



## OVERVIEW OF THE WORLD BANK'S DOCUMENTS ROLE IN PROMOTING FOREIGN DIRECT INVESTMENTS

**Umida Bekmirzaeva**

The Author possesses an LL.B. in Law from the University of World Economy and Diplomacy, the Republic of Uzbekistan and is currently pursuing her LL.M at Tashkent State University of Law.

Corresponding e-mail address: [ubekmirzayeva@inbox.ru](mailto:ubekmirzayeva@inbox.ru)  
<https://www.doi.org/10.5281/zenodo.8069152>

### ARTICLE INFO

Received: 14<sup>th</sup> June 2023  
Accepted: 21<sup>th</sup> June 2023  
Online: 22<sup>th</sup> June 2023

### KEY WORDS

*Foreign direct investment (FDI), World Bank Guidelines, legal framework of FDI.*

### ABSTRACT

*This article discusses the function of the World Bank in promoting foreign direct investments (FDIs) through its various documents. The World Bank is an international financial institution that provides loans and grants to developing nations in order to promote their economic growth. FDI promotion is one of the methods the World Bank supports economic growth. This article examines the World Bank's documents outlining its approach to promoting FDIs, including its "World Bank Guidelines on the treatment of FDI" and "Foreign Direct Investment Strategy and Roadmap for Uzbekistan." The article also discusses how the World Bank's strategy for promoting FDIs aligns with the Sustainable Development Goals of the United Nations. The conclusion of the article emphasizes the significance of FDIs in developing nations and how World Bank documents can serve as a guide for policymakers and investors interested in promoting sustainable economic development through FDIs.*

### INTRODUCTION

***"The World Bank provides critical funding and technical assistance to countries around the world, helping them to build the infrastructure, institutions, and systems necessary for sustainable economic growth."***

**David Malpass<sup>1</sup>**

The economy of Uzbekistan, like the economies of other countries, benefits greatly from FDI. The Uzbek government has made several policy changes in recent years in an effort to improve the country's investment climate and lure in more foreign direct investment. The latest data from the World Bank shows that foreign direct investment into Uzbekistan has been on the rise every year since 2017.<sup>2</sup> In total, more than 50 countries invest in the economy of Uzbekistan. The top five investor countries are as follows: China, Russia, Turkey,

<sup>1</sup> 13th President of the World Bank Group

<sup>2</sup> <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=UZ>



Germany, South Korea.<sup>3</sup> Now, the government's vision is that by 2026 Uzbekistan will attract US\$ 5 billion of foreign direct investment on an annual basis. This represents a US\$ 3.4 billion increase in annual new gross FDI and reinvestments over the prestrategy baseline.<sup>4</sup>

However, up to 2017, Uzbekistan has not historically been a hotspot for foreign direct investment for a variety of reasons. Foreign direct investment (FDI) in Uzbekistan has been low for a variety of factors.<sup>5</sup>

– Firstly, that the legal and regulatory framework for investments in Uzbekistan has a history of being perceived as unstable and unpredictable,<sup>6</sup> which has deterred some potential foreign investors.

– Secondly, lack of seaports in Uzbekistan, it may be more difficult for foreign investors to export goods and infiltrate regional markets.

– Thirdly, historical perceptions of insufficient transparency and accountability in government decision-making,<sup>7</sup> the business environment may be difficult to navigate for foreign investors.

To tackle these problems the government has established a number of special economic zones and industrial complexes to encourage investment and introduced improvements including:<sup>8</sup>

– the cancellation of unscheduled and seemingly arbitrary or punitive inspections of businesses as of January 1, 2017;

– the elimination of the requirement to convert a percentage of hard currency export earnings at the official (artificially low) exchange rate;

– the simplification of business registration procedures;<sup>9</sup>

– and the establishment of institute of a Business Ombudsman;<sup>10</sup>

– The adoption of law on investments in a new updated edition.

Particularly, the Law on Investments and Investment Activity, which was adopted in 2019, contributed to promote openness and predictability. By giving the Ministry of Investment and Foreign Trade (MIFT) the authority to make investment policy decisions and reforming the Uzbekistan Investment Promotion Agency (UzIPA), which will report to MIFT in

<sup>3</sup> <https://invest.gov.uz/mediacenter/news/which-countries-and-how-much-invested-in-uzbekistan-in-2021/>

<sup>4</sup> World Bank. 2022. "Recommendations for a National Foreign Direct Investment Strategy and Roadmap for Uzbekistan: New Sources of Growth," World Bank, Washington, D.C.

<sup>5</sup> <https://thewanderinginvestor.com/economics/the-case-for-investing-in-uzbekistan/>

<sup>6</sup> Vasilyeva Rogneda I. & Mariev Oleg S. (2021). Determinants of foreign direct investment in developed and developing countries: impact of political stability. *Economics of the Region*, 17(4), 1390-1404.

<sup>7</sup> Nuraliev Shokhruxh (2022). FDI and administrative decentralization: the importance of empowering local governments. *issues of State and Municipal Administration*, (6 Special Issue II), 138-160.

<sup>8</sup> <https://www.lloydsbanktrade.com/en/market-potential/uzbekistan/investment>

<sup>9</sup> Belascu Lucian, & Horobet Alexandra (2015). Foreign direct investments and institutional performance: a Romanian perspective. *Bulletin of the Kiev National University named after. Taras Shevchenko. Series: Economy*, (9 (174)), 21-26.

