

Business Reorganisation Assessment

📍 Uzbekistan



European Bank
for Reconstruction and Development



Special thanks to:

Centil Law Firm

Dentons Tashkent

GRATA International, Uzbekistan

Foreign Investors Council under
the President of the Republic of
Uzbekistan

Part A

General Information

Macro Data

33.906

Population (million)¹

5.0%

GDP growth rate¹

US\$ 1,770

GDP per capita¹

so'm
Uzbekistani so'm – UZS

Currency

15%
(several sectors 20%)

Corporate tax rate²

10.3%

Inflation rate¹

10.5%

Unemployment rate³

Insolvency Legislation

The primary legislative text governing insolvency and restructuring proceedings of legal entities and entrepreneurs is the **Law on Bankruptcy** No. 1054-XII (the Insolvency Law) dated 5 May 1994 (as amended). In addition, Uzbekistan has adopted a special regulation for **Rehabilitation of Agricultural Enterprises** No. 535-I dated 25 December 1997 (as amended) and a **Regulation** on the Procedure for Conducting the Pre-judicial Rehabilitation (the Regulation). The activities of the insolvency practitioners are regulated by the Resolution of the Cabinet of Ministers of Uzbekistan **On Measures to Organise the Activities of the Insolvency Practitioners** No. 765 dated 12 September 2019.

Insolvency Data

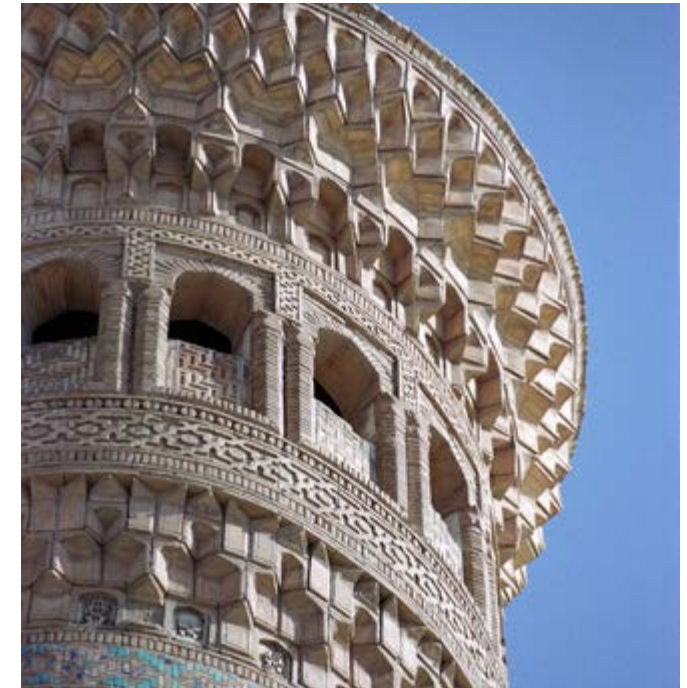
Some insolvency-related data is available on the website of the **Business Entity Registration Module**. As of 1 July 2020, 9,200 bankrupt and 4,773 liquidated entities were registered; additionally, 4,376 cases were under review⁴. Economic courts' reports for insolvency cases can be found here: stat.sud.uz/iib.html. However there is no data on the number of reorganisation cases within main insolvency proceedings.

¹ IMF – Source as of August 2021:
www.imf.org/en/Countries/UZB

² PWC – Source as of August 2021:
taxsummaries.pwc.com/republic-of-uzbekistan/corporate/taxes-on-corporate-income

³ The State Committee of the Republic of Uzbekistan on Statistics – Source as of August 2021:
stat.uz/ru/

⁴ As confirmed by the SAMA.



Company Information

The company law framework is governed by the **Civil Code** dated 21 December 1995 (as amended), the **Law On Joint Stock Companies and Protection of Shareholders' Rights** No. 223-I dated 26 April 1996 (as amended) and the **Law On Limited Liability and Additional Liability Companies** No. 310-II dated 6 December 2001 (as amended). Companies are registered with the **Business Entity Registration Module**.

Information on legal entities, including their status, is available **here**. The taxpayer's identification number of the search subject is needed to acquire the information from the database.

