State Committee for Privatization, De-monopolization and Development of Competition. This agency is responsible for developing a competitive environment, limiting monopolistic activities and regulating natural monopolies, reorganizing economically insufficient ventures, supporting the development of entrepreneurship, protecting consumer rights, and controlling advertising activities. The Committee operates both directly and through its regional units, as well as through its non-profit consulting unit, the Antimonopoly Policy Improvement Center.

2. Conversion and Transfer Policies

Foreign Exchange

Uzbekistan adopted Article VIII of the IMF's Articles of Agreement in October 2003 and, thus, committed to currency convertibility for current account transactions. Formally, foreign investors are guaranteed transfer of funds in foreign currency into and out of Uzbekistan without limitation, provided they have paid all taxes and other financial obligations in accordance with legislation. Local authorities may stop the repatriation of a foreign investor’s funds in cases of insolvency and bankruptcy, criminal acts by the foreign investor, or when directed by arbitration or a court decision. In practice, however, multiple informal restrictions remain in place. The government reportedly issues banks confidential instructions regarding which orders are to be filled. U.S. companies regularly report long delays and are often only granted a portion of the requested sum for convertibility. Currency conversion problems represent the single largest impediment to FDI in Uzbekistan; this problem appears unlikely to change in the near future.

The Central Bank of Uzbekistan regulates the official exchange rate of the local currency, the soum. It maintains gradual official depreciation of the soum to about 15-17 percent per year.

There are two legal exchange rates in Uzbekistan: the commercial (wire-transfer) rate and the exchange booth rate (2,845 and 2,900 soum per U.S. dollar, respectively, as of February 2016). Some businesses use a semi-official exchange mechanism through the Uzbekistan Commodity Exchange, where the dollar value is usually three times higher than the official rate.

Individual entrepreneurs often trade on the illegal (black) market, which trades at its own rate (6,100 soum per U.S. dollar in February 2016), and which currently exceeds the official exchange booth rate by roughly two times. Despite their widespread use, these currency exchange operations are illegal.

There have been no recent changes in the rules regulating current account transactions. Banking regulations mandate that the currency conversion process should take no longer than two weeks, but current lag times range from three months to well over a year, making import of intermediate goods, raw materials, and manufacturing components difficult or impossible without recourse to illegal operations on the black market, or higher-cost operations on the commodity exchange. During these delays, the entire amount to be converted is impounded by the Central Bank of Uzbekistan in a non-interest bearing account, contrary to existing legislation. The government enforces tight foreign exchange control methods in its efforts to minimize capital outflow, regulate imports, stimulate local manufacturing, and reduce the country's dependency on external factors.

Remittance Policies

Investors can use foreign currency income or export earnings to pay remittances and other investment obligations, but only after meeting the government's mandatory surrender requirements. The GOU mandates that companies exchange 50 percent of their foreign currency earnings for local currency through authorized banks at the official exchange rate. Exemptions to this requirement may be provided to some smaller companies or to majority foreign-owned companies that export manufactured goods for not less than 60 percent of their total profit.

Exchange booths provide services only to individuals and apply rigid limitations. By law, all citizens have access to the exchange booth rate, but in practice exchange booths do not sell foreign cash. Private money-transfer services work only with individuals and have upper thresholds for remittances in foreign currency.

The U.S. Treasury has no currency manipulation records on Uzbekistan. The GOU accelerated its depreciation of the national currency in 2015: the soum lost about 17 percent on the U.S. dollar at the official rate (compared to 10 percent the previous year). The government reportedly maintains large reserves (about 38 percent of GDP) in the Central Bank, which gives it the capacity to control currency depreciation in the near future.

Uzbekistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: http://www.eurasiangroup.org/mers.php

3. Expropriation and Compensation

The government may seize foreign investor assets due to violation of legislation, breach of contract, failure to complete investment commitments, and for arbitrary reasons such as revaluation of assets and site-development programs. Although the government is obligated to provide fair market compensation for seized property, it has offered less than market value in several recent cases involving foreign and local businesses, and involving individuals. The law obligates the government to provide compensation to foreign partners in a transferable currency, but in most cases, the GOU instead does it with local currency.

Profitable, high-profile foreign businesses are at greater risk for expropriation, but smaller companies are also vulnerable. A number of companies have faced expropriation in the food processing, mining, retail, and telecommunications sectors. According to Uzbekistan's State Statistics Committee, authorities closed about 17,900 businesses in 2015, or about 75 percent of all businesses liquidated last year.

4. Dispute Settlement

Dispute settlement methods are regulated by the Economic Procedural Code, the Law on Arbitration Courts, and the Law on Contractual Basics of Activities of Commercial Enterprises. The Law on Guarantees to Foreign Investors and Protection of their Rights requires that involved parties settle foreign investment disputes using the methods they define themselves, generally in terms predefined in an investment agreement. Investors are entitled to use any international dispute settlement mechanism specified in their contracts and agreements with local partners, and these agreements should define the methods of settlement. Dispute settlement processes are also included in some bilateral treaties, but there is currently no treaty covering U.S. citizens.

If the parties fail to specify an international mechanism, Uzbekistan's economic courts can settle commercial disputes arising between local and foreign businesses. The economic courts break down to regional and city courts, with a Supreme Economic Court in Tashkent. Complainants may seek recognition and enforcement of foreign arbitral awards pursuant to the New York Convention through the economic courts.