<sup>10</sup> In Kazakhstan, the Investment Ombudsman operates under Kazakh Invest and the actual Investment Ombudsman is an official appointed by the government with the role to assist investors in the protection of their rights and legitimate interests prior to a potential escalation into formal legal disputes. The institution of an Investment Ombudsman is established by the Entrepreneurial Code and its functions and responsibilities are set by government Provision (Art. 317 Entrepreneurial Code and Provision No. 1069 On the Activity of the Investment Ombudsman (2019)). The Investment Ombudsman may engage individual consultants and experts, including those from Kazakh legal entities in the preparation of opinions on the issues outlined in the investor's application.



2019, the GoU also enhanced the institutional framework for investment promotion. e. It has also improved its market access by joining the EU's Generalized Scheme of Preferences (GSP+) in April 2021, which allows it to benefit from a special system of preferences of the EU.<sup>11</sup>

Foreign investors are permitted to invest in all sectors of the Uzbek economy, and the government cannot discriminate against them based on nationality, place of domicile, or country of origin. To encourage foreign investment, the government offers tax incentives<sup>12</sup> to corporations with at least 15% foreign investment participation in their authorized capital.<sup>13</sup>

To attract foreign direct investment (FDI), the Uzbek government has simplified administrative procedures for investors, lowered entry barriers, and strengthened the country's legal and regulatory environment. Several SEZs have been set up by the government to woo investors in niche industries like agriculture and tourism.<sup>14</sup>

## METHODS AND RESULTS

Now, in the following we will discuss the role of World Banks's documents in the promotions of FDI in the economy of Uzbekistan from a point of legal regulatory and recommendatory view.

To study and analyze the road maps and guidelines of international organizations<sup>15</sup> like the World Bank to increase FDI<sup>16</sup> is essential part of introduction of amendments to the legal framework of FDI in all countries, particularly, in developing countries. <sup>17</sup>Since The World Bank focuses on several major topics in its advice on the legal framework for FDI, including:<sup>18</sup>

- Investment policy: The Bank encourages nations to have clear and comprehensive investment policies that promote FDI and are consistent with broader economic development objectives.
- Investment promotion: The Bank encourages FDI through investment promotion agencies and other means.
- Investment protection: According to the Bank, nations should offer adequate legal protection for FDI, including safeguards for expropriation, dispute resolution, and intellectual property rights.
- Investment facilitation: The Bank encourages governments to streamline administrative procedures and minimize bureaucracy in order to make doing business easier for investors.
- Corporate governance: The Bank advocates for excellent corporate governance principles such as transparency, accountability, and anti-corruption measures.

<sup>11</sup> [https://www.eeas.europa.eu/delegations/uzbekistan/uzbekistan-joins-european-union-special-agreement-gsp\\_en?s=233](https://www.eeas.europa.eu/delegations/uzbekistan/uzbekistan-joins-european-union-special-agreement-gsp_en?s=233)

<sup>12</sup> Kugaradze, G. (2013). Tax policy and foreign direct investments (a Georgian case-study). *The Caucasus & Globalization*, 7 (3-4), 82-95.

<sup>13</sup> <http://invest.gov.uz/investor/Igoty-i-preferentsii-dlya-predpriyatij-s-uchastiem-inostrannogo-kapitala/>

<sup>14</sup> Inomjon Turaevich Jumaniyazov, & Bexruz Hazratov (2022). Foreign experience in the development of special economic zones in Uzbekistan. *Science and Education*, 3 (5), 1628-1636.

<sup>15</sup> Voon, Tania and Merriman, Dean, Incoming: How International Investment Law Constrains Foreign Investment Screening (October 13, 2021). Pre-peer review draft of 13 October 2021: revised version forthcoming in (2022) 23(3) *Journal of World Investment & Trade*, Available at SSRN: <https://ssrn.com/abstract=4081765>

<sup>16</sup> J. Osei, Michael & Kim, Jaebeom. (2020). Foreign direct investment and economic growth: Is more financial development better?. *Economic Modelling*. 93. 10.1016/j.econmod.2020.07.009.

<sup>17</sup> "Foreign Direct Investment and Economic Growth: The Role of World Bank and IMF" by Muhammad Tariq Majeed and Muhammad Nawaz.

<sup>18</sup> <https://www.worldbank.org/en/topic/investment-climate/brief/investment-policy-and-promotion>



The World Bank's Guidelines for the Treatment of Foreign Direct Investment (FDI)<sup>19</sup>, adopted by the Development Committee in 1992, are one such measure.<sup>20</sup> Although the World Bank does not issue regulations for attracting FDI, it does offer member nations guidance on how to best promote and facilitate FDI flows.<sup>21</sup>

The World Bank proposes the following broad guidelines for foreign direct investment:<sup>22</sup>

Good governance and transparency are two factors the World Bank highlights as crucial to luring and keeping foreign investors. Reducing corruption, protecting the rule of law, and establishing clear and consistent rules and regulations all fall under this category.<sup>23</sup>

