

**DEVELOPMENT OF CORPORATE GOVERNANCE IN STATE-
OWNED ENTERPRISES IN UZBEKISTAN**
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Abstract: *the public sector of the economy exists in all countries of the world and as an economic phenomenon is inherent in all historical periods and all stages of development of society. It is known that state-owned property is the material basis of the state economic sector. At present, the problems of effective management and the use of state property have not been sufficiently solved theoretically from the point of view of both economic and legal science. At the same time, the issue of corporate governance in state-owned enterprises is of great practical importance, as state property is the most important source of funding for the activities of the state and its functions, as well as the implementation of political, economic and social programs. This article aims at discussing the development prospects of corporate governance in state-owned enterprises in Uzbekistan.*

Keywords: *state-owned enterprises, corporate governance, privatization of state property, private property.*

**РАЗВИТИЕ КОРПОРАТИВНОГО УПРАВЛЕНИЯ НА
ГОСУДАРСТВЕННЫХ ПРЕДПРИЯТИЯХ В УЗБЕКИСТАНЕ**
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Аннотация: *государственный сектор экономики существует во всех странах мира и как экономическое явление присущ всем историческим периодам и всем этапам развития общества. Известно, что государственная собственность - это материальная основа государственного сектора экономики. В настоящее время проблемы эффективного управления и использования государственной собственности недостаточно решены теоретически с точки зрения как экономической, так и правовой науки. В то же время вопрос корпоративного управления на государственных предприятиях имеет большое практическое значение, поскольку государственная собственность является важнейшим источником финансирования деятельности государства и его функций, а также реализации политических, экономических и социальных программы. Цель данной*

статьи - обсудить перспективы развития корпоративного управления на государственных предприятиях в Узбекистане.

Ключевые слова: *государственные предприятия, корпоративное управление, приватизация государственной собственности, частная собственность.*

The development of private property and the realization of market relations based on it influenced much on understanding the substance of legal fields' measures composing of the complex of private law. In the Soviet period public law features were supreme on private law measures; there were measures, limiting private entrepreneurship activity in the Civil Code of Uzbekistan of 1963 which was the main source of private law. However, right of private property was not fixed in this code. According to the Marxist-Leninist doctrine, private property was known as the source of labour exploitation; legal persons were created focusing on the order or permission of state bodies; state interference was allowed into internal affairs; treaty freedom was not existed; as a rule treaties were made basing on the state's planned acts etc. [1].

In the CIS countries, including Uzbekistan, the public sector was based on the principles of the former Soviet era, which posed specific challenges to the privatization of state-owned property during the transformation of the former Soviet economy after the independence of Uzbekistan in the 1990s.

Civil Code of the Republic of Uzbekistan, adopted in 1997 and which is still valid is mainly based on the principles of private law. The Article 1 of the Uzbek Civil Code says:

“The civil legislation is based on recognition of equality of participants of the relations regulated by it, security of property, freedoms of the agreement, inadmissibility of any intervention someone in private affairs, need of free implementation of the civil laws, ensuring recovery of the violated rights, their judicial protection.

Citizens (physical persons) and legal entities acquire and perform the civil laws the will and in the interest. They are free in establishment of the rights and obligations on the basis of the agreement and in determination of any terms of the contract which are not contradicting the legislation.” [2].

These main principles exempt citizens and their associations from strict state control. It means they have now the opportunity to determine their activity rules themselves in accordance with the principle “all is permitted which is not forbidden by law”. It is necessary in country to exceed the negative consequences of excessive government intervention and discretion in economic activity [3]. This rule totally concerns the corporations-organizations which are accepted as legal persons and leading useful social and economic activity based on the corporate finance.

Prior to independence, state property was governed on the basis of operational management and economic rights, and these legal institutions still exist in the CIS countries, including Uzbekistan.

Article 70 of the Civil Code of the Republic of Uzbekistan defines the legal status of unitary enterprises. Articles 71 and 72 of the Civil Code reveal the essence of the right of economic and operational management.

