On December 25, 2019, the President of Uzbekistan signed the Law "On Investments and Investment Activities" (hereinafter referred to as the Law). Enactment of the Law has been envisaged by the Presidential Decree "On Measures for Improvement of the Investment Climate in the Republic of Uzbekistan" No. UP-5495 dated August 1, 2018.

The Law serves as a unified document that combines the main provisions of the laws "On Foreign Investments", "On Investment Activities" and "On Guarantees and Measures to Protect the Rights of Foreign Investors", which all lose their validity once the Law comes into force.

The Law entails that separate laws regulate legal relations in the following fields:

- concessions;
- conclusion, execution and termination of production sharing agreements;
- investment, equity and venture capital funds;
- capital market regulation;
- operations with securities, public-private partnerships, special economic zones.

Types of Investments

The Law classifies investments into three categories:

- **Capital investments**, encompassing investments in the creation and reproduction of fixed assets, new construction, modernization, reconstruction, technical re-equipment, as well as in the development of other forms of material production;

- **Financial investments**, covering investments in stocks, corporate, infrastructure and government bonds, as well as other types of securities;

- **Social investments**, which include investments in the development of human potential, skills and production experience, as well as in the development of other forms of intangible goods.

Incentives and guarantees

The Law has preserved guarantees and incentives provided by the law "On Guarantees and Measures to Protect the
Rights of Foreign Investors’ No.611 dated April 30, 1998, such as free use, transfer and repatriation of funds, protection against nationalization and expropriation, adverse changes in legislation. Likewise, the legal regime of foreign investments remains unchanged (investor visas, conditions for obtaining a residence permit, etc.).

Subject to the Law, the state may provide additional support through the benefits, incentives and centralized investments for co-financing of the investment project. The benefits and incentives, among others, may include:

- the transfer of ownership rights and other property rights to the investor at a preferential or zero redemption value;
- provision of tax and payment benefits;
- subsidized interest rates on loans received by an investor for the implementation of an investment project.

The volume of benefits and incentives depends on the amount of investment, location, sector of the investment project, expected socio-economic impact and creation of new jobs. Notably, the Law expressly prohibits the exclusive benefits that may lead to the investor's dominant position on the respective market.

In addition, it should be pointed out that previous laws do not distinguish between foreign and domestic investors, whereas the current Law provides clear definitions of domestic and foreign investors. According to the Law, domestic investors include citizens of the Republic of Uzbekistan, foreign citizens and stateless individuals with resident status of the Republic of Uzbekistan, including sole proprietors, as well as legal entities of the Republic of Uzbekistan engaged in investment activities.

It is worthwhile to mention that the Law sets out additional requirements for the contents of the investment agreements. Specifically, it mandates that the investment agreements shall have anti-corruption and anti-monopoly clauses. Moreover, investors subject to the Law investing in the priority sectors of the economy may be granted additional benefits on a case-by-case basis. General procedure and detailed information concerning investment agreements is provided by the Resolution of the Cabinet of Ministers No.180 dated August 2, 2005.

Importantly, the Law introduces new investor support mechanisms such as:

- Investment tax credit – which allows the investors to deduct a certain percentage of specific investment-related taxes from their tax liability for a particular period. After the expiration of the said period, the investor shall gradually pay the "credited taxes" with interest accrued;
- Investment subsidies, whereby the government may finance the construction of external engineering and communications networks required for the investment project. Alternatively, the investment subsidies may be granted in the form of tax and customs benefits.

Another novelty enshrined by the Law is a so-called "one-stop-shop", enabling investors to reduce their communication with multiple state bodies. Under the Law, the Ministry of Investment and Foreign Trade and its territorial units are assigned the role of one-stop-shop for investors. The Ministry of Investment and Foreign Trade will, among others, provide consulting services and assistance in the preparation and submission of documents. Moreover, the Law outlines in details the functions of Business Ombudsman, who is accountable only to the President of the Republic of Uzbekistan. In addition, one of the main roles of the Business Ombudsman is to coordinate inspections concerning activities of business entities and to control the legality of such inspections.

Lastly but not least, the Law introduces a new multi-tiered dispute resolution mechanism for investor-state investment disputes. The first tier requires both parties to endeavor to settle the dispute through negotiations. Should parties fail to resolve the dispute amicably, the next tier is mediation. The Law neither provides for details on the procedure for mediating investment disputes nor refers to Law No. ZRU-482 "On Mediation". It is noteworthy that Mediation law
unequivocally provides that mediation is based on a consensus between the parties to agree to mediation. It is therefore not clear to what extent mediation is mandatory for investment disputes and whether failure to mediate the dispute will prevent the parties from escalating the dispute to the next tier. The third tier of dispute resolution mechanism requires parties to submit the dispute to the national courts of the Republic of Uzbekistan. Should parties fail to resolve the dispute in the courts, the dispute may be submitted to arbitration.

The Law will enter into force on January 27, 2020.

1. Decree of the President of Uzbekistan No. UP-4434 dated April 10, 2012, envisages the list of sectors of the economy that are subject to the benefits provided for private foreign direct investment.
2. Decree of the President of the Republic of Uzbekistan “On Measures on Further Improvement of the System of Protection of Rights and Legal Interests of Entrepreneurships” No. UP-5490 dated July 27, 2018

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