



PRIVATIZATION OF STATE-OWNED ENTERPRISES IN UZBEKISTAN: CHALLENGES AND OPPORTUNITIES THROUGH IPO/SPO MECHANISMS

Doctor of Business Administration, assoc. prof. **Sung Tae Kyun**

Tashkent State University of Economics

ORCID: 0009 00008 2611 5099

narita005@hanmail.net

Abstract. This study explores the privatization of state-owned enterprises (SOEs) through Initial Public Offerings (IPO) and Secondary Public Offerings (SPO), with a focus on Uzbekistan's evolving capital market. Drawing on international experiences from countries such as Korea, China, India, and Turkey, the research highlights how SOE listings can enhance corporate governance, attract foreign investment, increase transparency, and stimulate overall economic development. The article analyzes Uzbekistan's current market environment, including government-led reforms, investor base limitations, weak listing infrastructure, and challenges in disclosure and corporate governance. While recent initiatives demonstrate a strong governmental push for IPOs of major SOEs, the study identifies systemic barriers such as insufficient institutional investors, underdeveloped underwriting practices, and a lack of market awareness among retail investors. The paper concludes with actionable recommendations, including phased IPO implementations, capacity building for investment banks, strengthening disclosure practices, and fostering public interest in equity investment. The findings aim to support Uzbekistan's strategic transition from a state-led to a market-oriented economy through sustainable and well-managed privatization programs.

Keywords: state-owned enterprises (SOEs), privatization, initial public offering (IPO), secondary public offering (SPO), capital market development, corporate governance, Uzbekistan economy, stock exchange reform, foreign investment, retail investors, public sector reform, transparency and disclosure, market infrastructure.

O'ZBEKISTON DAVLAT KORXONALARINI XUSUSIYLASHTIRISH: IPO/SPO MEXANIZMLARI ORQALI IMKONIYATLAR VA MUAMMOLAR

Biznes boshqaruvi doktori, dots. **Sung Tae Kyun**

Toshkent davlat iqtisodiyot universiteti

Annotatsiya. Mazkur tadqiqot davlat korxonalarini (SOEs) boshlang'ich ommaviy takliflar (IPO) va ikkilamchi ommaviy takliflar (SPO) orqali xususiylashtirish masalasini, ayniqsa, O'zbekistonning rivojlanayotgan kapital bozori doirasida o'rganadi. Koreya, Xitoy, Hindiston va Turkiya kabi davlatlarning tajribasiga tayanilgan holda, ushbu maqola davlat korxonalarining fond bozoriga chiqarilishi orqali korporativ boshqaruvni takomillashtirish, xorijiy investitsiyalarni jalb qilish, oshkoralikni ta'minlash va iqtisodiy o'sishni rag'batlantirish imkoniyatlarini ko'rsatadi. Maqolada O'zbekistonda olib borilayotgan islohotlar, investorlar bazasining zaifligi, listing infratuzilmasining yetarli emasligi, hamda oshkoralik va korporativ boshqaruvdagi muammolar tahlil qilinadi. Hukumat tomonidan yirik SOE'larning IPO orqali xususiylashtirilishi bo'yicha jiddiy tashabbuslar kuzatilayotgan bo'lsa-da, institut sarmoyadorlarning

kamligi, underwriterlar faoliyatining zaifligi va aholining fond bozori haqida yetarli bilimga ega emasligi kabi tizimli to'siqlar mavjud. Tadqiqot bosqichma-bosqich IPO joriy etish, investitsion banklar salohiyatini oshirish, oshkoralik tizimini kuchaytirish va aholining aksiyalarga bo'lgan qiziqishini rag'batlantirish bo'yicha takliflarni ilgari suradi. Ushbu xulosalar O'zbekistonning davlatga asoslangan iqtisodiyotdan bozor mexanizmlariga asoslangan tizimga o'tishida muhim ahamiyatga ega bo'ladi.

Kalit so'zlar: davlat korxonalari (SOEs), xususiylashtirish, boshlang'ich ommaviy taklif (IPO), ikkilamchi ommaviy taklif (SPO), kapital bozorini rivojlantirish, korporativ boshqaruv, O'zbekiston iqtisodiyoti, fond birjasi islohoti, xorijiy investitsiyalar, chakana investorlar, davlat sektori islohoti, oshkoralik va axborot berish, bozor infratuzilmasi.