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The hierarchy of Uzbek law includes: the Constitution of the Republic of Uzbekistan, constitutional laws, codes, ordinary laws, decrees of the president, decrees of the Cabinet of Ministers, and normative acts. Property ownership is governed by the Law on Protection of Private Property and Guarantees of the Owner's Rights, the Law on Investment Activities, the Law on Guarantees of the Freedoms of Entrepreneurial Activity, the Civil Code and a number of other decrees and resolutions. Economic disputes, including intellectual property claims, can be heard in the Higher Economic Court, along with the Supreme Court and the Economic Court of the Republic of Karakalpakstan. These courts' judges are appointed for five-year terms. This judicial branch also includes regional, district, town, city, Tashkent city courts, and arbitration courts.

Formally, the judicial system in Uzbekistan is independent, but government interference and corruption are common. Often government officials, attorneys, and judges interpret local legislation inconsistently and in conflict with each other.

Domestic arbitration bodies in Uzbekistan are represented by Arbitration Courts. According to the Law on Arbitration Courts, parties of a dispute can choose their own arbiter and the arbiter in turn choses a chair. The decisions of these courts are binding. The Law says that executive or legislative bodies, as well as other state agencies, are barred from creating arbitration courts and cannot be a party to arbitration proceedings. The verdict of the Arbitration Court can be appealed by either party to the dispute to the general court system within thirty days of the verdict. Separate arbitration courts are also available for civil cases, and their decisions can be appealed in the general court system. When the court decides in favor of a foreign investor, the Ministry of Justice is responsible for enforcing the ruling. In some cases its authority is limited and co-opted by more influential powers within the government. Judgments against state-owned enterprises are particularly difficult to enforce.

Bankruptcy

The Law on Bankruptcy regulates bankruptcy procedures. Creditors can participate in liquidation or reorganization of the debtor only in the form of a creditor's committee. According to the Law on Bankruptcy and the Labor Code, an enterprise may claim exemption from paying property and land taxes, as well as fines and penalties for back taxes and other mandatory payments for the entire period of the liquidation proceedings. Monetary judgments are usually made in local currency. Bankruptcy itself is not criminalized, but in August 2013, the GOU introduced new legislation on false bankruptcy, non-disclosure of bankruptcy, and premeditated bankruptcy cases. The World Bank ranked Uzbekistan's Resolving Insolvency indicator as 75th out of 189 for 2016.

Investment Disputes

A number of investment disputes involving foreign investors and contractors have occurred in Uzbekistan in recent years, mainly in the mining, textile, telecommunications, food processing and trade sectors. Most disputes involved nonpayment or delayed payment for goods or services by state entities. Disputes within joint ventures are also common, as local partners must balance their commitments against heavy government pressure and corruption. Some disputes are further complicated by tax authorities, who can seize assets or sequester funds from a company account before a court reviews the case. The general public has limited information about investment disputes, as official media either do not cover the disputes at all or present biased comments. Because of this, and due to limited access to the media, the reaction of nascent civil society business organizations on these disputes is minimal.

International Arbitration

The Law on Guarantees to Foreign Investors and Protection of their Rights permits resolution of investment disputes in line with the rules and procedures of the international treaties to which Uzbekistan is a signatory. If international arbitration is permitted, awards can be challenged in domestic courts. Uzbekistan does not have a Bilateral Investment Treaty (BIT) or Free Trade Agreement (FTA) with an investment chapter with the United States.

A party may file an international arbitration suit with an economic court in Uzbekistan even after the parties have agreed to an international arbitration forum. Generally, this will not hinder potential or ongoing international arbitration proceedings because an economic court would delay the case, assuming the second party denies the jurisdiction of the economic court prior to the first party making its statement on the merits of the case.

ICSID Convention and New York Convention

Uzbekistan is a member of the International Center for the Settlement of Investment Disputes (ICSID) and a signatory to the 1958 UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). In November 2006, the Constitutional Court of Uzbekistan issued its ruling that ICSID arbitration does not stipulate the consent of the involved parties to have their dispute settled at the international level. In practice, this means that Uzbek courts do not recognize foreign businesses' attempts to defend their interests in international courts unless all parties first give their consent in writing.

Duration of Dispute Resolution – Local Courts

In commercial litigation, parties may file an appeal with the same court within one month from the date of rendering the judgment. After the appeal, an uncontended party may file for cassation to the Supreme Economic Court. Alternatively, the party can skip the appeal and request cassation within one month from the date of the judgment coming into force. Appeal and cassation proceedings each require one to two months.

In practice, there is a vast backlog of cases in certain city and regional economic courts, especially in Tashkent city and in the Tashkent region. Even once a hearing date is set, procedural complications might further delay proceedings (e.g. experts, witnesses, or parties to the case may fail to appear in court; parties may request additional time to prepare evidence), forcing the court to adjourn the hearing multiple times.

Claimants can seek recognition and enforcement of foreign arbitral awards pursuant to the New York Convention through economic courts. Formally, courts should accept jurisdiction within ten days of the date the complainant filed the lawsuit or petition, and the court should render a decision within one month of accepting jurisdiction. Upon request of a judge, the chair of the economic court can extend the period for rendering a decision by one month. In cases of commercial litigation, the decision must enter into force within one month of rendering, while cases of enforcement of foreign arbitral awards must go into force immediately once the court renders the decision.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Uzbekistan is not a member of the WTO and has several practices that do not conform to WTO requirements on Trade-Related Investment Measures (TRIMS). Many of these practices reflect Uzbekistan’s import substitution policy, including tax breaks for exporters, non-tariff barriers for imports, and poor records in protecting intellectual property rights. Uzbekistan’s application for WTO membership was submitted in 1994, but its Working Party has not met since 2005. The GOU has made some positive statements suggesting a more active WTO accession effort, but also stressed that Uzbekistan does not want to accelerate accession to the WTO at the cost of its economic interests.

