

MODERNIZATION OF UZBEKISTAN'S SECURITIES MARKET

35122302-8 GHOLIB, ALIMOV

FINANCIAL STRATEGIES AND CAPITAL MARKETS

C.E. PROF. HIBARA, NOBUHIKO

D.E. PROF. NISHIYAMA, SHIGERU D.E. PROF. MANO, YOSHIKI

Summary

Objectives

The research targets the following objectives: to analyze and identify the existing problems and barriers which are hindering the development of Uzbekistan's securities market, to initiate recommendations for elaborating solutions to those problems in the securities market of Uzbekistan. It is not a secret that the securities market of Uzbekistan has a wide range of potential due to its economic opportunities being an emerging market. Nevertheless, attracting investment through the securities market of Uzbekistan has never reached the 2% share in total investments to its economy. Where we cannot see the implementation of effective tools in economic modernization and diversification is the stock market. This thesis's focus lies in targeting and conducting a study of the current situation and trends of Uzbekistan's securities market, through which I hope to analyze the reasons of the problems restraining the realization of its investment potential. The attraction of investments by new innovative technologies, instruments and mechanisms of the stock market will also be discussed. The implementation of innovative approaches to the stock market has at all times been one of the main factors of development and consequently the economic growth. In this sense to solve the existing problems of formulating suitable investment climate and infrastructure, necessary internal and external factors contribute to the increase in efficiency of the stock market activity.

Background

In present time securities market's role in the economy of countries all over the world getting is acquiring greater importance. For example, the total market capitalization of listed companies of all publicly traded companies in the world was estimated at about USD 53.87 trillion by 31 December 2012. The total market capitalization of all listed companies as a percentage of GDP at the end of 2012 stood at 75,1%. In June of 2011 *The Economist* magazine informed that the over-the-counter

(OTC) derivatives market amounted to approximately USD 700 trillion and the market size on exchanges amounted to an additional USD 83 trillion.

Through providing companies with financing sources the securities market performs its primary functions. Also, in order to finance stable growth, especially in transitional economy conditions, attracting new funds is one of the most important and urgent targets for companies. Economical renewing of Uzbekistan through diversification and modernization of its economy has been implemented throughout the years of independence based on various tools, such as more flexible tax policy, improvement of business environment, reforming of financial (non-banking financial institutions also) and banking sectors. During the last years we can see a tendency in creating free economic areas, private and state partnerships. As we know that in present times the securities market became the most effective tool of the modernization of the economy. But in spite of this we cannot say that in Uzbekistan such potential of the securities market is applied in optimal ways.

Research methodology

This research uses quantitative data analysis and qualitative data analysis approaches. This kind of approach is targeted to analyze and identify existing problems which are hindering the further development of Uzbekistan's securities market. The studying of Uzbekistan securities market in regulative, legislative and operational senses are the major elements of methodology. Research publications of international organizations, newspapers, periodic analytical papers, digests of periodicals and analytical approaches contribute to the *Secondary data reviews*.

Findings from the research

Uzbekistan's stock market has not played a significant role in the modernization processes of national economy. This is because Uzbekistan's securities market does not perform its major functional challenges. For solving of those problems it needs to carry out a comprehensive and thorough exploration of current government policy on Uzbekistan's securities market with a particular emphasis on its efficiency evaluation, based on the results of these explorations to initiate the drafting of equal and long-run state strategy on further developing Uzbekistan's securities market and take adequate measures necessary for the implementation of this strategy.

<Inside Cover>

MODERNIZATION OF UZBEKISTAN`S SECURITIES
MARKET

35122302-8 GHOLIB, ALIMOV

FINANCIAL STRATEGIES AND CAPITAL MARKETS

C.E. PROF. HIBARA, NOBUHIKO
D.E. PROF. NISHIYAMA, SHIGERU D.E. PROF. MANO, YOSHIKI

Acknowledgements

Due to the Japanese Grant Aid for Human Resource Development Scholarship (JDS) program I had a great pleasure of studying at one of the leading universities of Japan. Good relationships between the Government of Uzbekistan and Japan International Cooperation Center (JICE) formed all the necessary conditions for us during the whole period of studying and living in Japan.

Especially, I want to notice that many people who have, in different ways, supported my graduate studies. Of course, I would like to thank my supervisor, Prof. Nobuhiko Hibara for directing and supporting my work in the period of studying and writing the thesis.

At the same time, I want to thank my former co-workers in the “Center for Coordination and Development of Securities Market of the Republic of Uzbekistan” who helped me with accessing the necessary information for my thesis. I would like to thank my family and friends for their moral support.

I sincerely appreciate the enjoyable time I have had at WBS. I had the chance to meet and study with my kind classmates from many countries around the world, and being a student of Prof. Nobuhiko Hibara’s Zemi especially gave me unforgettable memories in my life.

Thank you

Table of Contents

ACKNOWLEDGMENTS	i
GLOSSARY	iv
ABBREVIATIONS	vii
CHAPTER 1. RESEARCH OBJECTIVES AND METHODOLOGY	1
1.1. CONCISE DESCRIPTION OF UZBEKISTAN SECURITIES MARKET	1
1.2. OBJECTIVES AND SCOPE	3
1.3. RESEARCH METODOLOGY AND THE STRUCTURE OF THESIS	4
1.4. LITERATURE REVIEW	5
CHAPTER 2. UZBEKISTAN SECURITIES MARKET IN PRESENT DAYS	10
2.1. EVOLUTION HISTORY	10
2.2. ANALYSIS OF SECURITIES MARKET INSTRUMENTS	18
2.3. ANALYSIS OF SECURITIES MARKET PARTICIPANTS STRUCTURE	24
CHAPTER 3. EXISTING PROBLEMS AND FURTHER DEVELOPMENT PERSPECTIVES OF THE SECURITIES MARKET	28
3.1. IMPROVEMENT OF STATE POLICY	28
3.2. IMPROVEMENT OF LEGISLATION	30
3.3. IMPROVEMENT OF INVESTMENT CLIMATE	31
CHAPTER 4. CONCLUSION AND RECOMMENDATION	32
4.1. CONCLUSION	32
4.2. RECOMMENDATIONS	33
REFERENCES	35

List of Figures and Tables

FIGURES

Figure 1-1	USD to UZS Exchange Rate.....	2
Figure 2-1	Corporate Securities Market Turnover (UZS billion).....	11.
Figure 2-2	Relation between GDP growth and Securities Market Turnover growth.....	14
Figure 2-3	KASE Index rate.....	15
Figure 2-4	TCI Index rate.....	16
Figure 2-5	Corporate securities turnover in RSE “Toshkent” on May 2010-2014.....	17
Figure 2-6	Correlation of JSC numbers to total volume of corporate securities issuance.....	21
Figure 2-7	Correlation between the total volume of issuances, annual issuances and market turnover of corporate securities (UZS billion).....	22
Figure 2-8	The Structure of Corporate Securities Market Turnover (UZS billion).....	26
Figure 3-1	Organizational Structure of SCPD.....	29

TABLES

Table 2-1	The liquidity of RSE “Toshkent” on May 2014.....	17
Table 2-2	The Structure of Formal corporate securities market turnover (UZS million).....	19
Table 2-3	The Structure of Nonformal corporate securities market turnover (UZS million)....	20
Table 2-4	Corporate securities market turnover correlation to GDP (UZS trillion)	25
Table 2-5	Licensing the professional activity in Uzbekistan securities market.....	26

Glossary

The following definitions are given according to the Law of the Republic Of Uzbekistan “On the securities market” (as of 22 July, 2008 by #LRU-163)¹ and does not an official translation:²

Bond – an emissive security that fixes the right of its holder to receive the face value or other equivalent property, a fixed percentage interest of the face value, and other property rights in the period of time provided for by it;

Central Securities Depository – a State depository, which provides a single storage system, and bookkeeping of the rights and movements of emissive securities on the depo accounts at depositories;

Certificate of deposit – non-emissive security certifying the deposited sum of money with a bank, rights of the depositor (certificate holder) to receive the original deposit with a stated interest upon maturity of the certificate of deposit from any branch of the bank that issued this certificate;

Circulation of securities – purchase and sale, and other actions undertaken with respect to securities resulting in the change of ownership of securities;

Corporate bonds – bonds issued by open JSC companies;

Debt obligations of the Republic of Uzbekistan – emissive securities certifying that their owners have deposited a sum of money into the state budget of the Republic of Uzbekistan, and which confer the right to their holders to receive a fixed income throughout the length of period of their ownership;

Depositor – a person who holds a custody account in the depository;

Derivative securities – securities, certifying the rights or obligations of their owners in relation to other securities issued by legal entities, such as the stock options of the issuer, futures on securities and other financial instruments.

Disclosure of information – provision of information to interested parties in the securities market regardless of the aims of the interested parties in obtaining this information, and in a form guaranteeing access and delivery of the information;

¹ Collection of Legislation of the Republic of Uzbekistan, 2008 y., #29-30, article #278.

² Source: CSM.

Emission of securities – the act of issue and placement of the emissive securities;

Emissive securities – securities, whose each issue is subject to homogeneous features and properties, and whose placement and circulation are carried out under the terms of that particular issue;

Government securities – debt obligations of the Republic of Uzbekistan, bonds issued by the authorized Cabinet of Ministers body, as well as bonds of the Central Bank of the Republic of Uzbekistan;

Investment assets – securities, cash and other properties recognized as investment assets in accordance with the laws;

Investor – legal or natural person (individual) acquiring securities on his/her own behalf and at his/her own expense;

Issue of securities – actions of the legal entity resulting in the origination of the securities as an object of civil rights;

Issuer – a legal entity which issues emissive securities and bears obligations over such securities before their owners.

Non-emissive securities – securities that do not fall within the concept of emissive securities in accordance with this Law;

Placement of securities – the transfer of issued securities by the issuer to the first owners through a registered transaction;

Professional activities in the securities market – types of licensed activities on provision of services related to the issuance, placement and circulation of securities;

Professional securities market participant – a legal entity that carries out professional activities in the securities market;

Registered securities – securities, whose exercise of property rights requires the owners to be registered;

Securities – documents certifying either proprietorship rights or financial obligational relations between the issuer and the owner, making provisions for payments to the owner of these securities in the form of dividends or interest, and also provisions for possible transfer of rights on these securities to other entities. The value of a security is expressed in the national currency of the

Republic of Uzbekistan;

Securities market – a system of legal and natural persons (individuals) associated with the issue, placement and circulation of securities;³

Securities market participants – issuers of securities, holders of securities, investors, professional participants in the securities market, and exchanges stipulated by the legislation;

Security transactions – purchase and sale, gift, inheritance of securities, inclusion of securities into the statutory fund and other acts involving change of ownership of securities and as well as pledge of securities;

Share (stock) – emissive and inscribed security of a perpetual maturity, which fixes the rights of its owner to receive part of the profit of a corporation in the form of dividends, to participate in the management of the corporation, and to receive part of the property that remains after its liquidation;

Stock exchange – a legal entity creating conditions to promote trading exclusively in securities via organizing, and conducting public auction trades based on established rules, and at a predetermined place and time.