ПРИВАТИЗАЦИЯ ГОСУДАРСТВЕННЫХ ПРЕДПРИЯТИЙ В УЗБЕКИСТАНЕ: ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ ЧЕРЕЗ МЕХАНИЗМЫ IPO/SPO

Доктор бизнес администрирования, доц. **Sung Tae Kyun**
Ташкентский государственный экономический университет

Аннотация. В статье рассматривается процесс приватизации государственных предприятий (ГП) через первичное (IPO) и вторичное (SPO) публичное размещение акций, с акцентом на развивающийся фондовый рынок Узбекистана. Основываясь на международном опыте таких стран, как Южная Корея, Китай, Индия и Турция, исследование показывает, что листинг ГП способствует улучшению корпоративного управления, привлечению иностранных инвестиций, повышению прозрачности и стимулированию экономического роста. В статье анализируется текущая рыночная среда Узбекистана, включая государственные реформы, ограниченность базы инвесторов, слабую инфраструктуру листинга, а также проблемы раскрытия информации и управления. Несмотря на усилия правительства по выводу крупных ГП на IPO, в исследовании отмечаются системные барьеры – недостаток институциональных инвесторов, низкий уровень подготовки андеррайтеров и слабая инвестиционная культура среди населения. В заключение представлены рекомендации по поэтапному проведению IPO, развитию инвестиционных банков, усилению раскрытия информации и повышению интереса граждан к фондовому рынку. Полученные выводы направлены на поддержку стратегического перехода Узбекистана от государственной модели экономики к рыночной системе через устойчивые и грамотно организованные программы приватизации.

Ключевые слова: государственные предприятия (ГП), приватизация, первичное публичное размещение акций (IPO), вторичное публичное размещение акций (SPO), развитие фондового рынка, корпоративное управление, экономика Узбекистана, реформа фондовой биржи, иностранные инвестиции, розничные инвесторы, реформа государственного сектора, прозрачность и раскрытие информации, рыночная инфраструктура.

Introduction.

Over the past decades, Uzbekistan's state-owned enterprises have enjoyed monopoly status and led the development of key industries. However, in order to make the transition to a creative market economy, the development of the private sector was recognized as an urgent task.

In this context, the Uzbek government is focusing on preparing new impetus for stable economic growth by increasing business efficiency through privatization of state-owned enterprises (SOEs) and listing promotion of private enterprises.

In particular, the stock market listing is expected to play a role as one of the main means of privatization of such SOEs. The privatization of SOEs through IPOs is being promoted in various countries in order to increase corporate efficiency, improve service quality and facilitate financing. At the same time, privatization of SOEs through IPOs has led to qualitative and quantitative improvements in the stock market, and overall market infrastructure and legal and institutional improvements can be found in some foreign countries. The capital market is a financial system that raises long-term funds and provides investment opportunities between companies and investors, and if this capital market can be developed with the privatization of SOEs, it will certainly have a very positive effect on the national economy as a whole.

In the past, Korea also lacked private capital during the development economy era, so the government established a number of SOEs with funds raised from foreign aid, and since then, private capital accumulation has progressed, and Korea's privatization of SOEs has progressed sequentially since the 1980s. Following the Asian financial crisis in 1997, a large number of public enterprises were privatized. As a result, the stock market also expanded rapidly.

The purpose of this study is to examine the effectiveness of SOE listing through overseas cases, and the problems facing the Uzbekistan stock market, and make recommendations for future improvements. At a time when Uzbek privatization of state-owned enterprises is expected to be actively pursued in the future through stock market listings. Thus, this study will be very meaningful to review the current market conditions and improvement tasks.

Literature review.

In relation to the impact of SOE listings on capital market development, Oliver and Wyman (2021) examined the impact of SOE listings on capital market development. He claimed that SOE listings can significantly increase market capitalization and broaden the investor base, especially among retail and foreign investors. while significantly improving market capitalization. However, he pointed to a well-functioning capital market infrastructure and a large domestic institutional investor base as prerequisites for successful SOE listings.

An OECD working group report (2003) found that stock market capitalization to GDP ratios in OECD countries doubled in the 1990s as a result of SOE listings, which contributed significantly to the development of stock markets.

Borkovic et al. (2020) in the World Bank report point out that there are significant opportunities to improve the operational efficiency and corporate governance of SOEs in Central Asia.

Kikeri (20-22) notes that the listing and sale of shares in SOEs has contributed to the development of capital markets in many countries, and that SOEs are a major source of equity for public investment.