Given that state-owned unitary enterprises are not only a subject of public law, but also a subject of civil law relations, their place in the classification of legal entities in our civil law, legal status, legal capacity, responsibility, as well as the right to economic and operational management position in the system of rights, legal relations arising as a result of corporate governance in state-owned enterprises and the areas of their regulation. A free economic zone is considered to be one of these areas.

For example, like in many developed and developing countries, free economic zones are established under the initiative of states and the legal status of states in a FEZ has different characteristics [4]. The state is a significant participant in the activity of FEZ through the authorized organs and has a key point in creation and successful operation of them. The Directorate of FEZ is a State Unitary Company and its main objective is the operational management of FEZ activities as well as receiving profit from providing services to participants of economic activities in a FEZ [5].

In recent years the existing legal framework in our country is insufficient to establish and regulate large companies in the market, denationalization and privatization of state property, and to reform of state-owned enterprises, as well as joint-stock companies. A number of laws and regulations governing the protection of shareholders' rights have been adopted. However, they owe to weak implementation and the extent of compliance by the Uzbek companies is still questionable. These include: the Law of the Republic of Uzbekistan "On denationalization and privatization" (19.11.1991), the Law "On auditing" (26.05.2000), "Limited Liability" and the Law on Additional Liability Companies "(06.12.2001), the Law "On Business Companies "(06.12.2001), the Law "On Bankruptcy " Law (new edition, 24.04.2003), Law "On joint-stock companies and protection of shareholders' rights" (new edition, 06.05.2014), Law "On securities market" (new edition) new edition, 03.06.2015), Law "On investments and investment activities" (25.12.2019) etc.

Taking into account the importance of market regulation in the state assets management, including the system of ensuring the economic security, sovereignty and protection of national economic interests of the state, Uzbekistan began actively developing its national economy in accordance with the Strategy of Actions on Further Development of the Republic of Uzbekistan on five priority areas in 2017-2021. As a result, economic development shifted to a drastically new level, which provides for the improvement of wellbeing and the quality of life of the population [6].

It should also be mentioned that corporate governance reforms are more essential for developing economies as they make the corporate structures more effective, help in competing with multi-national corporations and increase investors' confidence [7].

The Strategy for the management and reform of state-owned enterprises for 2021-2025 approved by the Decree of the President of the Republic of Uzbekistan dated March 2, 2020 No PF-5953, being adopted by the Cabinet of Ministers of Uzbekistan is considered to be the continuation of the realization of these purposes.

The Strategy prevents the establishment of economic societies and the State unitary enterprises with a State share of 50 per cent or more in authorized capital without sufficient justification, as well as granting these enterprises exclusive privileges and advantages over other enterprises [8].

The Strategy undertakes to limit State participation in areas where the private sector is competitive and to ensure that State enterprises are fully market-oriented. This will be accompanied by the full implementation of modern corporate governance practices in the activities of State-owned enterprises.

It should also be noted that the performance of the Executive Body with its indicators and the performance of the Supervisory Board - depending on the degree to which corporate governance principles are implemented, the process of disclosure of the activities of enterprises with State participation will be simplified, as well as transparency and disclosure in the management of enterprises.

According to the Strategy from January 1, 2022:

the special right of the State to participate in the management of selected companies in a strategic industry will be abolished;

the terms of office of the members of the executive body and the supervisory board shall be extended from one year to three years;

the practice of selecting candidates for the supervisory board of enterprises with the participation of the State on the basis of the State share will be gradually introduced.

Furthermore, in accordance with the Strategy, the approval by the Cabinet of Ministers of candidates for management and members of the executive body of enterprises with the participation of the State, as well as the practice of simultaneously occupying the head (member) positions by them will be eliminated [9].

Keeping pace with developments at international level, Uzbekistan is trying to make positive changes for improving corporate governance in state-owned enterprises. The full implementation of corporate governance reforms in Uzbekistan requires reforms to take place in larger context including political and legal systems. Uzbek state-owned enterprises need to understand the benefits of implementing good governance strategies and corresponding initiatives that help in improving financial performance. It is hoped that the Strategy for the management and reform of state-owned enterprises for 2021-2025 will lead to modernization of market economy in Uzbekistan and it will encourage and protect domestic and foreign investors.

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