³ Hereinafter the following terms has the same mean: “a national stock market”, “the stock market of Uzbekistan”, “the Uzbekistan securities market”, “a national securities market” and “the securities market of Uzbekistan”.

Abbreviations

ADB	Asian Development Bank
CB	Central Bank of the Republic of Uzbekistan
CIS	Commonwealth of Independent States
CM	Cabinet of Ministers of the Republic of Uzbekistan
CSD	State Central Securities Depository of Uzbekistan
CSM	Center for Coordination and Development of Securities Market under the State Committee of the Republic of Uzbekistan for Privatization, Demonopolization And Development of Competition
GDP	Gross Domestic Product
SCPD	The State Committee of the Republic of Uzbekistan for Privatization, Demonopolization And Development of Competition
GOU	Government of Uzbekistan
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JSC	Joint-Stock Company
KASE	Kazakhstan Stock Exchange
M&A	Mergers and Acquisitions
MOEX	Moscow Exchange
MOF	Ministry of Finance of the Republic of Uzbekistan
NAUR	Securities Market Participants National Association
NPO	Non-Profit Organizations
OEP-1	Off-exchange provider LLC “Interbank trading system” ⁴
OEP-2	Off-exchange provider ES “Elsis-savdo” ⁵
RSE “Toshkent”	Republican Stock Exchange “Toshkent”
TSE	Tokyo Stock Exchange
TCI	RSE “Toshkent” Composite Index
KASE	Kazakhstan Stock Exchange
USA	United States of America
USD	United States Dollar
USSR	The Union of Soviet Socialist Republics
UZS	Uzbek SUM
WB	World Bank

⁴ Uzbekistan Banking Association, <http://uba.uz/en/companies/llc-interbank-trading-system.html>.

⁵ ES “EL SIS-SAVDO”, <http://www.elsavdo.uz/>.

CHAPTER 1. RESEARCH OBJECTIVES AND METHODOLOGY

This Chapter describes the research area of thesis. The thesis examines the reasons of existing legislative and practical problems in Uzbekistan's Securities Market with an aim of increasing the efficiency of its working. This research also attempts to study further development perspectives of Uzbekistan's Securities Market.

1.1. CONCISE DESCRIPTION OF UZBEKISTAN'S SECURITIES MARKET

In present time securities market's role in the economy of countries all over the world getting is acquiring greater importance. For example, the total market capitalization of listed companies of all publicly traded companies⁶ in the world was estimated at about USD 53.87 trillion by 31 December 2012.⁷ The total market capitalization of all listed companies as a percentage of GDP at the end of 2012 stood at 75,1%.⁸ In June of 2011 *The Economist* magazine informed that the over-the-counter (OTC) derivatives market amounted to approximately USD 700 trillion and the market size on exchanges amounted to an additional USD 83 trillion.⁹

Through providing companies with financing sources the securities market performs its primary functions. Also, in order to finance stable growth, especially in transitional economy conditions, attracting new funds is one of the most important and urgent targets for companies.

Economical renewing of Uzbekistan through diversification and modernization of its economy has been implemented throughout the years of independence based on various tools, such as more flexible tax policy, improvement of business environment, reforming of financial

⁶ Market value of publicly traded shares: value of shares issued by publicly traded companies at a price determined in the national stock markets on the final day of the period indicated. It is simply the latest price per share multiplied by the total number of outstanding shares, cumulated over all companies listed on the particular exchange.

⁷ The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html> (accessed: June 23, 2014).

⁸ The World Bank, <http://data.worldbank.org/topic/financial-sector> (accessed: June 23, 2014).

⁹ Clear and Present Danger; Centrally cleared derivatives.(clearing houses). <http://www.economist.com/node/21552217> (accessed: June 23, 2014).

(non-banking financial institutions also) and banking sectors. During the last years we can see a tendency in creating free economic areas, private and state partnerships. As we know that in present times the securities market became the most effective tool of the modernization of the economy. But in spite of this we cannot say that in Uzbekistan such potential of the securities market is applied in optimal ways. The stock market is the most “capable” attraction tool of investment funds.

The development of Uzbekistan’s stock market has depended on periods major growth sometimes of rapid decline. Sometimes we can see just internal changes. In this sense I suggest that the operation of Uzbekistan’s stock market is not so stable. At the same time Uzbek stock market is still modest compared to Kazakhstani, Ukrainian or Russian stock markets. The Uzbekistan corporate securities market capitalization, calculated from the face value of issued corporate securities (shares, corporate bonds) by Uzbek companies by 1 January 2014, and estimated at UZS 10.74 trillion¹⁰ (USD 4.88 billion) constituted only 9% of national GDP of 2013.

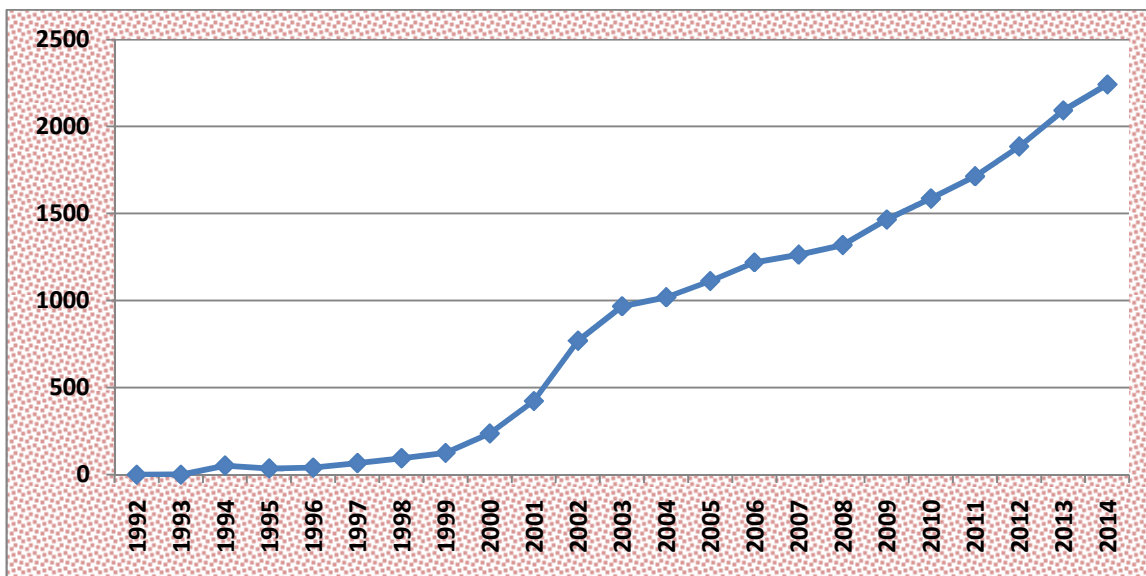


Figure 1-1 USD to UZS Exchange Rate
 Source: World Bank, Global Economic Monitor

While there have been financial resource injections to companies performing in a primary securities market, companies could not attract financial sources through the secondary market. But

¹⁰ See Figure 1-1

the secondary market has an important role in stocks liquidity. However, Uzbekistan's securities market's investment potential is considerably low. The primary corporate securities market's total turnover is estimated as 0.69% of the GDP. The share of primary corporate securities market turnover in the total volume of corporate securities market turnover amounted to 83%.

During the year of 2013, 171 issues of corporate shares were registered with the total face value of UZS 3.2 trillion (USD 1.46 billion).¹¹ If we compare this with Japan and the USA, market capitalization of listed companies (2012) in these countries stood respectively at 61.8% and 114.9% of GDP.¹²

1.2. OBJECTIVES AND SCOPE

The research targets the following objectives:

- to analyze and identify the existing problems and barriers which are hindering the development of Uzbekistan's securities market;
- to initiate recommendations for elaborating solutions to those problems in the securities market of Uzbekistan.

It is not a secret that the securities market of Uzbekistan has a wide range of potential due to its economic opportunities being an emerging market. Nevertheless, attracting investment through the securities market of Uzbekistan has never reached the 2% share in total investments to its economy. Where we cannot see the implementation of effective tools in economic modernization and diversification is the stock market.

This thesis's focus lies in targeting and conducting a study of the current situation and trends of Uzbekistan's securities market, through which I hope to analyze the reasons of the problems restraining the realization of its investment potential. The attraction of investments by new innovative technologies, instruments and mechanisms of the stock market will also be discussed.

¹¹ CSM, "Annual Report 2013."

¹² World Bank Data, <http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS/countries> (accessed: June 23, 2014).

The implementation of innovative approaches to the stock market has at all times been one of the main factors of development and consequently the economic growth. In this sense to solve the existing problems of formulating suitable investment climate and infrastructure, necessary internal and external factors contribute to the increase in efficiency of the stock market activity. In the case of Uzbekistan the country possesses a fully formed platform for the functioning of the stock market and the next step is to raise this market's activity to new levels. At the same time, the dynamics of macroeconomic indicators are displaying one-way improvement in the factors contributing to the "surplus" of capital, which is offering the activation of external and internal investment. In this regard the national stock market of Uzbekistan could become an efficient tool of investment resources mobilization in the modernization and diversification processes of the economy.

1.3. RESEARCH METHODOLOGY AND THE STRUCTURE OF THESIS

This research uses the following methodological approaches:

quantitative data analysis – securities market development and economic indicators, statistical data, annual reports of CSM;

qualitative data analysis – regulations and legislations in the securities market, corporate governance, liquidity and volatility of the securities market.

This kind of approach is targeted to analyze and identify existing problems which are hindering the further development of Uzbekistan's securities market. The studying of Uzbekistan securities market in regulative (CSM, MOF and MOE), legislative (laws, Presidential decrees and resolutions, GOU resolutions, other legislative acts) and operational (RSE "Toshkent", CSD, clearing houses "Elsis-Cliring", brokerage-firms, individual investors, shareholders, commercial banks, financial service companies, insurance companies) senses are the major elements of methodology.

Research publications of international organizations (WB, ADB and others), newspapers, periodic analytical papers, digests of periodicals and analytical approaches contribute to the *Secondary data reviews*.

The thesis starts with an overview of the Uzbekistan securities market regarding the research interest and questions. After this, I present the literature review and the results of analysis. The research part of the thesis is divided into four chapters. Chapter 1 gives general information about the securities market of Uzbekistan and discusses the importance of this research. Also it characterizes research objectives, scope and methodology of the study. Chapter 2 evaluates the history, the current situation, and peculiar trends of Uzbekistan's securities market. It also analyzes laws and regulations of the securities market, market infrastructure and financial tools of the stock market. Chapter 3 is directed to analyze existing and actual problems such as the complexity of regulation, state ownership and limitations for investors. Finally, Chapter 4 presents research conclusions and recommendations of the study which propose solutions for existing problems in efficient ways and for increasing the efficiency of Uzbekistan's stock market.

1.4. LITERATURE REVIEW

I base my selection of literature on innovative approaches in the securities market. To this research I was promoted by the GOU policy of the Republic of Uzbekistan in modernizing all aspects of the national economy. I found the relationships between the securities market development with all aspects of economy in different sources, while some of them are controversial and yet others present clear and significant correlations.