Gulyamov et al. (2021) found that securities market development reforms can provide practical solutions for SOE reforms in CIS countries. Securities market development can support the privatisation process by offering more public assets to private owners (through various IPOs and SPOs), which can also lead to an increase in the transparency and accountability of SOEs (for example, through mandatory disclosure of information and effective corporate governance systems)

Meggison et al. (2000) found that IPOs have had a dramatic impact on both the development of non-U.S. stock markets and the participation of individual and institutional investors in those stock markets, contributing significantly to the nearly elevenfold increase in the total capitalization of world stock markets from \$3.4 trillion to \$38.7 trillion between 1983 and 1999.

Wu(2024) commented that the listing of SOEs has the added benefit of attracting foreign investment and integrating these companies more closely with the global financial market.

Analysis and discussion of results.

Since the end of 2016, Uzbekistan has embarked on a wide range of comprehensive structural reforms aimed at revitalizing key sectors, liberalizing markets and introducing market mechanisms into the economy (Abdullaev, 2020). At the end of December 2015, the Corporate Governance Code was approved with the aim of improving the efficiency of joint stock companies and the corporate governance system.

These efforts were followed by the establishment of the State Asset Management Agency (UzSAMA), which will take direct ownership of about 400 state-owned enterprises in 2019. In 2020, measures have been taken for large SOEs, both in terms of adopting International Financial Reporting Standards (IFRS) and developing Key Performance Indicators (KPIs). In 2021, the SOE Ownership Strategy was introduced, proposing a significant reduction of the SOE portfolio in 2021-2025, while providing a detailed roadmap for implementing sound SOE governance principles. On 18 March 2022, the Presidential Decree "On Additional Measures to Further Reduce State Participation in the Economy and Accelerate Privatization" was adopted. It instructed the Ministry of Finance to privatize some large strategic 32 SOEs and three large state-owned banks(SOBs).

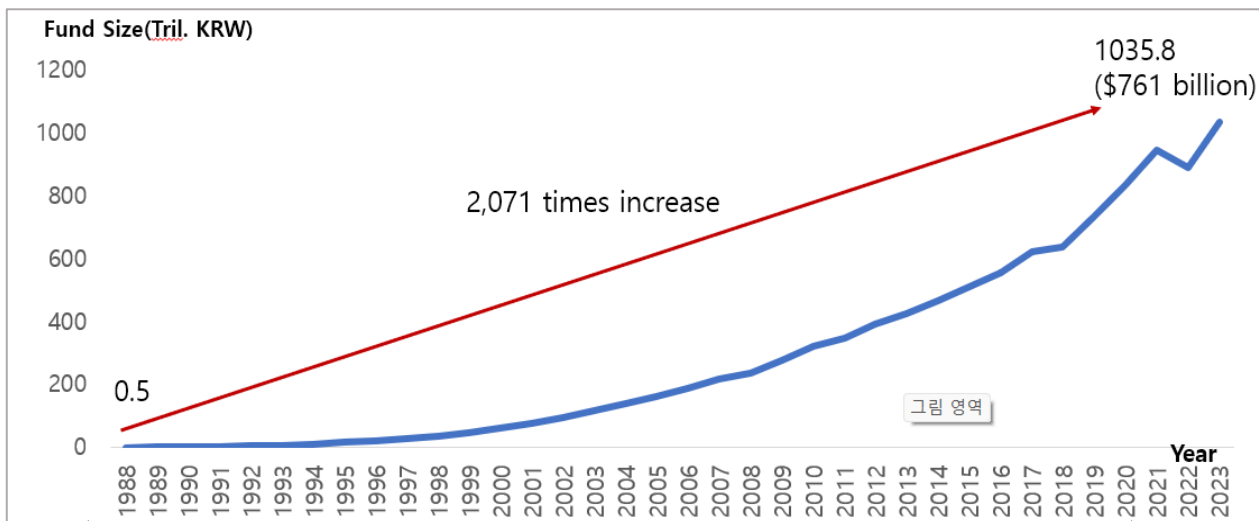
More recently, in early 2023, the shares of these 32 large and strategic SOEs were transferred to the Agency for Strategic Reforms (ASR), while UzAssets Investment Company, established in 2020, was tasked with managing the shares of these companies to improve their operational efficiency, ensure their transparency and strengthen their corporate governance practices. The presidential decree dated April 19, 2024, was signed outlining a plan for the IPOs and SPOs of 12 largest SOEs, with the aim of restructuring SOEs to increase their competitiveness, improve governance and optimize resource allocation.

Institutional investors include securities brokerage firms, banks, insurance companies, investment trusts, and other pension funds, endowments, and foundations. Institutional investors have a great influence on stock price formation because they invest in stocks using their expertise based on their large financial resources, organizational network, and available information. In many cases, the expansion of institutional investment contributes to the rise of stock prices and the reduction of stock price volatility. Institutional investors can lead to a fundamental improvement in the quality of companies, which is essential for a healthier capital market. In other words, active investment in stocks by institutional investors can contribute to improving corporate governance and increasing corporate value.