Insolvency Courts, Regulatory Authorities and Practitioners

Insolvency court cases are dealt with by economic courts. The jurisdiction of the court is established based on the debtor's legal seat of operations (i.e. within the territorial jurisdiction of the relevant court). The regulatory authorities responsible for the insolvency framework are the Cabinet of Ministers and the **State Asset Management Agency of the Republic of Uzbekistan** (the SAMA). The SAMA is responsible for implementation of state regulation in the field of insolvency and the monitoring and supervision of insolvency practitioners.

Insolvency practitioners in Uzbekistan must be certified by the SAMA and entered into the Unified Register of Insolvency Practitioners maintained by the SAMA. The conditions include, among other things, higher education, relevant management experience, and passing a theoretical examination. The examination is based on a training programme developed by the Abu Rayhan Beruni Graduate School of Business and Management along with the Association of Insolvency Practitioners of Uzbekistan and approved by the SAMA. The register is not available online as of the date of this publication, but it can be obtained by contacting the SAMA. The number of insolvency practitioners registered with the SAMA is around 240⁵.



⁵ As confirmed by the SAMA.



Part B

Business Reorganisation

Are there any incentives for extrajudicial voluntary agreements (workouts)?

There are no specific incentives to encourage the debtor and its creditors to reach an extrajudicial voluntary agreement on financial restructuring, although extrajudicial voluntary agreements between debtors and creditors are listed among the measures a debtor's management and shareholders may take during the pre-judicial rehabilitation (Article 32 of the Insolvency Law). Pre-judicial rehabilitation may be accompanied by governmental support, such as postponement of mandatory payments and repayment of state loans, with the approval of the SAMA.

What is the nature and purpose of the reorganisation procedure?

There are four reorganisation options under the Insolvency Law and the Regulation: the pre-judicial rehabilitation procedure, the judicial rehabilitation procedure, the external management procedure, or the amicable agreement. **Click here** for a high-level overview of the Uzbek business reorganisation framework.

The pre-judicial rehabilitation procedure (suddan oldin sanatsiyalash) is carried out prior to the application submitted to the court for the initiation of insolvency proceedings (Article 30 of the Insolvency Law). The main measures that can be adopted during such procedure include the redemption of overdue debt, e.g. by shareholders, deferral of payments, reduction in debt and write-off of claims, new financing from creditors, and other measures. The pre-judicial rehabilitation procedure may be also

be conducted with the government's support upon approval by the SAMA (Articles 32 of the Insolvency Law and 12 of the Regulation). The purpose of the pre-judicial rehabilitation procedure is to prevent insolvency and the need for any application for the initiation of insolvency proceedings, through the adoption of measures by the debtor, its governing body and its creditors, aiming at the financial rehabilitation of the debtor (Article 30 of the Insolvency Law).

The other three reorganisation options are accessed within main insolvency proceedings. These can be initiated by the debtor, the creditor, the public prosecutor or the state bodies (Article 6 of the Insolvency Law). Main insolvency proceedings may lead to the liquidation of the debtor's estate, to the approval of a rehabilitation or external management plan, or to an amicable agreement. Following the commencement of the insolvency proceeding, the court appoints an insolvency practitioner (temporary manager) and establishes an observation period of up to one month. The observation period enables the court and the creditors to decide whether there are reasons to believe that solvency can be restored (and thus a rehabilitation or external management plan can be devised), whether amicable agreement is possible, or if liquidation seems the only remaining option.

The purpose of the judicial rehabilitation procedure (sud sanatsiyasi) is restoring the debtor's solvency and repayment of debts to the creditors, without transferring the powers to manage the debtor's property and business operations to an external manager.

The external management procedure (tashqi boshqaruv) is also aimed at restoring the debtor's solvency, and involves transferring the powers to manage the debtor's property and business operations to an external manager.

An amicable agreement (kelishuv bitimi) can be reached at any stage of the insolvency proceeding (i.e., during the observation period or the judicial rehabilitation, external management or liquidation procedures) in order to terminate the proceedings by reaching an agreement between the debtor and creditors.

Who can commence the process and what entry conditions apply?