Investment Incentives

After the decline of FDI in 2011-2012, the GOU introduced new investment incentives in its attempt to restore confidence to foreign businesses, but concerns about government interference and bureaucratic obstacles continue to discourage investors. In practice, the government has often used its right to cancel the registration of any business or to withdraw its license. Government inspections, often initiated by competing elite interests, frequently lead to punitive sanctions or closings. Foreign investors also limit or reduce their activities in the country due to challenges caused by arbitrary and non-transparent state involvement and corruption.

To qualify as an enterprise or business with foreign investment, the share of foreign investment must be at least 30 percent of the charter capital of a company. The investment must consist of hard currency or new equipment, delivered within one year of registering the enterprise. The minimum requirements for charter capital for certain incentives are: 1) $400,000 for joint-stock companies (except financial institutions); 2) $150,000 for ventures in other sectors of the economy, except those registered in Karakalpakstan and in Khorezm province, where the requirement is $75,000.

Other legislation provides a number of incentives for businesses qualified as enterprises with foreign investment. These include:

- Enterprises with foreign investments operating in specified industries and located outside of Tashkent city and Tashkent province are granted tax holidays for a period of three years if the FDI exceeds $300,000; five years if it exceeds $3 million; and seven years if it exceeds $10 million. The privilege applies to enterprises with foreign investments conducting businesses in 20 specific industries, which include the production of electronics, leather products, textiles, apparel, silk, various building materials, foodstuffs, chemical products, pharmaceuticals, packaging materials, renewable energy generators, coal, industrial and agricultural machinery, glass, microbiological products, and non-rubber toys. The GOU will only grant the tax holiday if the company reinvests at least 50 percent of the tax savings and the investor does not require a sovereign guarantee.

- The GOU grants new foreign investors ten-year immunity to changes in tax legislation if they invest at least $5 million.

- The government will build all required external utilities, engineering, and communication networks at its own expense for projects with investments exceeding $50 million and when the share of foreign investors exceeds 50 percent;

- Foreign investors are able to buy state-owned, low-liquidity facilities at zero redemption cost if they make specific investment commitments. In January 2014, this right was also granted to local private investors;

- Goods produced and imported by a foreign investor who invested more than $50 million are exempt from customs duties.

- Enterprises with foreign investment can receive exemptions from customs duties for: industrial and technological assets imported by foreign investors and enterprises with foreign investment for their own use; production parts, components and materials of their own production imported by foreign legal entities with more than $50 million of direct investments; goods, works, and services required for operations under a Production Sharing Agreement (PSA) imported by a foreign investor within the project documentation; goods of foreign investors exported in accordance with the PSA; and equipment and spare parts imported in line with contracts that have GOU approval and support. The exemptions are applicable only during the first two years after registration of the enterprise.

- Joint ventures with foreign participation in the oil and gas sector carrying out exploration work have a seven-year tax holiday from income tax from the extraction start date. In certain cases, the Cabinet of Ministers may provide foreign companies engaged in prospecting, exploration and production of oil and gas additional privileges, preferences and concessions based on direct negotiations between the competent authority and the strategic investor.

- The corporate income tax rate is 7.5 percent for businesses, 15 percent for commercial banks, and 35 percent for entertainment firms. Companies may reduce their taxable income by the amount of funds directed at modernization of production facilities through the purchase of new equipment, new construction, or renovation of buildings and structures. The reduction amount cannot exceed 30 percent of the company's total taxable income. If, in the current tax period, the amount of funds allocated for the above purpose exceeds 30 percent of total taxable income, the remaining amount may be deducted in subsequent tax periods within five years (from the date the cost was incurred, but from the day of commission for new equipment purchases).

- Enterprises that export goods or services (except raw materials) benefit from a 50 percent reduction in income tax if the company's exports account for not less than 30 percent of the total sales of produced goods, and a 30 percent reduction in income tax if the company's exports account for 15-30 percent of the total sales of produced goods.

- Newly established enterprises are exempt from property tax for two years from the moment of their registration. This incentive does not apply to enterprises created through liquidation or by reorganization of existing manufacturing enterprises or their separate divisions, nor does it apply to entities created under existing enterprises or to production facilities that rent their property and equipment.

- Various types of new technological equipment are exempt from customs duties and value added taxation (VAT). The Inter-Ministerial Resolution of the Ministry of Economy, Ministry of Finance, Ministry of Foreign Economic Relations, Investments and Trade, and the State Customs Committee approve the list of such equipment. Production-related assets imported by a foreign investor or an enterprise with foreign share above 33 percent are exempt from customs duties. In the event of the sale or transfer of imported equipment for export within three years from the moment of its import, the GOU will rescind this privilege and the company must pay the VAT. Assets imported as a part of investment commitments under a privatization agreement with the GOU are exempt from VAT payments. Medicines and medical products that have no locally manufactured equivalents are also included on the exemptions list, as are raw materials and semi-finished goods used for children's footwear production.

Tax incentives for foreign investment are essentially the same as for local enterprises participating in an investment program, localization, or modernization program. Enterprises with significant investment (more than $20 million) in priority sectors or registered outside Tashkent city or province can negotiate special benefits by concluding an investment agreement with the government, including additional tax and customs incentives, government guarantees and co-financing. These incentives generally require approval by the Cabinet of Ministers.