My empirical findings and the summary are based on the following studies:

- a) "The Concept of further deepening the democratic reforms and establishing the civil society in the country" presented by the President of Uzbekistan I.A. Karimov on November 12th 2010, at the joint session of Oliy Majlis' (Parliament) chambers,
- b) "Emerging Markets. Performance, Analysis and Innovations" by Greg N. Gregoriou (2010), and
- c) "Stock market development and long run growth" by Levine and Zervos (1996).

Talking about the necessity of developing institutions of JSC companies, President Karimov noted: "...we need to critically reassess, draft and adopt the new wording of the Law "On joint-stock

companies and protecting the rights of shareholders”.¹³ The law shall more clearly define the authorities, rights and responsibility of bodies of corporate management and internal control to raise the role and importance of supervisory boards, general meetings and audit commissions of the JSC companies, ensure greater guarantees to minority shareholders, expand all shareholders and potential investors access to information on the operations of the JSC companies”.¹⁴

The major target of this “Concept of further deepening the democratic reforms and establishing the civil society in the country” is drafting long-run strategies for the country’s modernization and development which will contribute further improvements to the democratic society, increasing the life conditions of Uzbekistan people and providing the country with a rightful place in the world community. For realizing the above Concept a special Resolution of the President was adopted on 14 January, 2011 #F-3557.¹⁵ “The Program of comprehensive measures to improve the legislation and implementation of measures aimed to improve radically the business environment and provide greater freedom of entrepreneurship, introduced in 2013-2014”, approved by Presidential Decree as of 18 July 2012 #PD-4455¹⁶ is also contributing to the improvement of business environment in national stock market of Uzbekistan.

After becoming independent in 1991 from the totalitarian, administrative-command and planning system of the Soviet Union, Uzbekistan chose its own independent development model known as "the Uzbek model". This model is based on the implementation of political, economic and social reforms in the long-run according to the following five major principles: the implementation of a strong social policy, priority of economics over politics, the government is the main reformer, guaranteeing the priority of law, and a step-by-step transition to market economy. As we can see from this model, Uzbekistan refused revolutionary ways of reforms such as the "shock therapy," and chose an evolutionary way of development.

¹³ The Law of the Republic Of Uzbekistan *"On joint-stock companies and protection of shareholders' rights"* (in new edition) as of 6 May, 2014 by #LRU-370. (Collection of Legislation of the Republic of Uzbekistan, 2014 y., #19, article #210). The law was adopted by the Legislative Chamber of Uzbekistan on 18 February, 2014, approved by the Senate of Uzbekistan on 4 April, 2014.

¹⁴ CSM, <http://csm.gov.uz/en/>.

¹⁵ National legislation database of the Republic of Uzbekistan, http://lex.uz/pages/getpage.aspx?lact_id=2229972.

¹⁶ Collection of Legislation of the Republic of Uzbekistan, 2011 y., #29, article #328.

High growth rates in Uzbekistan's economy, stability of financial and banking systems, successful restructuring processes of the economy and its modernization have found their recognition by the international community, as well as many authoritative international financial institutions such as the International Monetary Fund (IMF), the World Bank (WB), the Asian Development Bank (ADB) and others. Due to the processes of globalization and growing international competition, Uzbekistan must evaluate the realities of the present day and its role in the world economy today.

The latest market standards dictate the necessity of further deepening, improvement and liberalization of the economic management system. We need to increase the share of private sector and attract private investors' representatives to the most important sectors of the economy of Uzbekistan. It could contribute to further creating all necessary conditions for openness and publicity of privatization processes and increased private sector participation, through which we can create real chances for improvement the national financial and banking system.

Emerging Markets. Performance, Analysis and Innovations. Greg N. Gregoriou (2010). As Anastasia Petraki and Anna Zalewska noted: "...The path to become a developed market can be long and is not always straightforward. It is not just the regulation of the exchange or sophistication of its electronic trading system that matters but a broad range of factors that have roots in the economic and political system of a country in which the exchange operates".¹⁷

It is not a secret to anyone that emerging markets enjoyed rapid and dramatic growth at the beginning of 1990s. Large amounts of investment inflows from developed markets due to low positive correlation was the major reason for this progress. At the same time, in their long-run prospects emerging markets always rely on the developed countries economies. So, this book collected many exclusive topics which could shed light in explaining of these phenomena.

Several topics aim to provide an overview of stock market trends in some CIS (Russian, Ukrainian, Slovan and others) and other former Socialist countries. Through the study of those topics one can paint a clearer picture considering the efficiency of reforms in Uzbekistan's securities

¹⁷ Greg N. Gregoriou, (2010). "Growth prospects of New and Old Emerging Markets" (page #13), "Emerging Markets. Performance, Analysis and Innovations."

market. In the case of each country the implementation of innovative ideas to the capital market and further improvement of privatization processes became the most important success factors. This was especially true about the improvement of new market aspects (venture financing, derivatives and others) directly influencing market volatility and liquidity. As we can see, occurring structural reforms and modernization processes always strongly depend on the political will of each country.

At the same time, most of the suitable theories for developed markets cannot be conveniently applied to emerging markets. Emerging markets have different political, economic and social specifications. All of those differences are directly influencing the business and investment environments. Specific approaches are required for solving corporate governance, investment management and risk management issues. As we can see, there are many specific problems confronting to the development of emerging stock markets. The solving of these problems hindering development requires making more efforts for deeper integration into the global financial markets.

“Stock market development and long-run growth” by Levine and Zervos (1996). This article attempts a study of empirically strong relationship between the stock market long-term growth and its development. The importance of financial system reforms increases steadily in attracting investment sources through mobilizing all kinds of savings, liberalizing corporate governance and simplification of risk management.

The discussion of existing theoretical disagreements considering the significant role of the securities market in economic growth is the main focus of this article. For example, Mayer (1988) believed that stock markets are not an important sources for financing corporates activities. Stiglitz (1985) considered that the liquidity of stock market as quite insignificant in influencing corporate governance. Devereux and Smith (1994) believed that a huge risk of strongly integrated securities can decrease the saving rates and investment inflow efficiency which is slowing the growth of the economy. In some cases it was suggested that development of stock market is even able to hurt the stable growth in the economy. Thus theories do not always represent fully formed strategies, concepts or measures in securities market development, but they show that stock market development, securities market liquidity and deeper integration with the main world financial

markets could contribute to a country's economic growth.

At the same time this study has found a strong correlation in the long-term growth of economy and securities market development. Through controlling of GDP per capita, state fiscal policy, exchange rate, political situation and its influence on investment activity, monetary measures, investments into human capital, securities market development became more positive and correlating with the long-term growth of economy. These results consistently contradict some of the theories which predict negative relationships between economic growth and securities market development.

The differences among several theories could help demonstrate an empirical development of theories of the stock market. Because of its higher rates of risks and unpredictable operational results at first the stock market development was considered an impractical phenomena. Further theoretical suggestions in this direction challenged this initial view.

CHAPTER 2. UZBEKISTAN SECURITIES MARKET IN PRESENT DAYS

Chapter 2 attempts to analyse the major Uzbekistan securities market development results and indicators. In this chapter I will provide a brief introduction into the evolutionary history of Uzbekistan's stock market, in terms of market players and market instruments. This chapter also considers the following market indicators: regulation, institutional development, market volatility, market liquidity, market turnover and market conditions in relation to the case of Uzbekistan.

2.1. EVOLUTIONARY HISTORY

The history of Uzbekistan's securities market has its origins in a period long before when the country proclaimed its independence from the Soviet Union in 1991. In the history of Central Asian nations we can see abundant historical evidence that special juridical documents which were the prototype of modern securities were used in the region. I would like to notice that the evolution of such documents was the result of the establishment of centralized political systems, improvements in statehood and governance, conducting of early monetary reforms and development in trade relationships with neighbouring and faraway countries. Initially, such kind of documents exercised as secured papers on the property or noted simple debt obligations. Further, with the forming and improvement of "The Great Silk Road" such specific juridical documents as payment obligations (like modern promissory bill) became more deeply integrated into trade relationships between Asia and Europe. This is the period of early history in the development of the securities.

Nevertheless, securities emerged truly and fully for the first time with the introduction of first exchanges. In Central Asia while it was a part of Russian Tsarist Empire (as Turkistan General-Governorship) in circulation were shares, bonds, bills and government securities of several Italian, French, German, British, Russian and other European issuers. Even more than hundred years ago in Tashkent shares of "Tashkent tram depot" were issued for financing the construction of the first tram depot in Central Asia. As we can see in this period two types of securities markets existed: corporate securities market and government securities market.

During the Soviet period in Uzbekistan the securities market became part of socialist oriented and totally centralized planned economy. This period brought about cardinal changes to all aspects of economy. After nationalization of all sectors of economy and collectivization processes, the private sector was totally eliminated. The USSR economy was based just on two types of property (state and collective property). However, the securities market did not terminate its activity, But became exclusively government-controlled securities market with its specific characteristics which was were also targeted to social challenges.

Proclamation of Uzbekistan’s independence became the beginning of the latest period in Uzbekistan’s securities market evolution. Having gained independence Uzbekistan started to diversify the forms of property and entered the stage of transitional economy. Construction of Uzbekistan’s stock market started in 1991. In this year a securities section was established in the Republican Commodity Exchange. Later, in 1994 in accordance with The Decree of the President of the Republic of Uzbekistan of 15 March 1994 “On priority directions of further denationalization and privatization processes in the Republic of Uzbekistan,” RSE “*Toshkent*”¹⁸ was established.

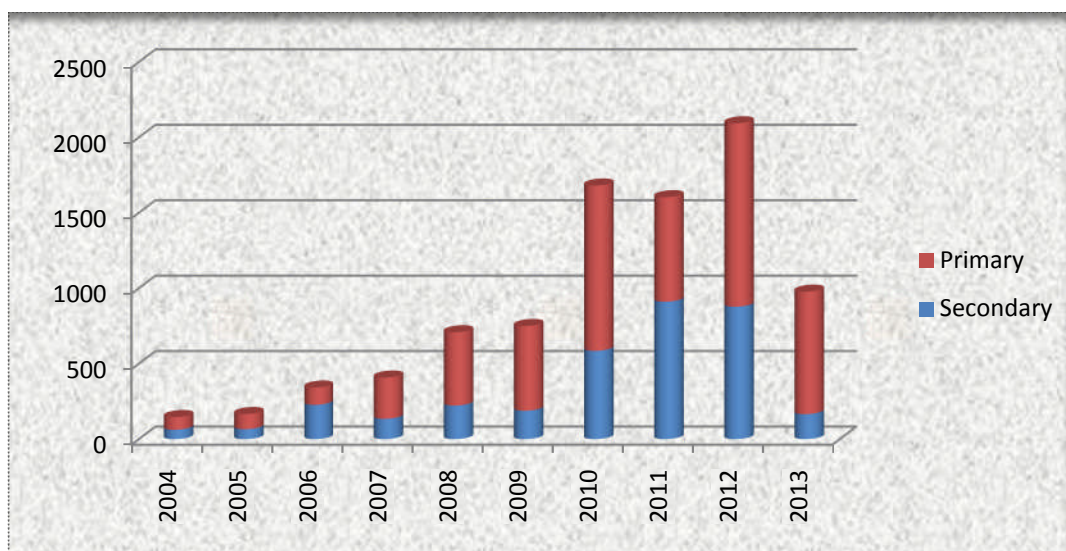


Figure 2-1 Corporate Securities Market Turnover (UZS billion)
Source: CSM

Figure 2.1 shows that the corporate securities market turnover was growing from 2004 till

¹⁸ The Bulletins of the Supreme Council of the Republic of Uzbekistan, 1994 y, #3, article #87.