Pre-judicial rehabilitation procedure

There are no formal entry conditions, but the procedure should be initiated before any application is submitted to the court to commence insolvency proceedings (Article 30 of the Insolvency Law). The debtor must inform its shareholders and its governing bodies in writing about the signs of insolvency, which are:

- the debtor could not fulfil its payment obligations (either monetary obligations or mandatory payments such as taxes) within three months after they fell due;
- the aggregate claims against the debtor should be not less than 300 Basic Estimated Value units (BEVs), a value identified by Presidential Decision (approx. €5,900) (Article 4 of the Insolvency Law).



References to Articles are to Articles of the Insolvency Law, unless specified otherwise. For an explanation of technical terms, please see the **Glossary of the Main Assessment Report**

There is no need to register the commencement of the ordinary procedure (without governmental support). Furthermore there is no express reference in the Regulation to the purpose of the procedure, e.g. to agree a reorganisation plan. The Regulation merely states that the procedure should be conducted by the debtor before it is obliged to commence insolvency proceedings pursuant to Article 8 of the Insolvency Law. Commencement of pre-judicial rehabilitation does not preclude creditors from petitioning the court to initiate insolvency proceedings.

However, the conditions for the procedure conducted with the government's support are different. To initiate such procedure and obtain governmental support, the debtor should file an application with the SAMA (Article 13 of the Regulation).

Debtors involved in certain key industries, including mining, energy and metallurgy, production of nutrition and consumer goods, and medicines and high-performance equipment, or which play a key role to the security of the state or in the production of competitive, export-oriented and import-substituting products, and any debtors for which the SAMA approved plans for comprehensive measures for restructuring and financial recovery, are considered a priority for pre-judicial rehabilitation (Article 7 of the Regulation).



Commencing main insolvency proceedings

Insolvency proceedings can be commenced if the indications of insolvency are established (Article 5 of the Insolvency Law). The general indications are, in the case of a legal entity, that the debtor could not fulfil its payment obligations (either monetary obligations or mandatory payments such as taxes) within three months after they fell due (Article 4 of the Insolvency Law). Additionally, the aggregate claims against the debtor should be not less than 300 BEVs (approx. €5,900).

Judicial rehabilitation procedure

The decision on commencing the procedure within main insolvency proceedings is taken by the first creditors' meeting (Article 73 of the Insolvency Law) upon the request of the debtor, shareholders, or third parties providing security. If the creditors have not approved the launch of any procedure in the first meeting, the court can initiate judicial rehabilitation based on a request from the debtor's shareholders/owners or third parties, if they can provide security to secure the repayment of debts in accordance with the suggested debt repayment schedule (Article 75 of the Insolvency Law). A rehabilitation plan and a debt repayment schedule should be attached to the application submitted to the court. The rehabilitation plan must provide how the debtor intends to secure the funds necessary to meet the claims in accordance with the debt repayment schedule. The rehabilitation plan may include measures for the sale of an enterprise (business) or part of the debtor's property. The debt repayment schedule should, in contrast, set out the terms for satisfaction of all creditors (Article 83 of the Insolvency Law). The court can launch the external management procedure following the completion of the judicial rehabilitation procedure, as long as the overall term of both procedures does not exceed 30 months (Article 91 of the Insolvency Law).

External management procedure

The decision on commencing the procedure within main insolvency proceedings is taken by the first creditors' meeting (Article 74 of

the Insolvency Law) or by the court following the unsuccessful completion of the judicial rehabilitation procedure (Article 89 of the Insolvency Law). The plan must include measures to restore the debtor's solvency, including closure of unprofitable branches/industries, sale of part of the debtor's property, sale of the debtor's business (Articles 106, 108 and 109 of the Insolvency Law).

Amicable agreement

The amicable agreement is not a procedure but an option within insolvency proceedings and the Insolvency Law only regulates the formalities for reaching an agreement. A decision to adopt an amicable agreement is made by the creditors' meeting once the insolvency proceeding has been opened and all the costs of reorganisation and the salaries of the employees have been paid (Article 149 of the Insolvency Law).

Is there any court involvement?

Pre-judicial rehabilitation procedure

No, the pre-judicial rehabilitation procedure does not involve the court (Article 29 of the Insolvency Law). When it conducted with the government's support, it is organised and supervised by the SAMA (Article 15 of the Regulation).

Judicial rehabilitation procedure, External management procedure and amicable settlement

Yes. All reorganisation procedures under the Insolvency Law, except the pre-judicial rehabilitation procedure, are fully court-supervised procedures.