Research and Development

The Government welcomes participation of foreign investors in research and development programs, and has committed to create a national prioritization of innovation projects. The GOU does not regulate participation of foreign firms in government/authority-financed and/or subsidized research and development programs, nor will it privatize major state-owned R&D enterprises.

Performance Requirements

There are several restrictions and quantitative limitations on employment of foreign nationals in Uzbekistan. The chief accountants in banking and auditing companies must be Uzbek nationals. The law also requires that either the CEO or one member of a Board of Directors be a citizen of Uzbekistan. In the tourism sector, only Uzbek nationals can be professional tour guides. All foreign citizens, except those from certain countries of the former Soviet Union, need visas to work in Uzbekistan and all individuals must register their residence with authorities. A new law permits foreign investors and specialists to obtain multi-entry visas for the period of their contract, but the procedure has yet to be developed. To apply for a visa, American citizens must submit documents regarding their company to an Uzbek Embassy or Consulate.

Foreign workers must also register with the Ministry of Labor and Social Protection. The Agency on Foreign Labor Migration under the Ministry of Labor is responsible for quantitative control over employment of foreign nationals in various industries. For example, the number of foreign nationals in energy companies that operate in the country under Production Sharing Agreement terms cannot exceed 20 percent of the total number of employees, and additional foreign personnel can be hired only if there is no qualified local labor.

Permission from the government is not required to invest in Uzbekistan, but the GOU's economic policy maintains an intense focus on import substitution and export-oriented industrialization. Investors in non-priority sectors should expect to have more difficulty importing capital and consumer products than those in priority industries.

Uzbek legislation stipulates that the government must apply requirements to use domestic inputs in manufacturing uniformly to enterprises with domestic and foreign investments, but in practice, this is not always the case. There are no requirements for using only local sources of financing. The government welcomes foreign investors mainly in the areas of localization, building local production capacities, and developing export potential.

Uzbekistan does not have a uniform law on enforcement of performance requirements. Local authorities may use various enforcement procedures, including registrations, licensing, and tax inspections. Investors are often required to present long-term investment commitments with set target investments and job-creation goals before the government will approve their registration and licensing.

Data Storage

The legislation does not require data storage within the country, or transfer of technology or proprietary information; such transfers are negotiated between the foreign investor and its local partner.

6. Protection of Property Rights

Real Property

The GOU passed its Law on Protection of Private Property in September 2012. Uzbek and foreign entities may own buildings, but not the underlying land. Mortgages are available for local individuals only, but not for legal entities. Local businesses often use real estate leaseback services. There are no mortgage and liens securities in Uzbekistan. The legislation on private property rights does not differentiate traditional use rights of indigenous peoples, tribes or farmers.

All land in Uzbekistan is owned by the state. Legislation governing the acquisition and disposition of property poses relatively few problems for foreign investors and is similar to laws in other CIS countries. Property ownership is generally respected by local and central authorities. District governments have departments responsible for managing commercial real estate issues ranging from valuations to sale and purchase.

The World Bank ranked Uzbekistan 87th in the world in the Registering Property category of its 2016 Doing Business Report, up from 113 the previous year, indicating that the GOU has simplified property-transfer procedures by eliminating the requirement to provide several different no-encumbrance certificates, though it also increased the costs associated with property transfers.

Intellectual Property Rights

Uzbekistan has been on the Watch List of the U.S. Trade Representative's (USTR) Special 301 Report since 2000 due to a lack of significant progress on intellectual property rights (IPR). The USTR noted that current enforcement remains weak and criminal penalties for IPR violations are insufficient to provide a deterrent effect.

The concept of registering IP is still new to Uzbekistan. In 2011, the GOU made an effort to improve IPR protection by setting up the Uzbek Agency for Intellectual Property (IPAU), which unifies responsibility for IPR issues. Uzbekistan also introduced several amendments to IPR law, as well as amendments to civil and criminal codes to enforce stricter punishment for IPR violations. In 2015, the IPAU detected 737 IPR violation cases and initiated confiscation of 217,000 counterfeit software and audiovisual products. The agency also has experience in enforcing the protection of foreign trademarks. Uzbekistan is a consumer, but not a significant producer, of pirated material. The country does not host a Notorious Market for pirated and counterfeited American products (as defined by the Office of the United States Trade Representative).

There are set rules and procedures for registration of each type of intellectual property. The process may take 10 days for registering trademarks and copyrights, and up to 60 days for registering patents. The official body that oversees registration is IPAU or its authorized divisions. The agency coordinates its IPR protection efforts with local law enforcement agencies, customs, and tax authorities.

In general, businesses report that IP registration is not an issue, unlike its enforcement, which is often a difficult and lengthy process. The main challenge is that the IP holder must file its claim through the local court system, and local legislation does not anticipate enforcement of IP rights for non-resident claimants.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Contact at the U.S. Embassy in Tashkent:

Timothy J. Bugansky
Economic Officer
Telephone Number: +998-71-140-2111
Email address: BusinessInUzbekistan@state.gov.

Country/Economy resources:

AmCham Uzbekistan:
Tatyana Bystrushkina
Executive Director
Telephone Number: +998-71-140-0877
Email address: amcham.director@amcham.uz

Country resources: Local law firms that are members of the American Chamber of Commerce in Uzbekistan (AmCham): http://amcham.uz/membership/membership-by-sector/law/

7. Transparency of the Regulatory System

The legislation regulating private investments is complicated, ambiguous and contradictory. Foreign investors report that local officials inconsistently interpret laws, often in a manner detrimental to private investors and the business community at large. In addition, the government may require businesses to comply with decrees or instructions that are not publicly available. Companies are particularly concerned with the lack of consistent and fair application of the Law on Foreign Investment, which outlines specific protections for foreign investors. To avoid problems with tax and regulatory measures, foreign investors often secure incentives through Cabinet of Ministers decrees, approved directly by the President. These, however, are easily revocable.