The World Bank promotes environmentally and socially responsible business practices among overseas investors. Respecting human rights, protecting the environment, and interacting with local communities are all part of this. While the World Bank can act as a sounding board for foreign direct investment (FDI) questions, it cannot legislate or enforce investment policies on behalf of any country. It is ultimately up to individual governments to decide how best to entice and regulate foreign investment.<sup>24</sup>

The World Bank promotes legislation that safeguards the legal rights of foreign investors, such as the freedom to acquire and dispose of property, repatriate earnings, and access the judicial system in the event of a legal dispute. This includes establishing suitable legal frameworks and guaranteeing open and predictable investment policies. The World Bank suggests that countries adopt investment-friendly policies, such as those that streamline administrative procedures, lower barriers to entry, and guarantee access to finance.<sup>25</sup>

The World Bank encourages countries to promote sustainable investment, which the bank defines as investment that helps the economy grow, creates jobs, and reduces poverty.<sup>26</sup> Investment projects should be subject to environmental and social impact assessments, and investment policies should be in line with national development strategies.<sup>27</sup>

The World Bank acknowledges that foreign direct investment (FDI) can have both positive and negative effects on host countries.<sup>28</sup> The group advocates for governments to implement policies that serve the public good, such as those that protect the environment, uphold human rights, and foster social cohesion.<sup>29</sup> Here, it is relevant to remind Anabel

---

<sup>19</sup> Wendrich, Claudia. (2002). The World Bank Guidelines as a foundation for a global investment treaty: A problem-oriented approach

<sup>20</sup> World Bank: Report to the Development Committee and Guidelines on the Treatment of Foreign Direct Investment. (1992). International Legal Materials, 31(6), 1363-1384. doi:10.1017/S0020782900015801

<sup>21</sup> Policy Competition for Foreign Direct Investment A Study of Competition among Governments to Attract FDI By Charles Oman

<sup>22</sup> World Bank: Report to the Development Committee and Guidelines on the Treatment of Foreign Direct Investment. (1992). International Legal Materials, 31(6), 1363-1384. doi:10.1017/S0020782900015801

<sup>23</sup> Rajni Bajpai and Bernard Myers Enhancing Government Effectiveness and Transparency: The Fight Against Corruption

<sup>24</sup> Djordjija Petkoski World Bank Institute and Nigel Twose World Bank Group Public Policy for Corporate Social Responsibility July 7–25, 2003

<sup>25</sup> [http://web.worldbank.org/archive/website01503/WEB/IMAGES/WDR\\_20-2.PDF](http://web.worldbank.org/archive/website01503/WEB/IMAGES/WDR_20-2.PDF)

<sup>26</sup> Does Foreign Direct Investment (FDI) Create High-Quality Employment in Host Countries? World Bank, Washington DC, 2014, Policy Research Working Paper 6936

<sup>27</sup> Next Generation FDI Strategy and Roadmap 2018 2030 for Vietnam

<sup>28</sup> Selaya, P., and E. R. Sunesen. 2012. "Does Foreign Aid Increase Foreign Direct Investment?" World Development 40 (11): 2155–76.

<sup>29</sup> Regulatory Risk and FDI Sarah Hebous, Priyanka Kher, and Trang Thu Tran  
<https://pubdocs.worldbank.org/en/433411591134538669/211536-Chapter-4.pdf>



Gonzalez's<sup>30</sup> opinion about that "*A country's investment competitiveness goes beyond attracting FDI. It is determined by the country's ability to bring in, retain, and leverage private investment for inclusive and sustainable economic growth.*"

The World Bank's advice on how to handle foreign direct investment (FDI) is purely advisory; individual nations are free to develop their own policies<sup>31</sup> in response to their specific situations and needs. But the World Bank's advice<sup>32</sup> can help member countries craft sound investment policies that can fuel long-term economic expansion and development.<sup>33</sup>

The World Bank strongly supports the principle of non-discrimination, which states that overseas investors should receive the same treatment as their domestic counterparts. This includes being afforded the same legal rights and access to government subsidies. Countries can drive economic growth and development by being more welcoming to foreign direct investment (FDI).

The safety of investments is another fundamental principle. This necessitates the adoption of policies that safeguard issues like property ownership, the transfer of profits, and access to justice in the event of a dispute between a foreign investor and a host country. Trust with foreign investors and higher levels of FDI can be attracted through the provision of adequate legal frameworks and the maintenance of transparent and predictable investment policies.

The World Bank suggests that countries adopt pro-investment policies like simplifying red tape, lowering entry barriers, and guaranteeing access to capital. In developing countries, where investment is essential for economic growth and development, this can help to attract higher levels of FDI.

The World Bank acknowledges the potential value of FDI in stimulating economic growth and development, especially in underdeveloped nations. Therefore, the group proposes FDI treatment options that are adapted to the unique requirements of developing nations.<sup>34</sup>

One of the most important pieces of advice is for developing nations to foster an investment climate that is welcoming to both domestic and international businesses. To do so, we need better regulatory frameworks, easier business startup and management processes, and sufficient infrastructure and services.<sup>35</sup>

Sustainable investment policies are another recommendation from the World Bank for developing nations to implement. Investments that help the economy grow, create jobs, and reduce poverty fall under this category. To guarantee that FDI contributes to long-term,

---

<sup>30</sup> Anabel Gonzalez, Trade & Competitiveness Senior Director, and Ted H. Chu, IFC Chief Economist in the Foreword to the Global Investment Competitiveness Report 2017/2018

<sup>31</sup> Demekas, D. G., H. Balász, E. Ribakova, and Y. Wu. 2007. "Foreign Direct Investment in European Transition Economies—The Role of Policies." *Journal of Comparative Economics* 35 (2):369–86.