Are there any hybrid reorganisation procedures?

No, there are no hybrid reorganisations procedures under the Insolvency Law. The judicial rehabilitation procedure, the external management procedure and the amicable settlement procedure are fully court-supervised procedures while in the pre-judicial rehabilitation procedure there is no court involvement.

Does the debtor remain in possession of the company and continue carrying its business operations while conducting the reorganisation?

Yes, the debtor remains in possession of the company through the pre-judicial rehabilitation procedure, the observation period and the judicial rehabilitation procedure but not in the external management procedure, where the insolvency practitioner displaces the debtor's management as explained below.

Observation period

During this period, there are certain limitations on the management of the company, e.g. certain transactions (such as letting or pledging real estate, disposing of property of a value exceeding 10 per cent of the balance value of the debtor's assets, receiving and granting loans, or providing guarantees and sureties) can only be concluded with the approval of the temporary manager (an insolvency practitioner appointed by the court) and the debtor is precluded from taking certain decisions, such as corporate reorganisation or liquidation, payment of dividends, or issuing bonds (Article 64 of the Insolvency Law).

Judicial rehabilitation procedure

The court can dismiss the debtor's management where there is information on the improper execution of the rehabilitation plan by the management, or on action by the management that violates the rights and legitimate interests of creditors and/or third parties which provided security. Certain transactions (such as letting or pledging real estate, disposing of property of a value exceeding 10 per cent of the balance value of the debtor's assets, granting loans, or providing guarantees and sureties) can only be concluded with the approval of the creditors' meeting. The debtor is precluded from taking decisions on corporate reorganisation or liquidation without the approval of the creditors' meeting (Article 79 of the Insolvency Law).

External management procedure

Once the procedure is initiated by the court, all functions related to management of the debtor are transferred to the insolvency practitioner appointed by the court (known as an external manager) (Article 92 of the Insolvency Law). If the amount of monetary obligations of that arose after launching the external management exceeds 20 per cent of the debts owed to the creditors, the external manager can only conclude new transactions with the approval of the creditors' meeting (unless foreseen by the external management plan) (Article 104 of the Insolvency Law).

Amicable agreement

The amicable agreement does not have an impact on whether the debtor remains in possession since it is an option within insolvency proceedings and is not a separate procedure. Once an amicable agreement is approved by the court, the powers of the insolvency practitioner appointed by the court (the temporary manager, rehabilitation manager, external manager or liquidation manager) are terminated. The insolvency practitioner performs the duties of the debtor's management until new management is appointed or elected (Article 150 of the Insolvency Law).

Is there a need to appoint an insolvency practitioner?

Pre-judicial rehabilitation procedure

No insolvency practitioner is appointed. The SAMA supervises the debtor where government support is provided.

Judicial rehabilitation and external management procedures

Yes, an insolvency practitioner is appointed in every insolvency proceeding. Depending on the procedure, the insolvency practitioner is referred to as a temporary manager (in observation), rehabilitation manager (in judicial rehabilitation), external manager (in external management) or liquidation manager (in liquidation procedure).



The primary duties of the temporary manager include conducting the creditors' meeting and monitoring the company's assets. The rehabilitation manager is responsible, among other things, for reviewing the debtor's reports on the implementation of the rehabilitation plan and debt repayment schedule and providing the results of the review to the creditors' meeting. The external manager conducts the functions of the debtor's management with the creditors' oversight. The liquidation manager also assumes all the managing powers over the debtor as well as the ability to control disposal of debtor's property.

Is there any applicable stay or moratorium?

Pre-judicial rehabilitation procedure

There is no stay or moratorium applicable in this procedure.

General principles applicable to other procedures

After the initiation of insolvency proceedings, all creditors can only present their claims according to the procedure prescribed by the Insolvency Law and the satisfaction of the creditors' claims is suspended until the insolvency case is resolved (Article 10 of the Insolvency Law). From the commencement of the observation period all enforcement proceedings are suspended, with certain exceptions, such as enforcement of directly enforceable deeds or instruments issued based on court decisions that have taken effect before the commencement of the insolvency proceedings which involve collection of debts relating to remuneration, royalties to the authors, alimony, or harm to the life and health (Article 63 of the Insolvency Law).