Only a few local legal, regulatory, and accounting systems are transparent and fully consistent with international norms. Although the GOU has started to unify local accounting rules with international standards, local practices are still document- and tax-driven with an underdeveloped concept of accruals.

There are almost no legal restrictions on foreign participation in industry standards-setting consortia or organizations, with exceptions in the media and tourism industries. Bureaucratic procedures, particularly licensing and financial reporting, are time-consuming and often contradictory, and government-owned banks, ministries, and agencies routinely interfere in business operations.

Publishing drafts of laws and regulations for public comment is uncommon in Uzbekistan. Regulatory bodies often introduce changes and amendments to commercial legislation without notice, which creates disputes and misunderstandings even among state institutions. The government often amends requirements for licensing, registration, and other permits without notice, creating opportunities for rent seeking as this creates more opportunities for government functionaries to reject documents on various technical grounds. In 2014, foreign and local investors had the opportunity to review and comment on some upcoming legislation, but such instances are rare. For additional information, please review the World

Bank’s Citizen Engagement in Rulemaking assessment on Uzbekistan: http://rulemaking.worldbank.org/data/exploreeconomies/uzbekistan/2014.

Practices that appear as informal regulatory processes are not associated with nongovernmental organizations or private sector associations, but with local governors or influential local oligarchs.

8. Efficient Capital Markets and Portfolio Investment

In general, the GOU has not made a priority of attracting portfolio investments, as it prefers what it calls strategic investors, capable of providing new technologies for specific local industries. A number of international fund management companies have worked in the country in the past, investing in various industries through the stock market or in the real estate and construction sectors. Most of these funds left the market by 2010 due to capital losses arising from global financial problems. The few portfolio managers remaining invest primarily in the insurance and leasing sectors. The stock exchange mainly hosts equity and secondary market transactions with shares of state-owned enterprises. In most cases, government agencies decide who can buy and sell shares and at what prices, and it is often impossible to locate accurate financial reports for traded companies.

Uzbekistan has relatively good liquidity indicators. Its gross official foreign reserves in 2015 were close to $24.4 billion, or 38.4 percent of GDP. The gross external debt to GDP ratio was about 16 percent. While the government has declared full commitment to honoring its obligations under IMF Article VIII, in practice, persistent difficulties with currency conversion are a major deterrent to investors.

The private sector has access to a restricted variety of credit instruments and the isolated and overregulated financial system yields unreliable credit terms. Access to foreign banks is limited and is usually only granted through their joint ventures with local banks. Commercial banks can, to a limited degree, use credit lines from international financial institutions to finance small and medium businesses.

Money and Banking System, Hostile Takeovers

Low exposure of Uzbekistan’s banking system to global financial markets has shielded the sector from the effects of the global financial crisis. Large state-owned banks control about 60 percent of the sector’s total assets and capital and are virtually agents of the government in implementing its development strategy. Privately owned commercial banks are small niche players. Banks are closely monitored by the government, which imposes non-core functions including tax withholding and client financial oversight that keep confidence in the banking sector very low. Commercial banking in Uzbekistan has also been affected by direct government intervention in foreign exchange and financial markets.

Official information on non-performing assets is not publically available. According to the World Bank, the share of nonperforming loans to total gross loans is 0.4 percent. A majority of Uzbek commercial banks have earned “stable” ratings from international rating agencies.

The Law on the Securities Market requires businesses that issue securities (except government securities) to publish annual reports, which should include a summary of business activities for the previous year, financial statements with a copy of an independent audit, and material facts on the activities of the issuer during the corresponding period.The average capital adequacy ratio of local banks exceeds 23.3 percent, and the liquidity rate is 64.5 percent (as of January 1, 2016). From 2009 through 2013, the government initiated a 40 percent increase in state-owned bank capitalization and encouraged private banks to do the same. In January 2016, the banking sector's capitalization was about $2.9 billion and the value of total bank assets in the whole country was equivalent to $24.2 billion. Included in this amount are the assets of the two largest state-owned banks, which together hold more than $15 billion.

Uzbekistan maintains a central bank system. The Central Bank of Uzbekistan (CBU) is the state issuing and reserve bank and central monetary authority. The bank is accountable to the Supreme Council of Uzbekistan and is independent of the executive bodies (organization chart of the bank is available here: http://www.cbu.uz/eng/node/41991).

Foreigners and foreign investors can establish bank accounts in local banks without restrictions. They also have access to local credit, although the terms and interest rates do not represent a competitive or realistic source of financing.

There are no clear rules on hostile take-overs. Very few Uzbek private companies are listed on international stock markets, and a threat of hostile takeover by foreign investors has never been a major subject of concern.

9. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) dominate those sectors of the economy recognized by the government as being of a national strategic interest. These include energy (power generation and transmission, and oil and gas refining, transportation and distribution), metallurgy, mining (non-ferrous metals and uranium), telecommunications (fixed telephony and data transmission), agriculture (cotton processing), machinery (the automotive industry, locomotive and aircraft production and repair), and transportation (airlines, railways, municipal public transportation).

Some large state-owned holdings engaged in commercial activities act as government institutions. The Law on Privatization and Denationalization, with a number of subordinate acts, contains a list of sectors/industries where the GOU has banned participation of private businesses.