<sup>32</sup> Bellak, C., M. Leibrecht, and R. Stehrer. 2008. "Policies to Attract Foreign Direct Investment: An Industry-Level Analysis." Presentation at the OECD Global Forum on International Investment, Paris, France, March 2008

<sup>33</sup> IEG (Independent Evaluation Group). 2015. *Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations*. Washington, DC: World Bank.

<sup>34</sup> . 2014. "Promoting Foreign Investment in Fragile and Conflict-Affected Situations." *Investment Climate in Practice* No. 22. World Bank, Washington, DC.

<sup>35</sup> USAID (United States Agency for International Development). 2009. "Diaspora Direct Investment (DDI): The Untapped Resource for Development." Washington, DC



sustainable growth, developing countries should coordinate their investment policies with their national development strategies.<sup>36</sup>

Finally, the World Bank suggests that underdeveloped nations work to ease restrictions on foreign investment. This includes easing bureaucratic red tape, loosening restrictions on foreign investment, and opening the doors to the financial markets. By opening their doors to foreign direct investment (FDI), developing nations can gain access to the capital, skillsets, and technology that FDI brings.

Finally, the World Bank's suggestions for how developing countries should treat foreign direct investment (FDI) center on fostering an investment climate that contributes to long-term growth and development while safeguarding the public interest.<sup>37</sup>

Countries can attract more FDI in a number of different ways (FDI). Among the most useful methods are:<sup>38</sup>

- Building a favorable environment for investors is essential to luring foreign direct investment. This includes a political climate free from instability and a rule of law that is enforced effectively.
- Simplifying administrative procedures, such as licensing and permitting requirements, for investors can encourage foreign companies to set up shop in a country.
- Invest in transportation and communication networks as these are crucial to luring foreign direct investment. The cost of doing business can be lowered and a country's competitiveness raised by investing in its infrastructure.
- Increase country's human capital by encouraging education and training programs. Human capital development can be fostered when countries invest in educational and training programs that impart the know-how and abilities essential to functioning in a 21st-century economy.

Furthermore, to entice foreign direct investment (FDI), governments sometimes provide financial incentives such as tax breaks and investment subsidies. Investment in a foreign country carries with it certain risks and expenses, but these incentives<sup>39</sup> can help to mitigate some of those.

Attracting foreign direct investment (FDI) generally calls for a holistic strategy that takes into account the many determinants of investor behavior.<sup>40</sup> Countries can improve their chances of attracting more FDI by making improvements to their investment climate, infrastructure, and human resources, as well as by providing incentives and employing more strategic marketing approaches.<sup>41</sup>

<sup>36</sup> National Investment Strategy for 2018-2022 of Kazakhstan

<sup>37</sup> Henry Loewendahl, Innovations in Foreign Direct Investment Attraction <http://dx.doi.org/10.18235/0001442>

<sup>38</sup> Elena Chirila Donciu Promoting and attracting foreign direct investment CES Working Papers – Volume VI, Issue 3

<sup>39</sup> In Singapore, tax exemptions for companies whose production was different from existing local one, were extended on periods from 10 to 20 years. In case of Malaysian companies regarded as innovative and whose production was predominantly export-oriented, total taxes were exempted for a period of at least five years. Foreign investors acting on the Chinese market, benefit from certain tax cuts. Thus, while the overall level of taxes is about 33 %, it can be reduced by 50 % for a period of at least 3 years when international companies make profits from exports.

<sup>40</sup> Blalock, G. and Gertler, P. J. (2008), "Welfare gains from foreign direct investment through technology transfer to local suppliers", *Journal of International Economics*, 74(2), 402-421.

<sup>41</sup> UNCTAD (2012) World Investment Report - Towards a New Generation of Investment Policies, New York and Geneva: United Nations



## DISCUSSION

One more important recommendatory source of World Bank specially targeted for Uzbekistan<sup>42</sup> is adhered to four essential ideas that are critical to its success. These ideas will be represented in numerous ways across the program areas and will be applicable at all stages of investment generation, namely attraction, facilitation, retention, and linkages:<sup>43</sup>

1. Government transparency and evidence-based decision making: It will be critical for the government to increase transparency in its operations, particularly in its interactions with investors. This will involve, for example, information sharing on: a) policy, legal, and regulatory goals, as well as their implementation; b) decision-making criteria in specific regulatory or promotional areas; c) outcomes of critical decisions; and d) progress in executing reform initiatives.

2. Involvement of the private sector: The government must look into a more extensive and comprehensive involvement of the private sector in the formulation and execution of regulations, initiatives, and policies. Formal public-private conversation platforms (either sectoral or economy-wide) would be useful instruments in conjunction with fostering a culture of discussion and inclusive decision-making in politics. For instance, the government may aggressively seek feedback from the business community in addition to disseminating information about new laws and regulations. Where appropriate, discussions could be expanded to include more societal stakeholders.