Judicial rehabilitation procedure

No, there is no provision on moratorium during the judicial rehabilitation procedure; however, the claims of the creditors are satisfied in accordance with the debt repayment schedule approved by the court. Any claims that were not included in the debt repayment schedule because the creditor was not duly notified about the commencement of the insolvency proceeding will be added to the debt repayment schedule upon the court resolution (Article 84 of the Insolvency Law).

External management procedure

Yes, during this procedure an automatic moratorium on creditors' enforcement is in place and applies to secured and unsecured creditors (Articles 92 and 93 of the Insolvency Law). Secured creditors are entitled to request the court to approve an exemption from moratorium where the pledged property is not necessary to carry out the external management (Article 93 of the

Insolvency Law). The length of the moratorium is not set out in the Insolvency Law and needs to be determined by the court. However, it cannot last more than 24 months as this is the maximum possible duration of the procedure itself.

Amicable agreement

There is no moratorium or similar restrictions for the amicable agreement; however, as this is negotiated during other procedures, the moratoria relevant to those will apply, if any (e.g. in external management).

Is there any protection for essential contracts and to prevent termination of contracts by third parties?

Pre-judicial rehabilitation procedure

No, there is no express protection for essential contracts, since the pre-judicial rehabilitation procedure is based on the consent of the parties, and also on SAMA's approval when it is conducted with the government's support.

Judicial rehabilitation and external management procedures

Yes, with respect to contractual termination by third parties only. The opening of judicial rehabilitation or external management may not constitute the ground for suspension or refusal of performance of the contracts concluded before the commencement of insolvency procedure (Articles 79 and 102 of the Insolvency Law) unless expressly provided by a contract that insolvency or entry into an insolvency or bankruptcy procedure is a ground for termination. If an amicable agreement is negotiated during the judicial rehabilitation procedure or the external management procedure, the same protection will continue to apply. There are otherwise no separate provisions protecting termination of contracts that are essential for the debtor's business operations.

Is there a protection for new financing?

Pre-judicial rehabilitation procedure

No, there is no provision regarding priority of new financing made available during a pre-judicial rehabilitation procedure .

Judicial rehabilitation and external management procedures

Yes, any new financing provided following the commencement of the insolvency proceeding, including as part of the rehabilitation or reorganisation plan, would be a payment that is settled out of turn irrespective of the applicable insolvency procedure (i.e., priority is given over all creditors whose claims are included in the claims register, except for secured creditors with respect to the value of the pledged asset) (Article 134 of the Insolvency Law).

Does the law recognise separate classes of creditors for voting purposes?

Pre-judicial rehabilitation procedure

There is no voting process in the pre-judicial rehabilitation procedure. In a proceeding without governmental support the debtor may reach an agreement with its shareholders and/or creditors on financial restructuring and rehabilitation. For debtors which need financial support from the government, a request to the SAMA for pre-judicial rehabilitation is made by the debtor after an agreement is reached by the debtor with its shareholders and its creditors.





Judicial rehabilitation and external management procedures

Yes, the Insolvency Law recognises five different classes of creditors for voting purposes listed below (Article 10 of the Insolvency Law):

1. creditors whose claims are secured by collateral (secured creditors);
2. creditors whose claims are not secured and arise from a supply contract, service contract, compulsory insurance contract or bank credit insurance contract (unsecured creditors);
3. creditors with claims for payment of mandatory obligations, e.g. taxes, charges and other mandatory payments to the state budget (preferred creditors);
4. creditors whose claims arise from: obligation to pay remuneration under employment contracts; enforcement documents requiring funds to satisfy alimony claims; obligation to pay remuneration under copyright contracts; and damage caused to an individual's property as a result of a crime or administrative offence;
5. shareholders for payment of dividends.

Depending on the issue voted on, only certain classes of creditors have voting rights (Article 10 of the Insolvency Law). For both the judicial rehabilitation and external management procedures, the first two classes of creditors vote on the plan: secured and unsecured creditors. The first three classes (secured, unsecured and preferred creditors) vote on the amicable agreement. A representative of the debtor's employees, the court administrator, a representative of the shareholders or the owner of the debtor's property participate in the meeting of creditors but do not have any voting rights.

What are the majorities required to approve a reorganisation plan?