The government owns majority or blocking minority shares in numerous non-state entities, ensuring substantial control over their operations, as it retains the authority to regulate and control the activities and transactions of any company in which it owns shares.

The published list of major Uzbek SOEs is available on the official GOU Website (for companies, large holdings, and banks): http://www.gov.uz/en/pages/government_sites

There are no clear statistics on SOEs' expenditures allocated to research and development (R&D). Local SOEs, including joint ventures with large foreign investors, have larger budgets to fund research and development activities.

In theory, private sector or foreign companies can be more competitive than local SOEs in sectors that are not under the control of state-owned monopolies, but their potential is limited because the government restricts private enterprise activity in these sectors. For example, in 2004 the government granted exclusive control of the country's international telecommunication networks to the state-owned Uztelecom Company. This forces all providers of voice and data transmission services, including internet and IP-telephony, to use only Uztelecom switches to access long-distance and international channels. Going beyond technical restrictions, the providers must also conduct their financial transactions with international partners through Uztelecom, as well.

The government controls procurement activities of companies in which it has partial or minority interest, even in the case of private businesses. These companies are required to procure goods and services through an open tender process, which the government regulates.

Uzbekistan is not a party to the Government Procurement Agreement (GPA) within the framework of the World Trade Organization (WTO) as it is not a member of the WTO.

By law, SOEs are obligated to operate under the same tax and regulatory environment as private businesses. In practice, however, private enterprises do not enjoy the same terms and conditions. The government leverages registrations, licensing, and currency conversion to protect quasi-governmental institutions and companies from commercial competition. Private businesses face more than the usual amount of bureaucratic hurdles if they compete with the government or a government-controlled firm. Furthermore, a heavy tax burden also limits competitiveness of private firms (according to the World Bank's latest Total Tax Rate report, Uzbekistan holds 115th place among 189 ranked economies of the world). Most SOEs have a range of advantages, including various tax holidays, as well as better access to local and external markets, smoother access to financing, and more predictable currency conversion. Additionally, SOEs are usually not subject to legislative budget constraints unless they are in low-priority industries.

OECD Guidelines on Corporate Governance of SOEs

The GOU created some of its largest SOEs by simply renaming existing government entities and, in some cases, those enterprises still exercise governmental powers. For example, Uzbekneftegaz National Holding Company dominates the oil and gas industry and foreign investors need its approval to do business in the sector, although there is no legislative mandate of this power. Most SOEs are registered as national holding companies or joint-stock companies, and usually a minority share in these companies belongs to employees or private enterprises. At present, Uzbekistan does not adhere to the OECD Guidelines on SOE Corporate Governance.

The Center for Management of State-owned Assets under the State Committee of Uzbekistan for Privatization, De-monopolization and Development of Competition is responsible for management of state-owned assets (http://gkk.uz/en).

Although SOEs have boards of directors, typically one or more members will be a government official, and senior executives report directly to relevant ministries or the Cabinet of Ministers. Generally, SOEs must consult with the government before making significant business decisions.

There is no third-party market analysis on SOEs' ties to the government. Although the Law on Openness of State Bodies was adopted in May 2014, local SOEs and the Fund for Reconstruction and Development of Uzbekistan do not often publish annual reports. State-owned businesses and financial institutions are required to submit annual reports to the government, but they are not required to publish them. Local state-owned enterprises in the financial sector are required to submit their financial records for independent audit, as well. SOEs, as well as other Uzbek entities, are subject to domestic accounting standards and rules, which are still not fully comparable with International Financial Reporting Standards (IFRS), though through gradual effort, Uzbekistan has brought about 90 percent of its domestic standards into IFRS compliance.

The likelihood that domestic courts will rule in favor of SOEs is high (see Section 4). Many foreign investors prefer international arbitration in cases of investment disputes with local SOEs, because court processes in local courts are not always transparent and non-discriminatory due to pressure from the government. Judgments against state-owned enterprises are particularly difficult to enforce. Nearly all U.S. businesses operating in Uzbekistan do so in partnership with state-owned enterprises or firms, which are often affiliated with the political elite.

Sovereign Wealth Funds

The Fund for Reconstruction and Development (FRD) of Uzbekistan serves as a sovereign wealth fund. Uzbekistan's Cabinet of Ministers, Ministry of Finance, and the five largest state-owned banks were instrumental in establishing the FRD, and all of those institutions have membership on its Board of Directors. The GOU stated that the FRD's equity was $15 billion in 2015, and that it intends to grow the fund to $25 billion by 2020.

The fund does not follow the voluntary code of good practices known as the Santiago Principles, and Uzbekistan does not participate in the IMF-hosted International Working Group on SWFs. The GOU established the FRD in 2006, using it to sterilize and accumulate foreign exchange revenues, but officially the goal of the FRD was to provide government-guaranteed loans and equity investments to strategic sectors of the domestic economy.

The FRD does not invest but provides debt financing to SOEs for modernization and technical upgrade projects in sectors that are strategically important for the Uzbek economy. All FRD loans require government approval.

10. Responsible Business Conduct

There is no legislation on responsible business conduct (RBC) in Uzbekistan, and the concept has not been widely adopted, though many companies are active in charity activities, either through their own initiative or at the direction of local government officials.

There are no independent NGOs, investment funds, worker organizations/unions, or business associations promoting or monitoring RBC in Uzbekistan.

At present, Uzbekistan does not adhere to the OECD Guidelines, and there has been no substantial evidence to suggest that the government encourages foreign and local businesses to follow generally accepted CSR principles such as the OECD Guidelines for Multinational Enterprises. The country also does not participate in the Extractive Industries Transparency Initiative (EITI).