3. Strong focus on results: The government can develop a comprehensive set of Key Performance Indicators (KPIs) and Monitoring and Evaluation framework, which will be essential for the strategy execution, to enable adequate monitoring and evaluation of this strategy. In addition, implementation flaws frequently prevent policy initiatives, programs, and reforms from having the anticipated effect. The government might build feedback loops for various program areas connected to the strategic action plan to receive prompt signals from investors on the quality of implementation of certain initiatives, followed by remedial steps when necessary. The government is also urged to place a focus on program and policy evaluations to increase their efficacy.

4. Effective coordination between the national and local governments: Poor policy or regulatory formulation or implementation is frequently the result of insufficient coordination and information exchange across several departments of the government. Investors may experience significant volatility due to policy or regulatory inconsistencies. The absence of coordination and information sharing across the authorities that have a stake in the implementation of such regulations frequently reduces the effectiveness of particular regulatory interfaces. To enhance intra-governmental coordination, both horizontally, between various ministries/agencies, and vertically, across multiple tiers of government, mechanisms must be put in place or enhanced. To guarantee consistency in decision-making, special emphasis will need to be paid to coordination between the central government and the regions.

---

<sup>42</sup> Toward a Prosperous and Inclusive Future : The Second Systematic Country Diagnostic for Uzbekistan (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/933471650320792872/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan>

<sup>43</sup> World Bank. 2022. "Recommendations for a National Foreign Direct Investment Strategy and Roadmap for Uzbekistan: New Sources of Growth," World Bank, Washington, D.C.



Below given some recommendations of World Bank from Roadmap:<sup>44</sup>

№	Findings	Recommendations
1	FDI legislation and policy Unqualified definitions and imprecise wording in the numerous "old-style" investment treaties now in effect in Uzbekistan put the nation at risk for investor-state conflicts.	Create a new model BIT that complies with contemporary norms for investment treaty formulation, and formally adopt it. You should also lay out a plan for modernizing and renegotiating "old style" BITs. <sup>45</sup>
2	Because it mostly depends on the State agencies in charge of enforcing them, the enforcement of investor rights and protections is poor in practice. Investors do not have a reliable means of redress.	<p>Improve the Commissioner for the Protection of Rights and Legitimate Interests of Entrepreneurs' effectiveness and/or establish a separate investor grievance process to track down and settle investor complaints before they come before local courts or international arbitration.</p> <p>Adopt legal frameworks enabling a leading government agency to manage investor complaints; create implementing regulations outlining the agency's mission, core procedures, and authority. Introduce an interactive public electronic platform that makes it simple for investors to file and follow complaints</p>
3	There are no mechanisms or processes in place to ensure fair compensation or due process in cases of expropriation. Typically, local courts side with local governments and companies who fail to provide foreign plaintiffs with the full market value for their expropriated property.	Legislate a law outlining the process and method of determining appropriate compensation in the event of a legal expropriation. <sup>46</sup>
4	Limitations on foreign direct investment (FDI) are dispersed across various laws in different sectors such as banking,	Consider introducing a regularly reviewed Negative List that contains all market access restrictions for foreign investors as part of the Investment Law. <sup>47</sup>

<sup>44</sup> Ibid

<sup>45</sup> World Bank Group IIA guidebook including detailed guidance, options and sample provisions for developing a model BIT based on good international practice and 'new generation' IIAs.

<sup>46</sup> Compensation for Expropriation, International Institute for Sustainable Development, 2013, [https://www.iisd.org/system/files/publications/best\\_practice\\_compensation\\_expropriation](https://www.iisd.org/system/files/publications/best_practice_compensation_expropriation)

<sup>47</sup> World Bank Group Investment Law Reform, A Handbook for Practitioners, Chapter 4 (Considerations for Entry of Foreign Investment)





	<p>insurance, and mass media. These scattered restrictions can create difficulty for foreign investors in comprehending the regulations that apply to them.</p>	
5	<p>The process of granting licenses for investment in strategic activities lacks transparency and is subject to discretion. There is no clear and standardized screening process for individual licenses. To improve transparency, the government should publish administrative provisions related to the granting of licenses, including decision criteria and timelines. Additionally, a grievance mechanism should be established to support compliance with the Uzbekistan Investment Policy and Regulatory Review. The conditions for granting approval are not well-defined and can vary on a case-by-case basis. The approval process is time-consuming and can take up to a year or longer. While the government has taken steps to reduce the number of activities requiring licensing and permits, the regulatory landscape remains complex and unclear for foreign investors.</p>	<p>To enhance transparency in regulatory processes, decision criteria, and timelines, it is recommended to publicly release administrative provisions regarding the issuance of licenses. Additionally, it is advised to create a grievance mechanism that can help ensure compliance with rules and regulations by the administration.<sup>48</sup></p>
6	<p>Uzbekistan does not have an FDI strategy that links to its national development goals.</p>	<p>Develop an FDI strategy that prioritizes sectors, reforms and activities according to the country's value proposition and economic and social development goals.<sup>49</sup></p>

<sup>48</sup> World Bank. 2022. "Recommendations for a National Foreign Direct Investment Strategy and Roadmap for Uzbekistan: New Sources of Growth," World Bank, Washington, D.C.