2010 and average growth rate was around 45%. Especially in 2010 the corporate securities market turnover increased 2.2 times compared to 2009 and 11.5 times compared to 2004. In 2010 the corporate securities market turnover growth was impressive and we can see the first Uzbekistan corporate securities market boom. A huge expansion of the primary market (53.5% of market turnover) and a tremendous increase in the secondary market (3.1 times than in 2009) are the major reasons of this phenomenon. But in 2011 the corporate securities market turnover decreased to 4.6%. At the same time the secondary market increase amounted to 55.6% compared to 2010, which was estimated as 76% of market turnover. In 2012 the corporate securities market turnover again increased to 30.6%. This was also due to the considerable expansion in the primary market which increased to 75.6% (72.2% of market turnover). However, the real bubble boom started in 2013. The whole Uzbekistan corporate securities market turnover decreased to 53.3% (2.1 times) than in 2012. At once, the primary corporate securities market turnover decreased to 33.2%, while the secondary corporate securities market turnover decreased to 81.1% (5.3 times).

The extremely high positive and negative movements of Uzbekistan's corporate securities market turnover can be explained in just one way. At first, it is not a result of any extra ordinal changes in market conjuncture. Uzbekistan's corporate securities market does not react to changes in international economic situation due to its low volume. For example, the total turnover of Uzbekistan's corporate securities market turnover in 2009 amounted to just UZS 749.7 billion¹⁹ (USD 1.6 billion),²⁰ in 2010 UZS it was 1,681 billion²¹ (USD 1.03 billion), in 2011 UZS 1,603.5 billion²² (USD 0.89 billion), in 2012 UZS 2,093.5 billion²³ (USD 1.06 billion) and in 2013 UZS 977.4 billion²⁴ (USD 0.49 billion). As we can see in Figure 2-1 in the majority (except the years of 2006 and 2011) of primary markets there a huge expansion. Nevertheless, among them the secondary market is the main indicator of the securities market's activity efficiency.

¹⁹ CSM, "Annual Report 2009.

²⁰ See Appendix A: Currency Exchange Rate of Uzbek SUM (UZS).

²¹ CSM, "Annual Report 2010.

²² CSM, "Annual Report 2011.

²³ CSM, "Annual Report 2012.

²⁴ CSM, "Annual Report 2013.

Secondly, the high fluctuations of Uzbekistan corporate securities market in last years were influenced by the adoption of several President and GOU Decrees and Resolutions targeted to strengthen the regulations considering the requirements in minima's of authorized capital and countering the global financial crisis. For example, in accordance with the Decree of the President of the Republic of Uzbekistan as of 18 November 2008 "On measures on further improvement of financial stability of the real economy sector enterprises"²⁵, from the 1 January of 2009 all JSC companies need to keep minimum level of authorized capital not less than USD 400,000 which was much smaller. Regarding this regulation, a lot of JSC companies started to issue additional shares and to realize them among the investors which intensified the primary corporate securities market turnover. Several other JSC companies started to buy out their shares for reorganizing the company to other types of organizational and legal forms. Also, some M&A's and several JSC companies had ceased to exist which strongly influenced the secondary corporate securities market turnover.

For conducting comparative analysis of Uzbekistan's corporate securities market development I address the case of Kazakh stock Exchange (KASE). There are several reasons for it. Despite the fact that Uzbekistan and Kazakhstan's economies have several differences in the forming and development processes, their national securities markets started with the same conditions. In Kazakhstan we can see big flood of oil-dollars, huge expansion of rich natural and mineral sources, while in Uzbekistan the economy is targeted towards the industrial sector.

The Uzbekistan corporate securities market (shares and corporate bonds) capitalization²⁶ by 1 January 2013 was at UZS 3.4 trillion²⁷ (approximately USD 1.7 billion). Kazakhstan securities market capitalization was KZT 4,642.6 billion or USD 23.5 billion²⁸ (13.8 times bigger than in Uzbekistan). The securities market capitalization in Uzbekistan (shares and corporate bonds) and Kazakhstan to GDP in 2012 were 9.3% (with the biggest volume of corporate securities market turnover in Uzbekistan corporate securities market history) and 11.65% (50.6% or two times lower

²⁵ Collection of Legislation of the Republic of Uzbekistan, 2008 y., #47, article #461.

²⁶ The market capitalization ratio equals the value of listed shares divided by GDP.

²⁷ CSM, "Annual Report 2012" .

²⁸ Source: World Bank, http://www.theglobaleconomy.com/Kazakhstan/stock_market_capitalization_dollars/ .

than in 2011) respectively. Wherein, the turnover growth of Uzbekistan corporate securities market in 2012 was 30.6%²⁹ in the terms of UZS (in the terms of USD it was estimated as 19.1%) in comparison to 2011. Kazakhstan’s securities market turnover growth in 2012 was estimated as 3.33% rather than 2.09% in 2011. The Kazakhstan securities market steadily decreased after 2007 because of the influence of the global financial crisis. But Uzbekistan’s corporate securities market growth was extremely high during the global financial crisis.

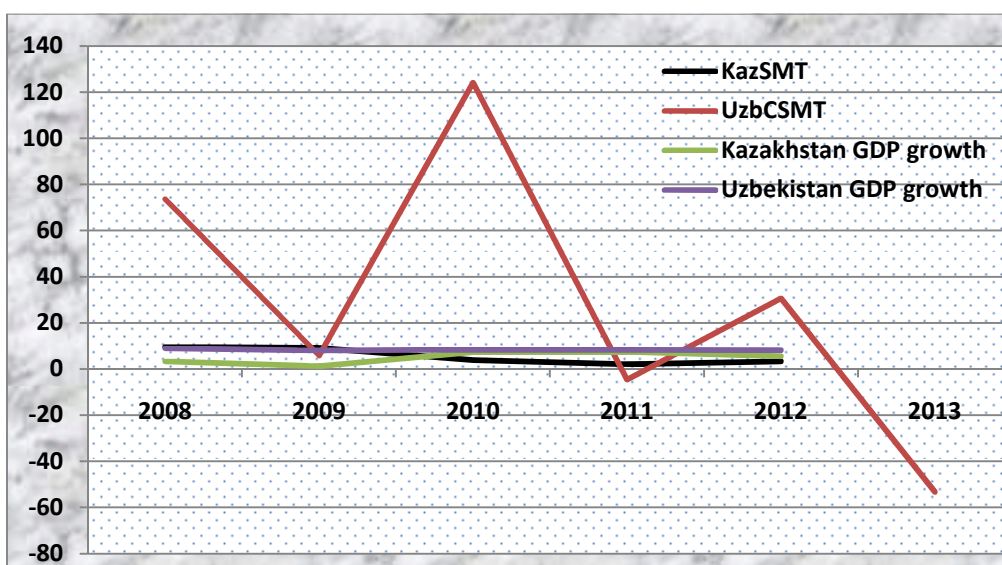


Figure 2-2 Relation between GDP growth and Securities Market Turnover growth
Source: World Bank, CSM, KASE.

The Figure 2-2 shows close relationships between Kazakhstan GDP growth and Kazakhstan securities market turnover growth rates. There are no extraordinary differences in fluctuation between them. We can see that Kazakhstan securities market reacted proportionally to GDP growth rates decrease during the global financial crisis and in 2012 the difference was quite predictable. KASE Index also reacted to this on time. KASE Index³⁰ decreased to more than 1200 points from the “Boom” period in July of 2008 to February 2009. This demonstrates interconnectedness between Kazakhstan securities market growth indicators with general macroeconomic indicators.

²⁹ See Figure 2-1.

³⁰ See Figure 2-3.

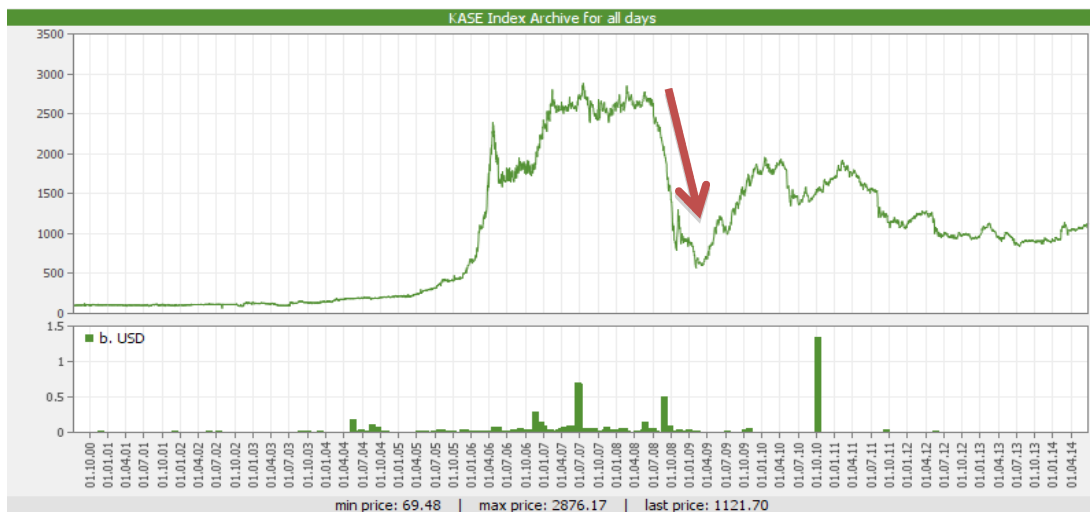


Figure 2-3 KASE Index³¹ rate
Source: KASE.

In the case of Uzbekistan, GDP growth was much more stable and higher than in Kazakhstan. But, Uzbekistan's corporate securities market growth rate fluctuations were unpredictable. They were extremely dangerous for the further perspectives of Uzbek stock market development. In the period of 2004-2008 Uzbekistan corporate securities market turnover growth demonstrated stable rates of growth.³² After 2008 Uzbekistan corporate securities market turnover growth rates started to change in unpredictable ways. Nevertheless, high rates of fluctuations in Uzbekistan's corporate securities market growth rates in no way influenced the macroeconomic indicators (GDP) of the country. At the same time, this phenomenon is not a result of any serious or significant changes in the macroeconomic indicators of the Republic of Uzbekistan. Especially dangerous seems the decrease of Uzbekistan's corporate securities market turnover in 2013 (53.3%). However, as a result of this there were no economically, financially or socially significant consequences. No one financial institution, commercial bank or JSC went bankrupt; in other words there was no relationship between them and they are moving independently from each other, also TCI Index³³ (TCI Index was established in accordance to the Decree of the President of the Republic of Uzbekistan as of 26 November 2010 "On priorities for further reforming and improving the stability of the

³¹ KASE, http://www.kase.kz/en/index_kase.