11. Political Violence

In Uzbekistan there are supporters of extremist groups such as the Islamic Movement of Uzbekistan (IMU), al-Qaida, and the Eastern Turkistan Islamic Movement in Central Asia, though the GOU has made it a priority to limit the activities of these groups, which have all expressed anti-U.S. sentiments.

In light of domestic and international threats, the government has implemented heightened security measures, such as establishing security checkpoints, restricting access to certain streets and buildings, and deporting nationals of suspect countries. Political and ethnic violence in neighboring southern Kyrgyzstan in 2010 raised tensions and led to substantially increased controls at the Uzbek-Kyrgyz border. In addition, border crossing points with both Kyrgyzstan and Tajikistan, both borders of security concern for the GOU, are often closed for periods of time. Although the border between Uzbekistan and Afghanistan is officially open to traffic, travel restrictions for the region remain in place.

12. Corruption

Uzbekistan's legislation and Criminal Code both prohibit corruption. In 2015, the GOU issued two new resolutions. The first was on "Approving the Procedure of Public Electronic Procurement of Essential Goods and Services from Businesses through the Uzbek National Commodity Exchange" (March 26, 2015). The goal is to ensure direct and equal access of small private businesses to public procurements and improve transparency in this segment. The second was on "Measures to Ensure Reliable Protection of Private Property, Small Business and Private Entrepreneurship" (May 15, 2015). This resolution and subsequent amendments to the legislation set a range of procedural rules in order to eliminate rent seeking and bribery temptations through illegal inspections and other inappropriate interference in entrepreneurial activities. Enforcement of anti-corruption measures is arbitrary, however, and there is considerable anecdotal evidence that a large portion of officials use their latitude in interpreting regulations to extract bribes.

The government prosecutes a number of officials under anti-corruption laws every year, and punishment can vary from a fine to imprisonment with confiscation of property. Often, prosecutions tend to focus on political dissenters rather than on corrupt, but loyal, government officials or individuals affiliated with the elite.

Formally there is an open tender requirement for all government procurements. Procurement contracts of state enterprises with values of over $100,000 have to be approved by relevant ministries or agencies. Contracts with values over $5 million have to be approved by special Interagency Tender Commissions (ITC):

- Deputy Prime Minister Gulomjon Ibragimov chairs the ITC for energy, mining, chemical, metallurgy, agriculture, food and processing industries;
- Deputy Prime Minister Ulugbek Rozukulov chairs the ITC for machinery and electronics industries and standardization agencies;
- Deputy Prime Minister Batir Zakirov chairs the ITC for utility supply and communal service companies, transport and construction industries;
- Deputy Prime Minister Adham Ikramov chairs the ITC for environmental and healthcare development projects;
- Deputy Prime Minister Bakhodyr Hodiev chairs the ITC for education, culture and sport; and
- Minister Hurshid Mirzakhidov chairs the ITC for information technologies and communication industries.

In reality, however, the process of awarding contracts is not always transparent. Foreign and local individuals have reported numerous incidents of bribe solicitation to U.S. Embassy officers, and foreign investors who refuse to pay bribes have had difficulty in their business operations as a direct result.

There has been no substantial evidence to suggest that the government encourages or requires companies to establish internal codes of conduct that prohibit bribery of public officials. Only a few local companies created by or with foreign investors have effective internal ethics programs.

Uzbekistan is not a participant in any local or regional anti-corruption initiatives. The country ranked 153 out of 168 rated countries in Transparency International's 2015 Corruption Perceptions Index.

The very few officially registered local NGOs usually do not investigate corruption cases. Local authorities do not welcome the involvement of independent NGOs in such investigations.

U.S. businesses have cited corruption as one of the main obstacles to foreign direct investment in Uzbekistan. Lack of transparency in bureaucratic processes, including procurement tenders and auctions, and limited access to currency convertibility, stimulate rent seeking, which public sector employees often justify by pointing out their low wages. Bribery is a common tool for obtaining lucrative positions, government contracts, preferences, and exemptions from regulations, as well as escaping criminal prosecution. Citizens are routinely compelled to pay bribes to receive public services.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Uzbekistan joined the UN Anticorruption Convention in 2008, but is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Nor does it participate in any notable local or regional anti-corruption initiatives.

Resources to Report Corruption

The main arms of the government tasked with fighting corruption are the Prosecutor General's Office and the Department for Legal Protection of Entrepreneurs and Foreign Investors under the Ministry of Justice (established in February 2016). Currently, no international or local nongovernmental watchdog organizations have permission to monitor corruption in Uzbekistan.

Contact information for the office of Uzbekistan's Prosecutor General:

Address: 66, Akademik Gulyamov St., 100047, Tashkent, Uzbekistan
Website: www.prokuratura.uz
Hotline telephone numbers: +998(71) 232-4391, 232-4550

Contact information for the office of Uzbekistan's Ministry of Justice:

Address: 5, Sayilgoh Street, 100047, Tashkent, Uzbekistan
Website: http://www.minjust.uz/en/
Hotline telephone numbers: +998(71) 1008, 233-4768, 236-0509

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Uzbekistan has signed bilateral investment agreements with 50 countries. Several agreements, including those with Bahrain, Saudi Arabia, and the United States, have not yet entered into force. In 2004, Uzbekistan and Russia signed a Strategic Framework Agreement that also includes free trade and investment concessions. Uzbekistan has signed bilateral free trade agreements with eleven CIS countries (Russia, Belarus, Ukraine, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan and Tajikistan). In 2005, the government signed an alliance agreement with Russia, which provides for economic cooperation, and Uzbekistan and Ukraine agreed in 2004 to remove all bilateral trade barriers. Uzbekistan joined the CIS Free Trade Zone Agreement in 2014. In December 2015, the GOU officially announced that Uzbekistan is not supporting and not going to join the Free Trade Zone within the Shanghai Cooperation Organization (SCO). See UNCTAD's database for more details: http://investmentpolicyhub.unctad.org/IIA/CountryBits/226#iiaInnerMenu.