<sup>49</sup> An FDI strategy for Ireland: Driving Recovery and Sustainable Growth 2021- 2024: <https://www.idaireland.com>



7	<p>There is currently no single website that serves as a central hub for publishing laws and regulations in Uzbekistan, and only a limited number of official websites offer translations of local laws and regulations in English that may be relevant to foreign investors.</p>	<p>Create a centralized internet platform that contains a current collection of all the main and subsidiary legal documents that govern businesses. Ensure that translations of the laws and regulations relevant to foreign investors are available in English or other languages, including through the use of automated online translation services.<sup>50</sup></p>
8	<p>Many regulations are in the form of by-laws and ministerial rulemakings, which allows them to avoid the need for public consultation required for primary legislation.</p>	<p>Reform the legislative process by mandating the online publication of all draft laws and regulations related to the investment climate, and requiring a minimum of four weeks for public consultations. Additionally, establish consultation requirements for by-laws and ministerial rulemakings that affect businesses and require the publication of an annual report on all legislative changes related to the investment climate. If necessary, amend the legislation on the legal process accordingly. This will ensure greater transparency and public participation in the lawmaking process and prevent the use of by-laws and ministerial rulemakings to circumvent the requirement of public consultation for primary legislation.<sup>51</sup></p>
9	<p>The Investment Promotion Agency under MIFT should be given more authority to effectively lead the implementation of the government's investment attraction and promotion policies and programs at the national level.</p>	<p>To enhance the Investment Promotion Agency under MIFT, several steps need to be taken:</p> <p>Establish a Board of Directors to supervise strategic matters and operational outcomes, following international best practices.</p> <p>Enhance the agency's operational effectiveness by implementing standard operating procedures, improving financial, human, and technical resources, and creating a corporate business plan with specific priorities and yearly goals.</p> <p>Develop a targeted and proactive outreach program that focuses on a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities.</p> <p>Establish a focused and proactive aftercare program</p>

/about-ida/driving-recoveryand- sustainable-growth- 2021-2024

<sup>50</sup> Kazakhstan national legislative database <https://online.zakon.kz/>.

<sup>51</sup> Kazakhstan portal for online consultations of laws and regulations: [www.egov.kz](http://www.egov.kz), "Open Government" section Kyrgyz Republic Art. 18-20 of the Law "On Legal Acts" mandating stakeholder consultations prior to passing any law.



		<p>that focuses on a small number of sectors/GVC tasks aligned with Uzbekistan's strategic priorities. Implement formal coordination tools to improve inter-agency collaboration among national and municipal-level agencies and actors involved in various investment functions.<sup>52</sup></p>
10	<p>Although the 2019 investment law simplified the investment legislation, there is room for improvement to increase transparency and remove any uncertainties, particularly concerning the protection and assurance of investors.</p>	<p>Consider conducting a comprehensive review of the Investment Law to identify areas where it can be strengthened in line with international best practices.</p> <p>Adopt amendments to the Investment Law that provide greater clarity and transparency, particularly in regards to investor protections and guarantees.</p> <p>Ensure that the revised Investment Law is consistent with Uzbekistan's bilateral investment treaties (BITs) and International Investment Agreements (IIAs) that it has signed and ratified.<sup>53</sup></p>

**CONCLUSION**

Without the adoption of a new FDI strategy, Uzbekistan lacks a framework for FDI strategy that is connected to the goals and objectives of its national development strategy. For the efficient promotion and attraction of FDI, it is crucial to have an FDI strategy that prioritizes sectors, reforms, and initiatives in accordance with the country's value offer and economic and social development objectives. The new Investment Law of 2019 in Uzbekistan simplified the country's investment regulations, but there are still crucial areas that need to be strengthened to bring more clarity and better harmonize the country's domestic and international investment laws.

The Investment Law has to be revised and compared to global best practices. The Investment Law should be modified specifically to modernize investor guarantees and safeguards and to bring it into compliance with the bilateral investment treaties (BITs) and international investment agreements (IIAs) that the country has ratified. There are also a lot of "old-style" investment treaties in force in Uzbekistan, which include vague language and undefined meanings that put the nation at risk for investor-state conflicts. It would lessen its exposure and strengthen its investment legal framework by creating and formally adopting a new model BIT in line with contemporary standards of investment treaty creation and by formulating a plan for modernizing and renegotiating "old style" BITs.

<sup>52</sup> Strengthening Service Delivery of Investment Promotion Agencies – The Comprehensive Investor Services Framework: <https://openknowledge.worldbank.org/handle/10986/33498> Increasing the Development Impact of Investment Promotion Agencies in: Global Investment Competitiveness Report 2019/2020: <https://elibrary.worldbank.org/doi/full/10.1596/978-1>

<sup>53</sup> World Bank Group / IFC detailed review and assessment of the 2019 Investment Law, including specific, clause-by-clause guidance for improvements



Enhancing transparency in legal and regulatory processes is necessary, particularly with regard to the availability of laws and regulations, their publishing, and the efficacy of public consultation procedures. There are few official portals that give English language translations of local laws and regulations relevant to investors, and while the online portal [www.lex.uz](http://www.lex.uz) offers information on a variety of laws and regulations, it does not represent a full database of all laws and regulations.