³² See Figure 2-1.

³³ See Figure 2-4.

financial-banking system in 2011-2015 and achieve international excellence RATINGS”³⁴) did not react to what was happening.

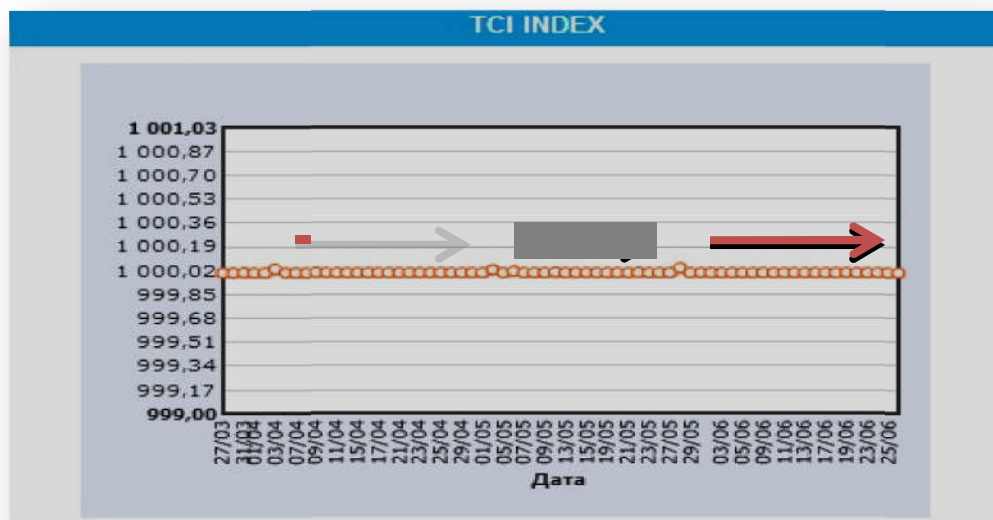


Figure 2-4 TCI Index³⁵ rate
Source: RSE “Toshkent”.

Figure 2-4 also presents the RSE “Toshkent’s” low rates of liquidity. In present time 128 listing public companies³⁶ (as about 10.4% of all JSC in Uzbekistan) and 1089 off-listing public companies³⁷ (as about 88.4% of all JSC in Uzbekistan) are listed in the RSE “Toshkent” and only 15 JSCs are not members of RSE “Toshkent”. There are 18 “A” category, 24 “B” category and 86 “C” category public companies. For example, in KASE today there are 130³⁸, in MOEX 723³⁹ and as of January 31, 2014 in TSE there are 3,416 listed companies.⁴⁰

For example, in May 2014 17 trade sessions were conducted in RSE “Toshkent”. During May of 2014 86 units of deals to 11 million units of 29 JSC corporate securities were conducted.

³⁴ Collection of Legislation of the Republic of Uzbekistan, 2010 y., #48, article #442.

³⁵ RSE “Toshkent”, http://www.uzse.uz/new/main/main_en.asp.

³⁶ RSE “Toshkent”, http://www.uzse.uz/new/listing/listing_companies.asp (accessed: June 26, 2014).

³⁷ RSE “Toshkent”, http://www.uzse.uz/new/listing/not_listing_companies.asp (accessed: June 26, 2014).

³⁸ KASE, <http://www.kase.kz/ru/emitters#section-2> (accessed: June 26, 2014).

³⁹ Moscow Exchange, <http://moex.com/n5177> (accessed: June 26, 2014).

⁴⁰ TSE, http://www.tse.or.jp/english/listing/breakdown/index_e.html (accessed: June 26, 2014).

Total volume of all 86 transactions was estimated as UZS 10.8 billion (approximately USD 4.703 million).⁴¹ Nevertheless, this is the highest volume of turnover in the last five years.⁴²

Table 2-1 The liquidity of RSE “Toshkent” on May 2014

Source: RSE “Toshkent”

Indicators	May 2013	May 2014	Changes (%)
The number of JSC, whose corporate securities was traded in RSE «Toshkent»	26	29	+11,5
The number of transactions (unit)	67	86	+28,4
The number of corporate securities (million units)	3,3	11,0	+233,3
Total volume of transactions (UZS billion)	2,8	10,8	+285,7

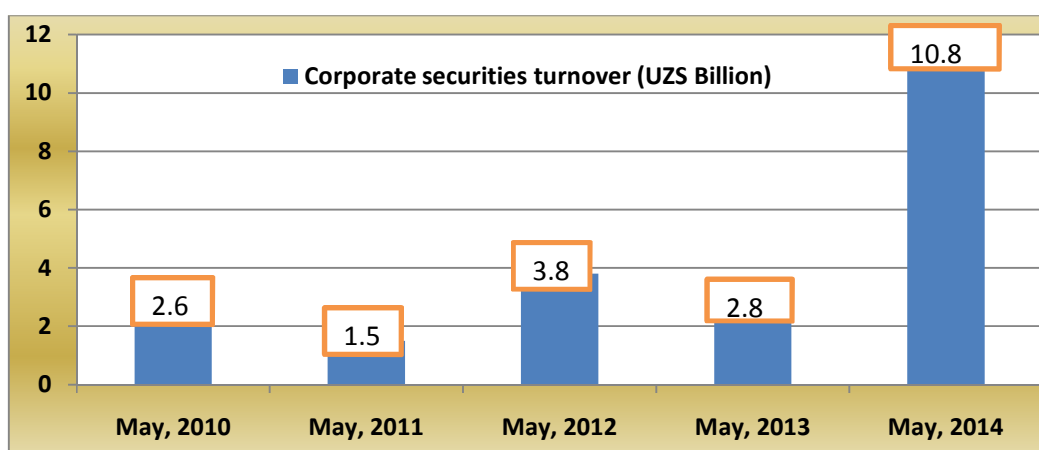


Figure 2-5 Corporate securities turnover in RSE “Toshkent” on May 2010-2014

Source: RSE “Toshkent”.

So, in May 2014 only 39 transactions were conducted with the corporate securities of listed public companies and the total volume of those transactions amounted to UZS 1.9 billion (approximately USD 0.827 million), 17 transactions with the corporate securities of off-listing public companies at the amount of UZS 3.1 billion (approximately USD 1.35 million) and one “REPO”

⁴¹ See Table 2-1.

⁴² See Figure 2-4.

transaction at the volume of UZS 10 million (approximately USD 4,355). The volume of capitalization in RSE “Toshkent” corporate securities market was estimated at UZS 70 million (approximately USD 30,482). Due to the above it is impossible to evaluate objectively the RSE “Toshkent’s” liquidity and volatility rates.

2.2. ANALYSIS OF SECURITIES MARKET INSTRUMENTS

According to the Law of the Republic of Uzbekistan “On the securities market” (as of 22 July, 2008 by #LRU-163) the Law applies to the following securities: shares, corporate and government bonds, certificates of deposit, derivative securities and promissory notes (9 types of securities).⁴³ Until now in Uzbekistan only the following types of securities were issued: shares, corporate bonds, government bonds, saving certificates, deposit certificates and promissory notes.

Promissory notes were issued and existed in public circulation until 1995. After 1995, due to huge manipulations in promissory notes markets, public circulation of these securities was limited. In present time this type of securities could be issued only by commercial banks and circulated also among them. Nevertheless, commercial banks also have not had significant requirements to promissory notes and there is no public information considering them.

Deposit certificates also have special issuing and circulation requirements and are issued exclusively by the Central Bank or the Ministry of Finance and circulated respectively among the commercial banks, insurance companies and special off-budget funds. Deposit certificates market is not a public market either. The saving certificates are used more effectively and only by commercial banks, but they are a registered type of securities and are non-public.

In accordance with the Resolution of the CM as of 5 March, 2014 “On measures of organizing the acceptance and maturity of Uzbek Republican 12 percent internal lottery obligations of 1992”⁴⁴ during 2014 the first government bonds issuance in the history of Uzbekistan, which was frozen by the Government of the Republic of Uzbekistan several years ago, is going to mature. It is hoped that this event could be the starting point of the rebirth for government bonds market of

⁴³ Collection of Legislation of the Republic of Uzbekistan, 2008 y., #29-30, article #278.

⁴⁴ Collection of Legislation of the Republic of Uzbekistan, 2014 y., #10, article #109.

Uzbekistan.

In the text of this thesis I am always using the term “corporate securities market” rather than the “securities market”. The reason for this is that in present time in Uzbekistan the public securities market consists totally of the corporate securities market. But this does not represent the whole of Uzbekistan’s securities market.

In Uzbekistan’s corporate securities market the overwhelming part of the turnover volume belongs to shares. Of course, shares are one of the main financial instruments in any securities market. According to the Law of the Republic of Uzbekistan “On securities market” (as of 22 July, 2008 by #LRU-163) shares are divided into common and preferred types. Common shares provide voting rights which are used in the decision making processes during corporative activity. Preferred types of shares rather than common shares do not provide voting rights, but they are targeted to receive fixed rates of dividends on a permanent basis.⁴⁵

Table 2-2 The Structure of Formal corporate securities market turnover (UZS million)
Source: CSM

		2009	2010	2011	2012	2013
Primary	Shares	18,458.60	20,351.10	65,785.10	59,297.90	22,933.40
	Corporate obligations	561.9	1.2	34,392.80	59,965.90	35,312.50
	Total	19,020.50	20,352.30	100,177.80	119,263.80	58,245.90
Secondary	Shares	73,446.00	44,827.00	78,171.20	52,181.80	36,677.50
	Corporate obligations	50	0	35,660.20	35,564.20	709.1
	Total	73,496.00	44,827.00	113,831.40	87,746.00	37,386.60
Total (shares market):		91,904.60	65,178.10	143,956.30	111,479.70	59,610.90
Total (securities market):		92,516.50	65,179.30	214,009.30	207,009.80	95,632.50

This table presents structural characteristics of Uzbekistan’s formal corporate securities market turnover. The Uzbekistan formal corporate securities market is represented by RSE “Toshkent”, OEP-1 and OEP-2. Average market value of corporate obligations during the last five

⁴⁵ See the Glossary.

years in Formal corporate securities market was 23.44% with a minimum of 0.002% in 2010 and a maximum of 46.15% in 2012. Average market value of shares during the last five years in Formal corporate securities market was 76.56% with a minimum of 53.85% in 2012 and a maximum of 99.998% in 2010. So, an average market value of corporate obligations in primary Formal corporate securities market was 29.64% with a minimum of 0.006% in 2010 and a maximum of 60.63% in 2013, and the average market value of shares was 70.36% with a minimum of 39.37% in 2013 and a maximum of 99.994% in 2010. An average market value of corporate obligations in secondary Formal corporate securities market was 14.76% with a minimum of 0.00% in 2010 and a maximum of 40.53% in 2012, average market value of shares was 85.24% with a minimum of 29.47% in 2012 and a maximum of 100% in 2010. Furthermore, in 2009-2011 primary market exceeded the secondary market.