Pre-judicial rehabilitation procedure

There is no collective approval process for a pre-judicial rehabilitation procedure. When the procedure is conducted with the government's support, the SAMA is the only approving entity and approves the pre-judicial rehabilitation plan following a request submitted by the debtor.

For all other reorganisation procedures described below, the weighting of votes is determined by the value of creditors' claims and there is only a requirement of majority by value and not by number.

Judicial rehabilitation procedure

For approval of the judicial rehabilitation plan, a majority in number of the weighed votes from the total number of weighed votes in each of the first class (secured creditors) and second class (unsecured creditors) is required. Dissenting creditors have a right to receive a guaranteed compensation of no less than what they would have received in the case of liquidation of the debtor (Article 83 of the Insolvency Law). If the required majority within each of the two classes is not reached, the creditors' meeting makes the resolution to apply to the court for declaring the debtor bankrupt and proceeding with its liquidation.

External management procedure

The external management plan is prepared by the external manager and approved by creditors' meeting according to the same rules as for the judicial rehabilitation plan (Article 106 of the Insolvency Law).

Amicable agreement

In order to approve an amicable agreement, the approval of all secured creditors is needed in addition to a simple majority of all weighted votes of all creditors (Article 145 of the Insolvency Law). A 100 per cent quorum is required for the creditors' meeting voting on the approval of the amicable agreement. If it is not reached, a subsequent meeting shall be held, where the decision can be made by the majority of weighted votes of the creditors present in the meeting.

Who does the reorganisation plan bind?

Pre-judicial rehabilitation procedure

The measures adopted during a pre-judicial rehabilitation procedure bind only the consenting parties (Article 30 of the Insolvency Law).

Judicial rehabilitation procedure

The judicial rehabilitation plan and repayment schedule approved by the creditors' meeting and the court binds the debtor, the creditors and participating shareholders and third parties. Any changes to the plan and the schedule must be approved by the creditors' meeting (Article 84 of the Insolvency Law).

External management procedure

The external management plan approved by the creditors' meeting and the court binds the debtor and the creditors. Any changes to the plan must be approved following the procedure for the adoption of the plan (Article 106 of the Insolvency Law).

Amicable agreement

An amicable agreement approved by the creditors' meeting and the court binds the debtor, the creditors and participating third parties (Article 145 of the Insolvency Law).

What is the timeframe for the reorganisation procedure and any moratorium?

Pre-judicial rehabilitation procedure

A pre-judicial rehabilitation procedure with the government's support of the debtor can last between 12 and 24 months (Article 33 of the Insolvency Law). There is no timeframe for a procedure without governmental support.



Judicial rehabilitation procedure

The procedure can last for up to 24 months (Article 78 of the Insolvency Law). The court can launch an external management procedure following the completion of judicial rehabilitation, as long as the overall term of both procedures does not exceed 30 months (Article 91 of the Insolvency Law).

External management procedure

The external management procedure can last from 12 to 24 months (Article 91 of the Insolvency Law). The initial duration of the procedure is suggested by the creditors' meeting and can further be reduced or extended by the court within the specified time frame. The length of the moratorium is not set out by the law and needs to be determined by the court.

Amicable agreement

The availability of an amicable agreement does not have any specific time frame. However, it has to be concluded within the time frame of the applicable insolvency procedure.