The Law on Normative Legal Acts allows for public and stakeholder discussions prior to new legislation becoming law, but it does not require such consultations. The law also stipulates that draft bill will be posted on the joint portal of interactive government services of the Republic of Uzbekistan in order to facilitate public discussions, but no deadline or legal time frame is specified for which laws, regulations, or other measures must be made publicly available for comments before being passed. Furthermore, a lack of detailed details and transparency may make it difficult for the public to participate. By-laws and ministerial rulemakings also make up the majority of laws; just a small portion of newly issued core legislation is subject to public comment procedures. Because of the strong reliance on secondary law-making, any obligation for public input is effectively avoided.

Although Uzbekistan's Investment Law doesn't expressly forbid or limit foreign involvement in business activities, there are particular restrictions on FDI that are spread out over various laws, creating difficulty for foreign investors in identifying applicable regulations beforehand. Examples of these pertinent laws include those concerning insurance, mass media, and banking sectors. Excluded investment areas consist of centralized investments, concessions, production sharing agreement conclusions, executions, and terminations, capital market regulation including securities operations, public-private partnerships, and special economic zones that are governed by separate laws. Additionally, the Investment Law states that laws can limit foreign investment in specific economic sectors in accordance with the country's international treaties and internationally recognized principles and norms of law, to protect public health, animal and plant life, the environment, and national security interests. Certain sector-specific federal laws and regulations issued by relevant ministry or government agencies may also prescribe restrictions on FDI. Creating and publishing a Negative List would provide better clarity to foreign investors on applicable restrictions to their investments in Uzbekistan and align with global best practices on transparency standards for investment entry and establishment.

In Uzbekistan, foreign investors typically don't have to partner with a local company to start a business, except in certain restricted sectors where a specific percentage of Uzbek participation is required. To comply with these requirements, foreign investors in those sectors must form a joint venture with a local partner. Mergers and acquisitions by foreign investors are generally permitted, but may require clearance from the Uzbek antimonopoly regulator if they exceed certain thresholds. Certain sectors also have local participation requirements for shareholding that must be followed. The Law on Denationalization and Privatization prohibits the denationalization and privatization of several areas of the economy, and specific privatization programs and related frameworks are governed by this law and various decrees and regulations. In recent years, the government has simplified the privatization process and privatized SOEs in certain non-strategic sectors through specific



decrees. The privatization of Uzbekistan's banks presents investment opportunities and could lead to improvements in the regulatory framework of the banking sector.

Foreign investors currently face challenges in resolving disputes and lack an independent grievance mechanism. The Investment Law in Uzbekistan mandates that disputes related to foreign investment must be resolved through negotiations, followed by mediation, and then through an economic court in Uzbekistan. If those remedies fail, parties may resort to international arbitration only if an investment agreement or international treaty includes a valid arbitration clause. However, there is no clarity on when a dispute can be deemed “impossible” to settle, creating uncertainty for foreign investors. The government should prioritize establishing an independent investor grievance mechanism to prevent costly arbitration procedures and resolve investor grievances early. Though investments in Uzbekistan are protected against nationalization and expropriation, investors face challenges in obtaining fair compensation for expropriated property due to the lower court rulings in favor of local governments and companies. In practice, the effectiveness of legal protections depends on the current political environment and State authorities. Therefore, the government should focus on implementing investor protections in practice and establishing an effective grievance mechanism.

## References:

1. World Bank: Report to the Development Committee and Guidelines on the Treatment of Foreign Direct Investment. (1992). International Legal Materials, 31(6), 1363-1384. doi:10.1017/S0020782900015801
2. World Bank. 2022. “Recommendations for a National Foreign Direct Investment Strategy and Roadmap for Uzbekistan: New Sources of Growth,” World Bank, Washington, D.C.
3. Policy Competition for Foreign Direct Investment A Study of Competition among Governments to Attract FDI By Charles Oman
4. World Bank: Report to the Development Committee and Guidelines on the Treatment of Foreign Direct Investment. (1992). International Legal Materials, 31(6), 1363-1384. doi:10.1017/S0020782900015801
5. Regulatory Risk and FDI Sarah Hebous, Priyanka Kher, and Trang Thu Tran <https://pubdocs.worldbank.org/en/433411591134538669/211536-Chapter-4.pdf>
6. IEG (Independent Evaluation Group). 2015. Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations. Washington, DC: World Bank.
7. 2014. “Promoting Foreign Investment in Fragile and Conflict-Affected Situations.” Investment Climate in Practice No. 22. World Bank, Washington, DC.
8. Toward a Prosperous and Inclusive Future : The Second Systematic Country Diagnostic for Uzbekistan (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/933471650320792872/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan>
9. World Bank Group IIA guidebook including detailed guidance, options and sample provisions for developing a model BIT based on good international practice and ‘new generation’ IIAs.