Table 2-3 The Structure of Non-formal corporate securities market turnover (UZS million)
Source: CSM

		2009	2010	2011	2012	2013
Primary	Shares	541,872.50	909,579.50	568,976.50	1,089,107.80	725,931.40
	Corporate obligations	690	165,513.80	23,364.30	7,524.50	27,506.90
	Total	542,562.50	1,075,093.30	592,340.80	1,096,632.30	753,438.30
Secondary	Shares	114,347.60	502,547.50	788,019.30	786,807.60	124,875.10
	Corporate obligations	230	38,271.00	9,129.50	3,094.20	3,471.70
	Total	114,577.60	540,818.60	797,148.80	789,901.80	128,346.80
Total (shares market):		656,220.20	1,412,127.00	1,356,995.80	1,875,915.40	850,806.50
Total (securities market):		657,140.20	1,615,911.90	1,389,489.60	1,886,534.10	881,785.10

The Table 2-3 presents the structural characteristics of Uzbekistan's Non-formal corporate securities market turnover. As we can see from the table, average market value of corporate obligations during the last five years in Non-formal corporate securities market was 3.83% with a minimum of 0.14% in 2009 and a maximum of 12.61% in 2010. Average market value of shares during the last five years in Non-formal corporate securities market was 96.17% with a minimum of

87.39% in 2010 and a maximum of 99.86% in 2009. The Tables 2-1 and 2-2 show instability and unevenness in corporate bonds market trends.

So, the average market value of corporate obligations in secondary Non-formal corporate securities market was 4.76% with a minimum of 0.13% in 2009 and a maximum of 15.4% in 2010, average market value of shares was 95.24% with a minimum of 84.6% in 2010 and a maximum of 99.97% in 2009. The average market value of corporate obligations in secondary Non-formal corporate securities market was 2.3% with a minimum of 0.2% in 2009 and a maximum of 7.1% in 2010, average market value of shares was 97.7% with a minimum of 92.9% in 2010 and a maximum of 99.8% in 2009. Furthermore, the secondary market exceeded the primary market just in 2009 and 2011.

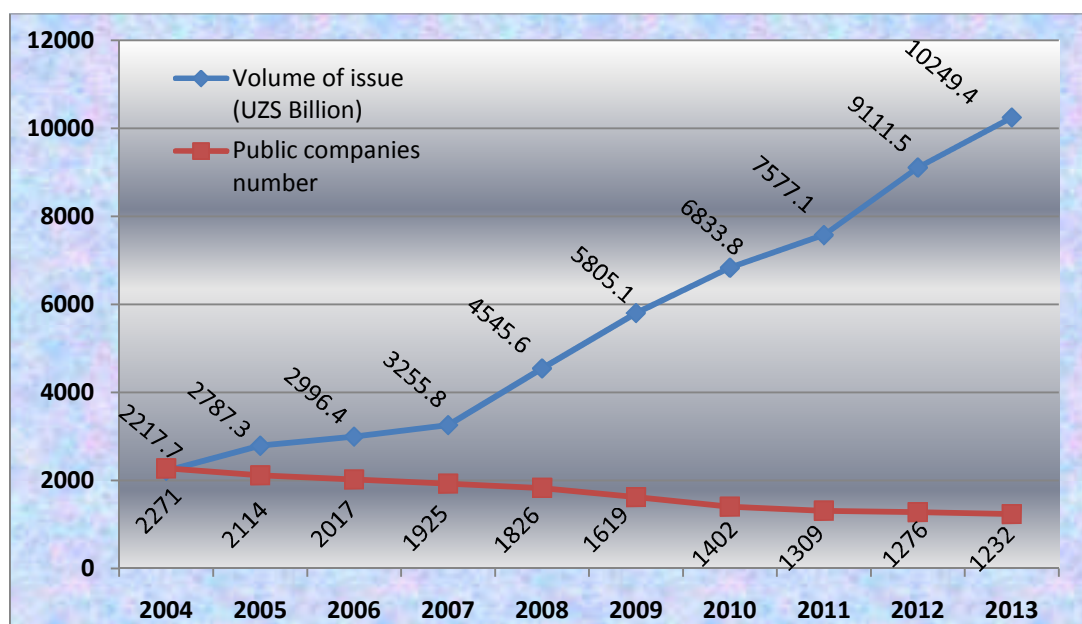


Figure 2-6 Correlation of JSC numbers to total volume of corporate securities issuance
Source: CSM.

Tables 2-2 and 2-3 shows that in majority cases primary markets exceeded the secondary markets. This is explained with the Correlation of JSC numbers to the total volume of corporate

securities issued.⁴⁶ During the last 10 years the total number of all JSC (all Uzbekistan public companies) declined from 2271 units to 1232 units (a decline of 1039 units, or 45.7%). But the total volume of all issued corporate securities by them in the last 10 years actually increased 4.6 times which definitely leads to the conclusion about the sufficiency in providing the corporate securities market with financial instruments. But the correlation between the total volume of all issuances, annual issuance and market turnover of corporate securities shows opposite results.⁴⁷

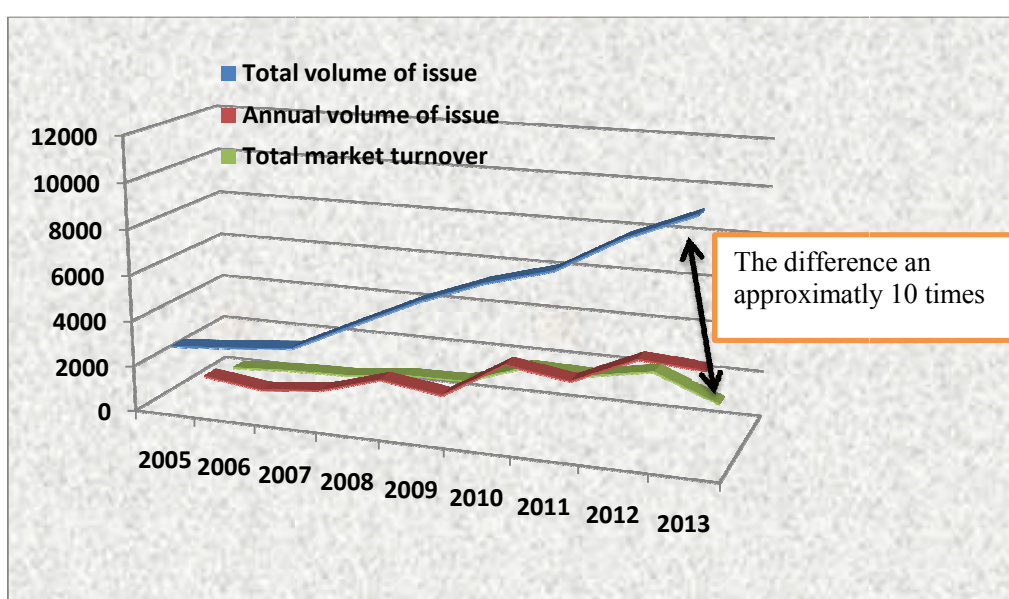


Figure 2-7 Correlation between the total volume of issuances, annual issuances and market turnover of corporate securities (UZS billion)
Source: CSM.

Figure 2-7 demonstrates the great amount of shares and corporate bonds savings volume in Uzbekistan corporate securities market. Despite the permanent enlargement of JSC just a small part of all issued corporate securities circulate in the securities market. Average ratio of the corporate securities market turnover volume in the last nine years to the total volume of all issued corporate securities was estimated as 15.19% and to the total volume of annually issued corporate securities it was estimated as 65.07%. In 2006 alone the total volume of corporate securities market turnover was

⁴⁶ See Figure 2-5.

⁴⁷ See Figure 2-6.

higher (to 24.46%) than the total volume of issued corporate securities during that year.

The difference between the total volume of corporate securities market turnover and annually issued corporate securities can be explained with the changes in the volume of corporate securities market turnover, periodical annulment and redemption of some shares and corporate bonds issuances. For example, in 2013, 84 issuances of corporate bonds were redeemed and 17 were annulated.⁴⁸

Such an incomparable difference between the total volume of all issued corporate securities and the total volume of corporate securities market turnover can be explained with the following major reasons. Firstly, despite the stably high increasing rates of total corporate securities issuances, the government is still remaining the main stakeholder of corporate securities. This fact limits the liquidity and volatility abilities of corporate securities market . Secondly, low income rates and circulation intensity of shares and corporate bonds did not stimulate investments into those financial instruments. Due to the unavailability of necessary information, I could not calculate the income rates of shares and corporate bonds. Dividends and other fixed incomes are the single sources of profit for shares and corporate bonds. At the same time, most of the shares and corporate bonds did not circulate for a long time. For example, in 2011 only 543 JSCs out of 1309 (or 41.5%) circulated their shares in the secondary corporate securities market, in 2012 only 538 JSC (42.2%) and in 2013 only 519 JSC (42.1%) did so.⁴⁹ Thirdly, problems in receiving the dividends by investors decrease the investors' trust in them. *“...In 2013, CSM reviewed 248 applications and complaints from securities market participants. The majority of received letters related to the payment of accrued dividends by JSC companies. Also, during the on-site inspections more than 80 cases of non-payment of dividends to shareholders were revealed. To protect the rights and legitimate interests of investors and the state, 62 issuers were given orders to eliminate violations while 52 violations on materials were submitted to the court. It is notable that the amount of collected unpaid dividends to the shareholders due to measures taken by CSM on received applications and complaints exceeds 2.5*

⁴⁸ CSM, “Annual Report 2013”.

⁴⁹ CSM, “Annual Report 2011”, “Annual Report 2012”, “Annual Report 2013”.

*bln soums. Compared with 2012 the figure rose by 31%... ”.*⁵⁰ Fourthly, an unsaturated nature of the corporate securities market in information. The importance of providing the transparency of the activities of the corporate securities market regulators, players and investors is one of the major problems in Uzbekistan’s corporate securities market.

2.3. ANALYSIS OF SECURITIES MARKET PARTICIPANTS’ STRUCTURE

All participants of Uzbekistan’s corporate securities market can be divided into several types regarding their regulative, institutional and functional characteristics.

In accordance with the Law of the Republic of Uzbekistan “On Securities Market” (as of 22 July, 2008 by #LRU-163) major functions and challenges of regulators in the securities market are identified. CSM, MOF, CB and SCPD are the major regulators in Uzbekistan securities market. All of those regulators due to their competencies and in accordance with the legislation of the Republic of Uzbekistan on the securities market are authorized to ensure the fulfilment of the state policy in the securities market of Uzbekistan.

In the institutional sense commercial banks and insurance companies, investment funds (financial institution) and non-financial institutions are the main institutional market players of Uzbekistan’s corporate securities market.