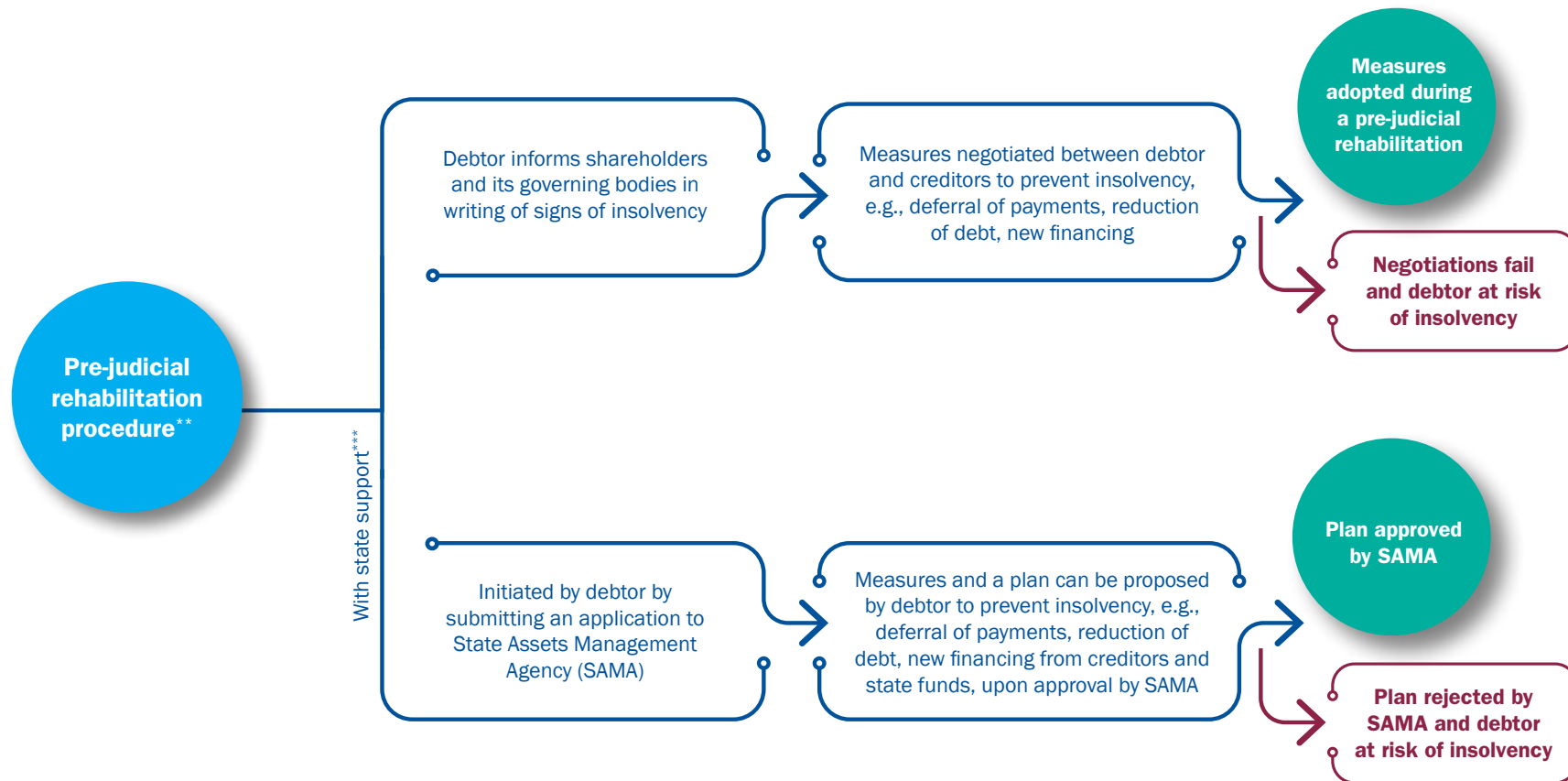
Has the UNCITRAL Model Law on Cross Border Insolvency been adopted?

No, Uzbekistan has not adopted the UNCITRAL Model Law. There are no express legal provisions on cross-border insolvency proceedings and no provisions with respect to cooperation and coordination on fundamental issues, such as recognition and enforcement of moratoria and injunctions and other measures aimed at protecting the debtor's estate.

Special features/observations:

- Like many former Soviet Union economies, Uzbekistan has an amicable settlement mechanism that can be used alongside the existing insolvency procedure to reach a restructuring agreement.
- Financial support from the government is available to businesses under a pre-judicial rehabilitation procedure when this is administered by the SAMA.
- The judicial rehabilitation and external management procedures within insolvency proceedings are rarely used because they must be implemented sufficiently early to lead to restoration of the debtor's solvency and in practice are not.

