State’s Role in the Economy

Breakout Session D - Public-Private Interface & Economic Governance

Presented by
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Background: State’s Dominant Role

- Government’s coordinating role in transitioning the economy at the first stages of independence
- Poor private sector - all enterprises were in state ownership
- Lack of investments and private FDIs; government funding
- Historically formed model of state dominance, aimed at protection of low income people
Background: Uzbekistan’s Economy

1. Economic Growth consistently above the World Average

Uzbekistan’s growth continues to be among the highest of its regional peers

Real GDP growth year-on-year (%)

- The real GDP of Uzbekistan increased by average annual rate of c. 6.7% in the period 2013-2018, with investments increasing at around 13% per annum
- Nominal GDP in USD terms decreased in 2017 due to UZS liberalisation in September 2017 and its adjustment to market rate

Currency liberalization has not deterred growth, which has maintained its positive dynamics

Government policy and demographics will support growth

The implementation of active investment policy, measures aimed at smoothing negative external effects, improvement of the tax system, and public finance regulation, as well as the country’s favourable demographic position, will increasingly support economic expansion

Uzbekistan’s economy comprises diverse activities.

Sector contribution to real GDP, 2018

- Agriculture: 29%
- Industry & Mining: 23%
- Service: 25%
- Construction: 5%
- Personal, education and Health services, other: 3%
- Real estate and accommodation: 9.9%
- Communication and technology: 8%
- Transport services: 30%
- Financial services: 27%
- Trade services: 14%

FX liberalisation in Sept’ 2017 as part of market-oriented reforms
Background: Uzbekistan’s Economy

2. Objective – to attract strategic and institutional investors

- Development of state governance
  - Administrative reforms
  - Adoption of anticorruption laws
  - Human rights priorities
  - Introduction of e-Government
  - Establishment of the Ministry of Innovation

- Rule of law and legal reforms
  - Transparency of and public involvement in regulations
  - Refinement of the judicial system
  - Improving administrative, criminal, civil and economic legislation
  - Empowerment of local deputies in governance

- Development and liberalization of the economy
  - Foreign currency liberalization
  - Trade liberalization
  - Tax reform
  - Agricultural reform
  - Prioritization of price stability
  - Improved investment and business climate
  - Reduction of administrative interference in the economy
  - Transparency of economic data
  - Innovation Strategy 2019-2021

- Development of the social sphere
  - Improving the quality of education and health services
  - Increasing the presence of private and international institutions in academia
  - Extending the coverage and targeting of social protection services
  - Real income growth
  - Increasing women’s participation in political life and social leadership

- Security, religious tolerance and interethnic harmony, foreign policy
  - Protection of sovereignty and territorial integrity
  - Strengthening of interethnic concord
  - Strengthening of international defense and cybersecurity capabilities
  - Improvement of the foreign policy base
CHALLENGES FACED
In starting SOE reform and reducing state share in the economy

01
Single body with conflict of interests regulating: (i) antimonopoly, (ii) state assets management and (iii) securities market

02
No single state body exercising the shareholders’ rights at SOEs

03
Urgent need to reform SOEs governance and business models

04
No strategy for reforming SOEs

05
Weak cooperation with international organizations

06
No opportunities to apply good practices models of selling SOEs: by IPO and SPO
New methods in privatization (IPO, SPO) are being introduced

Cooperation with international organizations is developing for having credit ratings, attracting institutional investors

State assets management agency (SAMA) established

Corporate information portal launched (www.openinfo.uz)

Strategy on SOE ownership, management and reforms developed

SOEs in energy, transport, mining and other industries being reformed

TAKEN STEPS on reforming SOEs and reducing state share in the economy
Main Objectives of SAMA

- Implementing unified government policy on the effective management of state assets
- Developing and implementing programs aimed at financial rehabilitation and increase of efficiency of SOEs
- Ensuring an open and transparent mechanism for privatization and rental of state assets
- Implementing modern methods and forms of corporate governance
- Implementing state policy on bankruptcy cases
- Regulating asset valuation practice

SOEs under SAMA management: 416
Benefits and preferences in the privatization process in Uzbekistan

1. Open exchange trades and over-the-counter trading
   https://uzse.uz

2. Open and on-line auctioning of facilities with starting price of UZS1 or with a pre-determined asking price. https://e-auksion.uz

3. Asset sale at zero valuation with investment obligation

4. Direct sale of assets, in case if investment amount:
   - more than $1,0 mln – on the basis of decision municipal governors of regions;
   - more than $50,0 mln - on the basis of decision of State tender Commission

Payments for real-estate assets can be scheduled for a term of 36 months (depending on the amount of payment);

A discount equal the Central Bank’s refinancing rate (16%) applies when a purchase price paid within 1 month

Proceeds from new share sales can be used for repayment of company’s debt, capital expenditures and working capital
PRIMARILY RESULTS

Rules of Corporate Governance Code were implemented at 412 JSCs

Data, published on JSCs on the Single portal of corporate information

- Annual reports 1522
- Quarterly reports 5165
- Prospectives 128
- Important facts 18787

Financial quotations for shares of JSC «Quartz»
(from April 2018 to May 2019)

KPI are executed at 1404 SOEs (JSC, LLC, SUE)
**FX liberalization**

Abolished requirements to surrender hard currency receipts and barriers on current account transactions

**Trade liberalization**

Increase in foreign trade turnover in 2018 stands at 46.9%. Import tariffs have been cut. Roadmap with key steps to join WTO has been introduced

**Priority of Price Stability**

Transition to inflation targeting

**Improved Investment and Business Climate**

Doing Business rating jumped from 166 (2012) to 76 (2018)

**Tax Reform Concept approved**

Equal competitive conditions for all players by reduction of administrative interference in the economy
LESSONS LEARNED

1. Development of a corporate governance evaluation mechanism
2. Development of a strategy for reforming state-owned enterprises
3. Providing advanced trainings in corporate governance field
### LESSONS LEARNED

**Corporate Governance Situation Review in JSCs**

<table>
<thead>
<tr>
<th>№</th>
<th>Indicators group</th>
<th>Number of indicators</th>
<th>Points received</th>
<th>Max point</th>
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<tbody>
<tr>
<td>1</td>
<td>Preparing for the implementation of Corporate Governance Code</td>
<td>13</td>
<td>135</td>
<td>135</td>
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<tr>
<td>2</td>
<td>Evaluation of compliance with the recommendations of the Corporate Governance Code</td>
<td>37</td>
<td>50</td>
<td>360</td>
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<tr>
<td>3</td>
<td>Conformity assessment of the organizational structure of JSC</td>
<td>3</td>
<td>30</td>
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<td>4</td>
<td>Evaluation of competitive selection</td>
<td>5</td>
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<tr>
<td>5</td>
<td>Transition to publication in accordance with IFRS and international auditing standards</td>
<td>3</td>
<td>50</td>
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<td>6</td>
<td>Introduction of modern management systems (ISO, ERP, R&amp;D and etc.)</td>
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<td>7</td>
<td>Evaluation of information policy</td>
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<td>8</td>
<td>Evaluation of financial results</td>
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<td>9</td>
<td>Evaluation of other directions</td>
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**Total:** 100  825  1200

**Final score is 69%**
THANK YOU!

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Questions?
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