In accordance with the laws of the Republic of Uzbekistan “On banks and banking activity”⁵¹ (as of 25 April, 1996 by #LRU-216-I), “On securities market” (as of 22 July, 2008 by #LRU-163) and “On insurance activity”⁵² (as of 5 April, 2002 by #LRU-358-II) commercial banks (brokerage and investment advisor professional activities) and insurance companies (professional activity of investment advisors) are able to provide professional activity in the corporate securities market without receiving the license from the regulative state authorized body of the Republic of Uzbekistan. At the same time all of commercial banks and insurance companies must be JSC.

⁵⁰ CSM, “Investors received 2.5 bln soums of dividends in 2013”, <http://csm.gov.uz/en/novosti-3/39-ob-yavleniya/331-investors-received-2-5-bln-soums-of-dividends-in-2013> (accessed: June 26, 2014).

⁵¹ The Bulletins of Oliy Majlis of the Republic of Uzbekistan, 1996 y., #5-6, article #54.

⁵² The Bulletins of Oliy Majlis of the Republic of Uzbekistan, 2002 y., #4-5, article #68.

Table 2-4 Corporate securities market turnover correlation to GDP (UZS trillion)

Source: CSM

№	Period	Commercial banks	Non-banking companies	GDP (trillion UZS)	Indicator (commercial banks)	Indicator (non-banking companies)
1	2008	0.37	0,34	36,8	1.01%	0,92%
2	2009	0.55	0,2	48,1	1.14%	0.42%
3	2010	0.74	0,94	61,8	1.2%	1,52%
4	2011	0.38	1,22	77,7	0.49%	1,57%
5	2012	0.41	1,69	97,6	0.42%	1,73%
6	2013	0.59	0,39	117,8	0.5%	0,33%

Table 2-4 presents the correlation between Uzbekistan corporate securities market turnover and GDP in two major categories (proportions of commercial banks and non-banking JSC corporate securities in total volume of corporate securities market turnover). From this Table we can see the superior volume of commercial banks' corporate securities share in the total volume of Uzbekistan's corporate securities market turnover. In 2008, 2009 and 2013 corresponding indicators of commercial banks supervised non-banking JSC indicator. But in 2010-2012 non-banking JSC indicators were higher than appropriate indicators of commercial banks. This is of course a result of the adoption by the President and CM of the Republic of Uzbekistan of several Decrees and Resolutions targeting the enlargement and financial enforcement of public companies after which non-banking JSCs became more active in the corporate securities market.

The participation of insurance companies or their corporate securities are still insignificant. In Uzbekistan's corporate securities market still the practice of insuring corporate securities or transactions with them is not applied. This contribute to the increase of already high rates of investment risks and makes it impossible to manage those risks.

Figure 2-8 presents the low volume of Formal market share in total volume of the corporate securities market, and a considerable expansion of the Non-formal market. The average market share of Formal corporate securities market turnover volume (consists from the total corporate securities market turnover volume of RSE "Toshkent", OEP-1 and OEP-2) in total volume of whole corporate securities market in last five years was estimated at 9.84%, with the minimum of 3.9% in 2010 and maximum of 12.3% in 2009. At the same time, an average market share of RSE "Toshkent" total

corporate securities market turnover volume in total volume of Formal corporate securities market was estimated at 89.9%, with the minimum of 75.7% in 2011 and maximum of 98.8% in 2010.

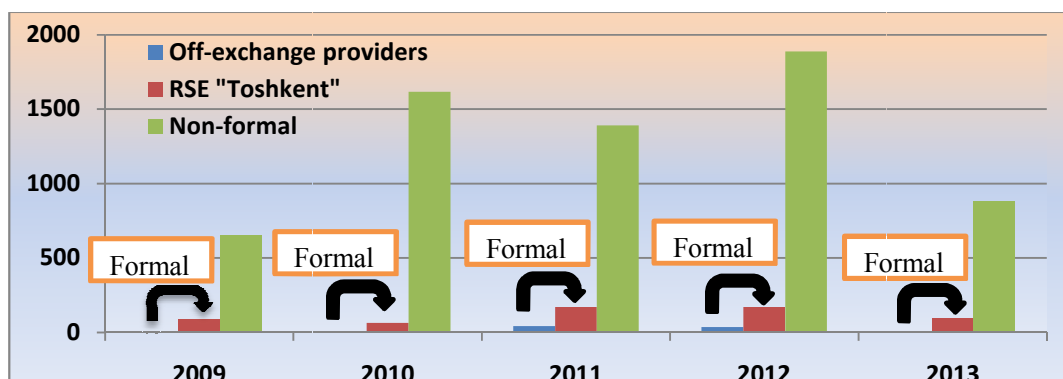


Figure 2-8 The Structure of Corporate Securities Market Turnover (UZS billion)
Source: CSM

So, in 2013 the total Non-formal corporate securities market turnover volume was estimated at UZS 881.8 billion (approximately USD 400 million). The total Formal corporate securities market turnover volume was estimated as UZS 95.6 billion (approximately USD 43.4 million). Though, the total corporate securities turnover volume of RSE “Toshkent” was estimated at UZS 93.2 billion (approximately USD 42.3 million), while the total corporate securities turnover volume of OEP-1 and OEP-2 was estimated at UZS 2.4 billion (approximately USD 1.1 million).

Table 2-5 Licensing the professional activity in Uzbekistan securities market
Source: CSM

Professional activity	Received licenses			Licenses (in active)
	2011	2012	2013	
Brokerage	7	7	4	41
Investment advisor	9	7	6	31
Investment fund				9
Depository	1			31
Trustees of investments	3	3	4	28
Off-exchange provider				2
Clearing-settlement				2
Total:	19	17	14	154

The changes in the amounts of received licenses to professional activity in Uzbekistan's corporate securities market do not necessarily correspond to the growth of professional participant numbers. So, in accordance with the Order the CEO of CSM as of 5 February, 2009 #1895,⁵³ professional participants are able to combine several types of professional activities. Nevertheless, due to the low volume of Uzbekistan's corporate securities market major indicators, existing administrative and financial troubles in professional participants activity, and despite the simplified training and certification system of securities market specialists,⁵⁴ they do not always succeed in employing qualified specialists on the securities market.

In Uzbekistan corporate securities market the role of "*Individual investors*" is not significant either. For example, the total volume of transactions in secondary corporate securities market with participation of individual investors in 2013 amounted to UZS 35.2 billion (approximately USD 16 million) which is an increase of 6.3% compared to 2012. From the total transactions volume in 2013 which both parts were individual investors was just UZS 10.9 billion (approximately USD 5 million).⁵⁵

All transactions in Non-formal market are registered by CSD and other depositaries through "Depo" accounts of deponents. In Uzbekistan's corporate securities market the practice of two level depositaries (CSD and other second level depositaries) exists, which is one of the professional activity types and is licensed by CSM.⁵⁶ In Uzbekistan's corporate securities market there is only on NPO operating (Non-governmental and Non-profit organization) — NAUR.⁵⁷

⁵³ Collection of Legislation of the Republic of Uzbekistan, 2009 y., #6, article #61.

⁵⁴ Collection of Legislation of the Republic of Uzbekistan, 2012 y., #25, article #276.

⁵⁵ CSM, "Annual Report 2013".

⁵⁶ CSD, <http://www.deponet.uz/>.

⁵⁷ NAUR, <http://naur.uz/about.htm>.

CHAPTER 3. EXISTING PROBLEMS AND FURTHER DEVELOPMENT PERSPECTIVES OF THE SECURITIES MARKET

During the study of the recent state of Uzbekistan's securities market I could identify the following three major bases of existing problems: in state policy, legislation and investment climate senses. Also, this chapter will discuss further perspectives for the development of Uzbekistan's securities market.

3.1. IMPROVEMENT OF STATE POLICY

Analyzing the securities market participants' activities in Chapter 2 presented the complexity of the regulatory system in Uzbekistan's securities market. The regulatory functions of the securities market are divided among several state authorized bodies: government securities market and corporate securities market. At the same time, CSM is the state authorized body in corporate securities market regulation which is under the general guidance of SCPD. SCPD also regulates Uzbekistan's securities market in accordance with the legislation of Uzbekistan on antimonopoly and through licensing exchange activities. However, SCPD is also a major market player in Uzbekistan's securities market. SCPD is the state authorized body of the state property management. Also, a major part of all issued corporate securities in Uzbekistan directly or indirectly belong to GOU and are managed by SCPD. So corporate securities market regulator (CSM) is supervised by the main investor in Uzbekistan's securities market (SCPD).⁵⁸ RSE "Toshkent" and CSD are also under the supervision of SCPD. In this situation conflicts of interests are unavoidable between CSM and SCPD.

In accordance with the Law of the Republic of Uzbekistan "On securities markets" (as of 22 July, 2008 by #LRU-163) MOF and CB are also able to issue government securities. The issuance of government securities is provided in accordance with the instructions and on behalf of the GOU. Nevertheless, MOF and CB being the main players in government securities market of Uzbekistan,

⁵⁸ See Figure 3-1

they also actively interfere in Uzbekistan’s corporate securities market regulation processes.

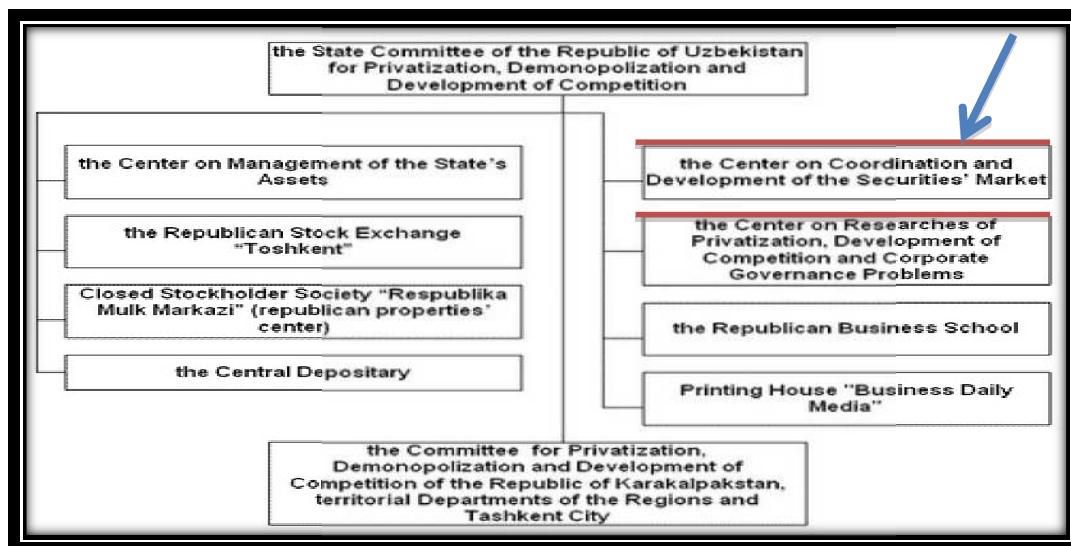


Figure 3-1 Organizational Structure of SCPD

Source: SCPD

Despite the fact that CSM has been a member of IOSCO during the last fifteen years, CSM still has the status of Ordinary member of IOSCO.⁵⁹ Furthermore, CSM is not able to represent the whole of Uzbekistan’s securities market in IOSCO, because its credentials are limited to the corporate securities market of Uzbekistan.