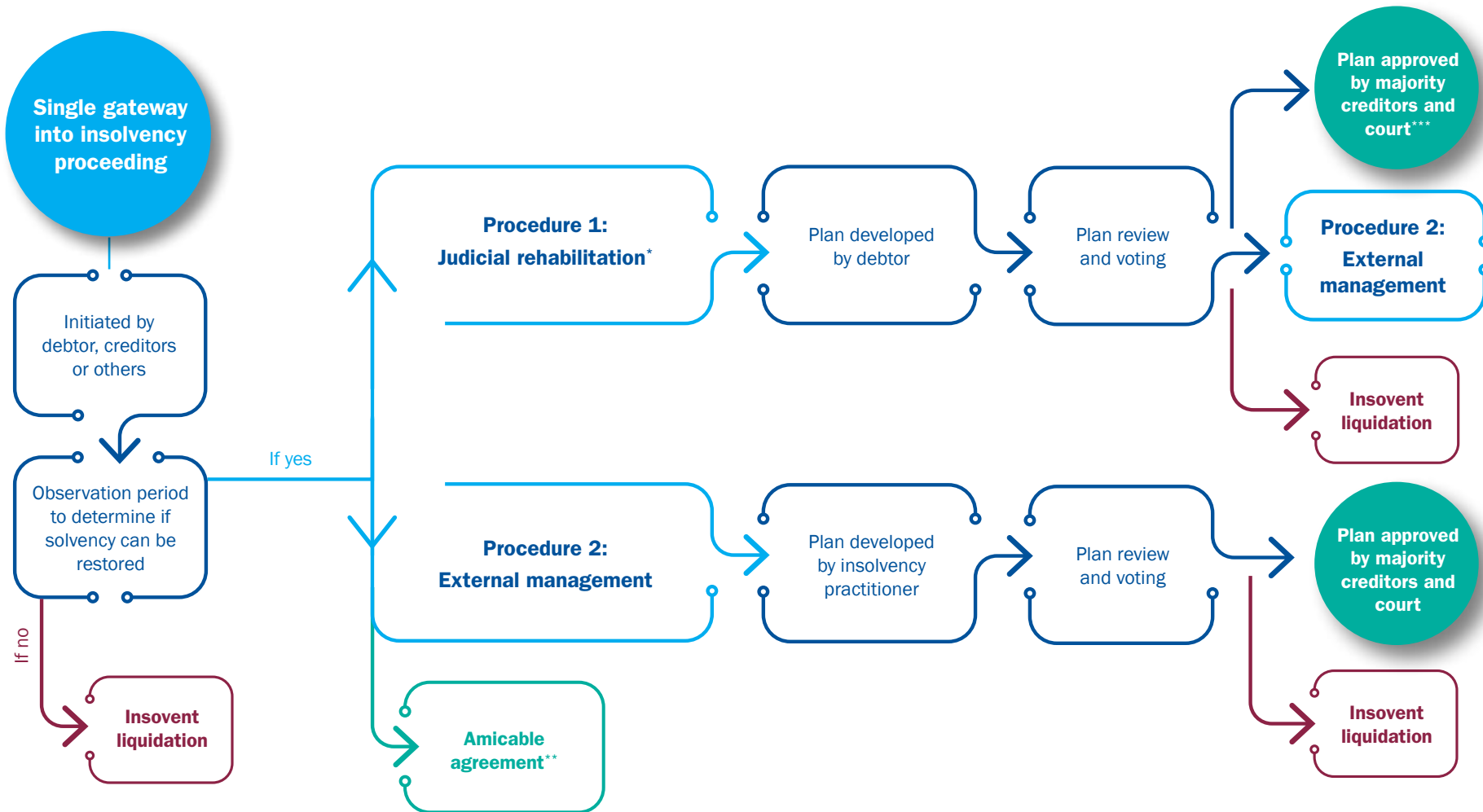
Overview of Uzbekistan Business Reorganisation Procedures*



* This provides a high-level overview of the business reorganisation procedure. See the commentary in this profile and the Insolvency Law for further details, including with respect to moratoria and voting thresholds.

** Commencement of pre-judicial rehabilitation does not preclude creditors from petitioning the court to initiate insolvency proceedings

*** In pre-judicial rehabilitation, state support can be provided upon examination by the State Assets Management Agency (SAMA)



* The debtor, shareholders, or third parties can request judicial rehabilitation if sufficient security can be provided to secure the repayment of the creditors' claims

** Amicable agreement can be reached at any stage, i.e. during the observation period or the judicial rehabilitation, external management or liquidation procedures

*** Plan can be approved by the creditors' meeting or the court upon the debtor's/shareholders' request

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