The governments of the United States and Uzbekistan signed a bilateral investment treaty (BIT) in 1994, though the United States never ratified the agreement. In 2004, Uzbekistan signed the regional Trade Investment Framework Agreement (TIFA) with the U.S. Trade Representative's office and its four Central Asian neighbors. The TIFA is a forum to encourage regional trade development in Central Asia.

Uzbekistan is one of the former Soviet republics which are now covered by a taxation treaty with the Commonwealth of Independent States (CIS), formerly known as the Union of Soviet Socialist Republics (USSR); this treaty was signed in 1973 and entered into force in 1976. As such, Uzbekistan does have an existing dual taxation treaty with the United States. In 2015, Uzbekistan and the Unites States signed the Intergovernmental Agreement to Improve International Tax Compliance with respect to the United States Information Reporting Provisions, commonly known as the Foreign Account Tax Compliance Act (FATCA).

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The law on free economic zones, passed in 1996, envisaged the establishment of free trade zones, including consigned warehouses, customs-free zones, and zones for the processing, packing, sorting, and storage of goods.

In 2008, the president of Uzbekistan issued a decree creating a free industrial and economic zone (FIEZ) in the Navoi region. The FIEZ was established for a period of 30 years, beginning in 2009, with possible extensions. Businesses in the FIEZ are promised a special customs, currency, and tax regime, a simplified procedure for entering, staying, and leaving, and provisions by which non-residents can receive labor licenses. Preferences are effective for the entire period of activity of the FIEZ, or until 2038, with the possibility of extension. Businesses registered within the Navoi FIEZ are exempt from most taxes for seven years if their direct investment exceeds €3 million ($3.4 million); ten years if it exceeds €10 million ($11.3 million); and fifteen years if investment exceeds €30 million ($34 million). For five years after the expiration of the tax holiday, businesses with direct investments exceeding €10 million ($11.3 million) enjoy an income tax and unified tax payment reduction of 50 percent, which extends to ten years for large investments (more than €30 million, or $34 million). Business entities registered in the Navoi FIEZ are also entitled to the following types of exemptions (excluding charges for customs clearance):

- Exemptions from customs payments for the entire period of activity of the FIEZ for imports of equipment, raw materials, and components used for the manufacture of export-oriented goods (excluding charges for customs clearance); and

- Fifty percent reduction of customs payments (excluding charges for customs clearance) for imported raw materials and components used for the production of goods oriented toward the domestic market.

In April 2012, the Uzbekistan’s president issued a decree on creating a special industrial zone (SIZ) in Angren City in Tashkent province. Businesses in the SIZ are exempt from customs payments (excluding charges for customs clearance) and enjoy holidays for the following taxes and mandatory contributions:

- Corporate income tax

- Property tax

- Social infrastructure development tax

- Unified tax payment

- Road tax; and

- Mandatory contributions to the Republican Road Fund

These exemptions and tax holidays will be granted for the period of three years if the volume of direct investments exceeds $300,000; five years if it exceeds $3 million; and seven years if it exceeds $10 million. Exemptions from customs payments are granted for imported components and materials that are not produced in the country. Preferences are effective for the entire period of activity of the SIZ (30 years from the date of establishment with the possibility of extension). The government has committed to direct $59.4 million for infrastructure development in the SIZ.

In March 2013, the president issued a decree on creating another special industrial zone named “Jizzakh,” to be located in Jizzakh region with a branch in Syrdarya region. SIZ “Jizzakh” provides the same tax and customs preferences as SIZ “Angren.” As in SIZ “Angren,” preferences are effective for the entire period of activity of the SIZ, or for 30 years from the date of its establishment with the possibility of extension.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Note: In many instances below (indicated by “N/A”), no data has been published by the Government of Uzbekistan, and independent assessments and estimations are also not available. The GOU includes foreign debt inflow in FDI figures. In some reports the GOU may also indicate contractual pledges of FDI, rather than actual investment inflow.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*	USG or international statistical source	USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other

Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	$63.4 billion*	2015	N/A	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	N/A	2014	$73 million	http://bea.gov/international/direct_investment_ multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)	2014	N/A	2014	$0	http://bea.gov/international/direct_investment_ multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	N/A	2014	0.11%	N/A

*Source: The State Statistics Committee of Uzbekistan

Table 3: Sources and Destination of FDI

Data not available.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Civil law system

International organization participation:

ADB, CICA, CIS, CSTO, EAPC, EBRD, ECO, FAO, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IDB, IFAD, IFC, IFRCS, ILO, IMF, Interpol, IOC, ISO, ITSO, ITU, MIGA, NAM, OIC, OPCW, OSCE, PFP, SCO, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

Section 6 - Tax

Exchange control

Uzbekistan has recently introduced sweeping new banking and import regulations that appear designed to keep hard currency from leaving the country.

Treaty and non-treaty withholding tax rates

Uzbekistan has effective double tax treaties with 46 countries. However, Uzbek tax authorities have limited practice in the application of double tax treaties. There are no known cases of treaty application to transfer pricing issues.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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