The Uzbekistan corporate securities market in its initial stages of forming was targeted to contribute privatization processes after Uzbekistan gained independence in 1991. However, as we can see from the above data, Uzbekistan’s corporate securities market still could not get out from those initial frameworks. In the initial stages state policy in corporate securities market was formed due to state privatization programs.

The absence of a unified securities market regulator and of strategic approach are the main reasons why Uzbekistan’s securities market is not able to perform its own functional challenges in theory or practice. Nowadays the development of Uzbekistan securities market needs strategic and long-run approach on the governmental policy level.

⁵⁹ IOSCO, http://www.iosco.org/lists/display_members.cfm?alpha=u&orderBy=jurSortName&memid=1 .

3.2. IMPROVEMENT OF LEGISLATION

In accordance with the Law of the Republic of Uzbekistan “On Normative and Legal Acts” (as of 24 December, 2012 by #LRU-342),⁶⁰ the Legislation of the Republic of Uzbekistan considering the securities market consists of Laws and by-law acts which are the general normative acts.⁶¹ The laws can also be divided into three types: the Constitution, Codes and Laws of the Republic of Uzbekistan.

Uzbekistan’s securities market general legislative principles are presented in the Constitution and the Civil Code of the Republic of Uzbekistan. With that, there are three major laws of the Republic of Uzbekistan regarding the national securities market: the Law of the Republic of Uzbekistan “On Securities Market” (as of 22 July, 2008 by #LRU-163), the Law of the Republic of Uzbekistan “On Joint-Stock Companies and protection of shareholders' rights” (in new edition) (as of 22 July, 2008 by #LRU-163)⁶² and the Law of the Republic of Uzbekistan “On Exchanges and Exchanges Activity” (as of 29 August, 2001 by #LRU-260-II)⁶³.

By-law acts are also divided into Presidential Decrees and Resolutions, the Resolutions of the Cabinet of Ministers and CEO Orders of CSM. There are more than one hundred units of active by-law acts in Uzbekistan’s corporate securities market (except changes and additions) which directly or non-directly regulate, control and coordinating the relationships in Uzbekistan’s corporate securities market. As we can see, some of the legislative acts, especially Laws of the Republic of Uzbekistan are applicable to the whole of Uzbekistan’s securities (government securities and corporate securities) market. However, by-law acts are applicable to just one of them. I think that from this point it is one of the reasons why principal differences, disputes and controversies arise among the legislative acts regarding the national securities market.

Presence of a huge number of legislative acts, despite the low volumes and poor major indicators of Uzbekistan’s corporate securities market is furthermore complicated by the regulation,

⁶⁰ Collection of Legislation of the Republic of Uzbekistan, 2012 y., #52, article #583.

⁶¹ Source: National legislation database of the Republic of Uzbekistan, <http://lex.uz/>.

⁶² Collection of Legislation of the Republic of Uzbekistan, 2014 y., #19, article #210.

⁶³ The Bulletins of Oliy Majlis of the Republic of Uzbekistan, 2001 y., #9-10, article #171.

controlling and coordination processes. The increase in the numbers of differences, disputes and controversies among the legislative acts regarding the national securities market is directly proportional to the number of legislative acts in Uzbekistan's corporate securities market. Bearing in mind also the intensity of changes and additions to those legislative acts it can explain the instability, absence of strategic and long-run approach in legislation of Uzbekistan corporate securities market.

But gradual improvements in legislation regarding corporate securities market of Uzbekistan are happening nowadays. However, there is a need for further conceptual approaches to legislation improvement processes. More attention must be paid to the quality of the legislative acts rather than their quantity.

3.3. IMPROVEMENT OF INVESTMENT CLIMATE

Improvement in the internal investment climate in Uzbekistan corporate securities market could contribute to further and rapid flourishing of the national stock market. As we can see, Uzbekistan's corporate securities market has a limited scope of activity. Only two types of financial instruments (shares and corporate bonds) are practiced in the market. I could not see any motivations for active participation of institutional and individual investors in Uzbekistan's corporate securities market. Nowadays it was complicated regulations, control, legislation and coordinating systems are in place. According to the legislation of Uzbekistan, a significant number of guarantees are given to investors for investments and investment activity, but practically this is not always comparable with the realities. Absence of improved infrastructure negatively affects the efficiency of risk management in Uzbekistan's corporate securities market. Poor information environment and low levels of regulators, JSC and market participants's activities transparency rates, absence of effective monitoring and analyzing technologies, huge expansion of government ownership, immobility of transactions with corporate securities (in majority, the registration processes of all kinds of transactions with corporate securities still providing by papers rather than by digital way) and shortage of high qualified specialists on securities market decreasing the quality and efficiency of internal investment climate which requires conceptual solutions of those problems.

CHAPTER 4. CONCLUSION AND RECOMMENDATIONS

Chapter 4 includes conclusions and recommendations, which are based on the problems discussed in Chapters 1, 2 and 3. In this Chapter I will be summarize and classify all existing problems in Uzbekistan's securities market. Chapter 4 also presents recommendations on solving the existing problems which are hindering the further development of national securities market.

4.1. CONCLUSION

Before coming to Waseda University I worked for the CSM and I decided for myself that during my studies at Waseda Business School I would investigate possibilities of implementing the Derivative securities to Uzbekistan's stock market through creating the necessary conditions for their issuance, placement and circulation. Nevertheless, during the study period I gained new knowledge of a wide scope of refutations regarding the implementation of derivatives to Uzbekistan's national securities market. After which, following the recommendations of my supervisor (Prof. HIBARA, Nobuhiko) I started to research the current situation and conditions in Uzbekistan's securities market.

During the writing of this thesis the main research objectives were: to identify major problems which are hindering the further development of Uzbekistan's securities market; and to seek solutions to these problems. After finishing my study of Uzbekistan securities market I decided that Uzbekistan's stock market has not played a significant role in the modernization processes of national economy. This is because Uzbekistan's securities market does not perform its major functional challenges. Major problems that are hindering to further development of Uzbekistan securities market are as follows:

- 1) complexity and inefficiency of regulation,
- 2) absence of equal regulator,
- 3) huge expansion in legislation,
- 4) poverty of financial instruments,

- 5) low level of securities supply to the securities market,
- 6) huge state-ownership of JSC,
- 7) absence of motivating factors for investment and investment activity,
- 8) underdeveloped market infrastructure,
- 9) underdeveloped information environment,
- 10) inactive participation of institutional and individual investors,
- 11) shortage of qualified specialists in the sphere of securities markets,
- 12) absence of efficient risk management and investment protection systems,
- 13) instability and groundlessness of major market indicators,
- 14) absence of market mechanisms, and others.

Regarding the above problems and study results I am even wondered that do we have the securities market or not. Due to this fact, I think that at first we need to decide for ourselves “Do we need a developed securities market?”. If we do not see any reasons or necessity to have a developed securities market, then we can eliminate huge regulation and expansion of legislation. In this case, national securities market of Uzbekistan could operate as one of the market segments and trading sections of other organized trading systems, for example, as an integral part of Uzbekistan’s Republican Commodity Exchange as it was until 1994. But, on current trends of modernization and diversification of Uzbekistan economy, economic potential and economic opportunities of the Republic of Uzbekistan we must improve national stock market which could respond to these realities.

4.2. RECOMMENDATIONS

According to the results of this research, it is possible to formulate the following recommendations:

- a) to carry out a comprehensive and thorough exploration of current GOU policy on Uzbekistan’s securities market with a particular emphasis on its efficiency evaluation,
- b) based on the results of these explorations to initiate the drafting of equal and long-run

state strategy on further developing Uzbekistan's securities market,

c) take adequate measures necessary for the implementation of this strategy.

All recommendations are the part of the systematic work on the development of Uzbekistan's securities market. Realizing of those recommendations needs a special legislative act which must include the solutions of existing problems in Uzbekistan's securities market. Not Uzbekistan government securities market and nor corporate securities markets playing any roles in current tendencies of diversification and modernization of Uzbekistan national economy. The securities market of Uzbekistan just does not adapted to perform such kind of challenges. Uzbekistan's securities market, especially corporate securities market still using as redistribution tool of any tangible assets or perform of special instructions and tusks from the GOU. The securities market of Uzbekistan is almost completely loose its independency. Nowadays, Uzbekistan's securities market can't operating without huge internal influences of GOU. In this regard, at first we need to modernize whole securities market which is the main challenge of recommendations.

I am sure that current modernization processes of Uzbekistan economy could to be really optimal moment for promoting equal and long-run government strategy on Uzbekistan's securities market further development. This strategy must to consist from the following three major parts.

1. Improvement of regulation through the implementation of efficient mechanisms which are able to increase productivity and decrease huge expansion of securities market regulation.

2. Improvement of legislation on the securities market through the unification and optimization of legislative acts which could to contribute decrease the quantities of legislative acts and improve theirs qualities.

3. Increasing operational efficiency of Uzbekistan's securities market through the improvement of internal investment climate which further could to contribute to provide wide range and scope of the securities market activity, in other words we need to take out the national stock market from the limited and enclosed spaces, after which we can integrate to international securities markets and getting more global activity.

REFERENCES

- [1] Atje, R., Jovanovic B. (1993). "Stock Markets and Development." *European Economic Review*, Vol. 37: 632-640.
- [2] Alec Nove (1969). "An Economic History of the USSR." "The Khrushchev era".
- [3] Central Intelligence Agency, web site, (2013) *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html> (accessed: June 23, 2014).
- [4] Center for Coordination and Development of Securities Market under the State Committee of the Republic of Uzbekistan for Privatization, Demonopolization And Development of Competition, "Annual Reports 2004-2013".
- [5] Center for Coordination and Development of Securities Market under the State Committee of the Republic of Uzbekistan for Privatization, Demonopolization And Development of Competition web site, (2014). <http://csm.gov.uz/en/> .
- [6] Center for Coordination and Development of Securities Market under the State Committee of the Republic of Uzbekistan for Privatization, Demonopolization And Development of Competition, web site. "Investors Received 2.5 bln Soums of Dividends In 2013".
- [7] Fred V. Carstensen (1983). "Foreign Participation in Russian Economic Life: Notes on British Enterprise, 1865-1914".
- [8] Greg N. Gregoriou (2009). "Emerging Markets: Performance, Analysis and Innovations".
- [9] I.A. Karimov (2010). "The Concept of further deepening the democratic reforms and establishing the civil society in the country", President's speech at the joint session of Oliy Majlis' (Parliament) chambers.
- [10] Levine, R., Zervos, S. (1996). "Stock Market Development and Long Run Growth".
- [11] National legislation database of the Republic of Uzbekistan, (2014). <http://lex.uz/> .
- [12] Shavkat Mamatov, (2010). "“TCI Composite” индекси — фонд бозорини баҳолашнинг қулай тизими".
- [13] *The Economist*, (2012). "Centrally cleared derivatives Clear and present danger".
- [14] Uzbekistan Banking Association, web site. "LLC "Interbank Trading System"", <http://uba.uz/en/companies/llc-interbank-trading-system.html> .