10. Compensation for Expropriation, International Institute for Sustainable Development, 2013, [https://www.iisd.org/system/files/publications/best\\_practice\\_compensation\\_expropriation](https://www.iisd.org/system/files/publications/best_practice_compensation_expropriation)
11. World Bank Group Investment Law Reform, A Handbook for Practitioners, Chapter 4
12. (Considerations for Entry of Foreign Investment)
13. Strengthening Service Delivery of Investment Promotion Agencies – The Comprehensive Investor Services Framework: <https://openknowledge.worldbank.org/handle/10986/33498> Increasing the Development Impact of Investment Promotion Agencies in: Global Investment Competitiveness Report 2019/2020: <https://elibrary.worldbank.org/doi/full/10.1596/978-1>
14. World Bank Group / IFC detailed review and assessment of the 2019 Investment Law, including specific, clause-by-clause guidance for improvements
15. Does Foreign Direct Investment (FDI) Create High-Quality Employment in Host Countries? World Bank, Washington DC, 2014, Policy Research Working Paper 6936
16. <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=UZ>
17. [http://web.worldbank.org/archive/website01503/WEB/IMAGES/WDR\\_20-2.PDF](http://web.worldbank.org/archive/website01503/WEB/IMAGES/WDR_20-2.PDF)
18. <https://www.worldbank.org/en/topic/investment-climate/brief/investment-policy-and-promotion>
19. Vasilyeva Rogneda I. & Mariev Oleg S. (2021). Determinants of foreign direct investment in developed and developing countries: impact of political stability. *Economics of the Region*, 17(4), 1390-1404.
20. Nuraliev Shokhrukh (2022). FDI and administrative decentralization: the importance of empowering local governments. *issues of State and Municipal Administration*, (6 Special Issue II), 138-160.
21. Belascu Lucian, & Horobet Alexandra (2015). Foreign direct investments and institutional performance: a Romanian perspective. *Bulletin of the Kiev National University named after Taras Shevchenko. Series: Economy*, (9 (174)), 21-26.
22. Kuparadze, G. (2013). Tax policy and foreign direct investments (a Georgian case-study). *The Caucasus & Globalization*, 7 (3-4), 82-95.
23. Inomjon Turaevich Jumaniyazov, & Bexruz Hazratov (2022). Foreign experience in the development of special economic zones in Uzbekistan. *Science and Education*, 3 (5), 1628-1636.
24. Voon, Tania and Merriman, Dean, Incoming: How International Investment Law Constrains Foreign Investment Screening (October 13, 2021). Pre-peer review draft of 13 October 2021: revised version forthcoming in (2022) 23(3) *Journal of World Investment & Trade*, Available at SSRN: <https://ssrn.com/abstract=4081765>
25. J. Osei, Michael & Kim, Jaebeom. (2020). Foreign direct investment and economic growth: Is more financial development better?. *Economic Modelling*. 93. 10.1016/j.econmod.2020.07.009.
26. Muhammad Tariq Majeed and Muhammad Nawaz. "Foreign Direct Investment and Economic Growth: The Role of World Bank and IMF"
27. Wendrich, Claudia. (2002). The World Bank Guidelines as a foundation for a global investment treaty: A problem-oriented approach



28. Charles Oman Policy Competition for Foreign Direct Investment A Study of Competition among Governments to Attract FDI
29. Rajni Bajpai and Bernard Myers Enhancing Government Effectiveness and Transparency: The Fight Against Corruption
30. Djordjija Petkoski World Bank Institute and Nigel Twose World Bank Group Public Policy for 13. Corporate Social Responsibility July 7–25, 2003
31. Selaya, P., and E. R. Sunesen. 2012. "Does Foreign Aid Increase Foreign Direct Investment?" *World Development* 40 (11): 2155–76.
32. Anabel Gonzalez, Trade & Competitiveness Senior Director, and Ted H. Chu, IFC Chief Economist in the Foreword to the Global Investment Competitiveness Report 2017/2018
33. Demekas, D. G., H. Balász, E. Ribakova, and Y. Wu. 2007. "Foreign Direct Investment in European Transition Economies—The Role of Policies." *Journal of Comparative Economics* 35 (2):369–86.
34. Bellak, C., M. Leibrecht, and R. Stehrer. 2008. "Policies to Attract Foreign Direct Investment: An Industry-Level Analysis." Presentation at the OECD Global Forum on International Investment, Paris, France, March 2008
35. Henry Loewendahl, Innovations in Foreign Direct Investment Attraction <http://dx.doi.org/10.18235/0001442>
36. Elena Chirila Donciu Promoting and attracting foreign direct investment CES Working Papers – Volume VI, Issue 3
37. UNCTAD (2012) World Investment Report - Towards a New Generation of Investment Policies, New York and Geneva: United Nations Next Generation FDI Strategy and Roadmap 2018 2030 for Vietnam
38. USAID (United States Agency for International Development). 2009. "Diaspora Direct Investment (DDI): The Untapped Resource for Development." Washington, DC
39. National Investment Strategy for 2018-2022 of Kazakhstan Compensation for Expropriation, International Institute for Sustainable Development, 2013, [https://www.iisd.org/system/files/publications/best\\_practice\\_compensation\\_expropriation](https://www.iisd.org/system/files/publications/best_practice_compensation_expropriation)
40. An FDI strategy for Ireland: Driving Recovery and Sustainable Growth 2021- 2024: <https://www.idaireland.com/about-ida/driving-recoveryand-sustainable-growth-2021-2024>
41. Kazakhstan national legislative database <https://online.zakon.kz/>.
42. <http://invest.gov.uz/investor/lgoty-i-preferentsii-dlya-predpriyatij-s-uchastiem-inostrannogo-kapitala/>
43. <https://invest.gov.uz/mediacenter/news/which-countries-and-how-much-invested-in-uzbekistan-in-2021/>
44. <https://www.lloydsbanktrade.com/en/market-potential/uzbekistan/investment>
45. <https://thewanderinginvestor.com/economics/the-case-for-investing-in-uzbekistan/>