Currently, Uzbekistan has a limited number of institutional investors, and not all of them participate in IPOs, which makes it difficult for IPO shares to be digested by the market. In addition, the absence of institutional investors hampers the proper process of pricing IPOs. What is book building refers to the presentation of the desired IPO value determined by the underwriters, taking into account the intrinsic value of the listing candidates, relative value, business feasibility, etc. of the companies, in order to determine the appropriate offering prices.

Korea's national pension fund has grown rapidly and positioned itself as an institutional investor representing the stock market, holding blue-chip stocks in the stock market for a long time, not only acting as a safety valve for the market, but also helping to improve corporate governance of listed companies by exercising voting rights as a shareholder.

Foreign investors do not participate in the Uzbek stock market due to insufficient market information as well, small market size, low market liquidity, etc. In addition, issues related to currency convertibility and repatriation of profits add complexity to the investment process. Foreign investment in the stock market goes beyond mere capital inflows and contributes to the market stability of the market. As foreign investors make investment decisions based on their experience and information from different global markets, their investment patterns play an important role in enhancing the credibility of the market. In particular, when foreign investors inject large amounts of capital, they can send a positive signal to other investors and attract additional capital.

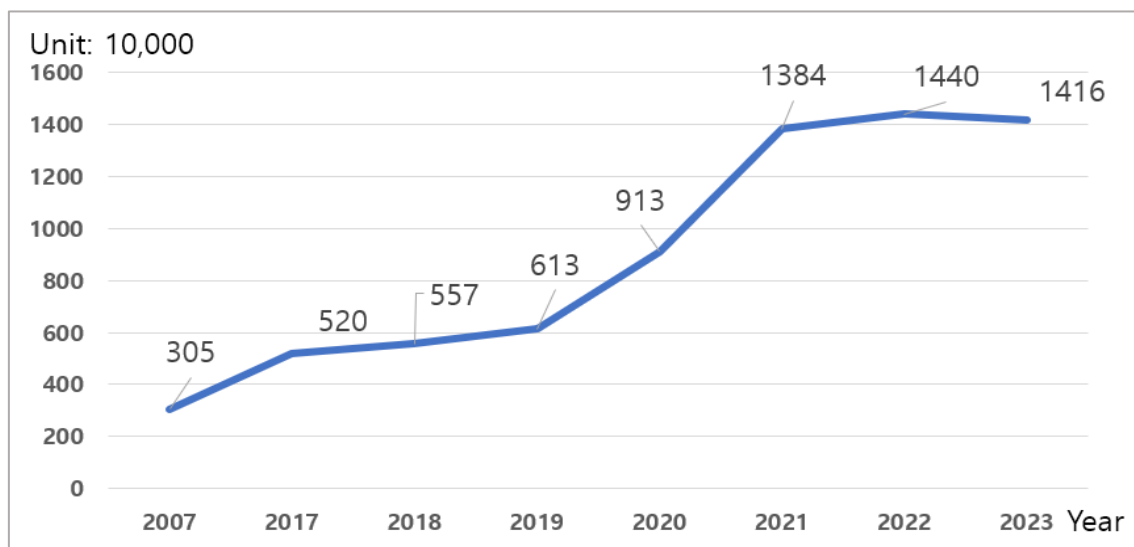


Picture 1. Korea National Pension Fund

Source: Korea National Pension Fund(NPS).

Foreign investors also increase the market liquidity and the share price.

Retail investors have a very short-term investment horizon. They play a very important role in providing liquidity and ensuring appropriate share price movements. In particular, the expansion of the retail investor base contributes significantly to the growth and development of the stock market. Retail investors tend to be like moths to a flame, chasing profits and following them wherever they can find them. (At the end of July 2024, retail investors held about KRW 120 trillion (around \$87 billion based on the exchange rate in July 2024) in overseas equity investments, equivalent to 6% of the market capitalization of the KOSPI, with a notable shift towards investments in US technology stocks and high-risk leveraged derivatives. Despite the many drawbacks of cross-border trading, including high fees, tax burdens and currency exchange costs, interest in foreign equities among retail investors has been described as "crazy". Individual investors in Uzbekistan face several challenges that can hinder their effective participation in the stock market, such as the limited availability of comprehensive and accessible information on listed companies. In addition, retail investors face challenges such as the lack of quality stocks to choose from in the market, which makes it difficult for retail investors to build a stable broad portfolio.

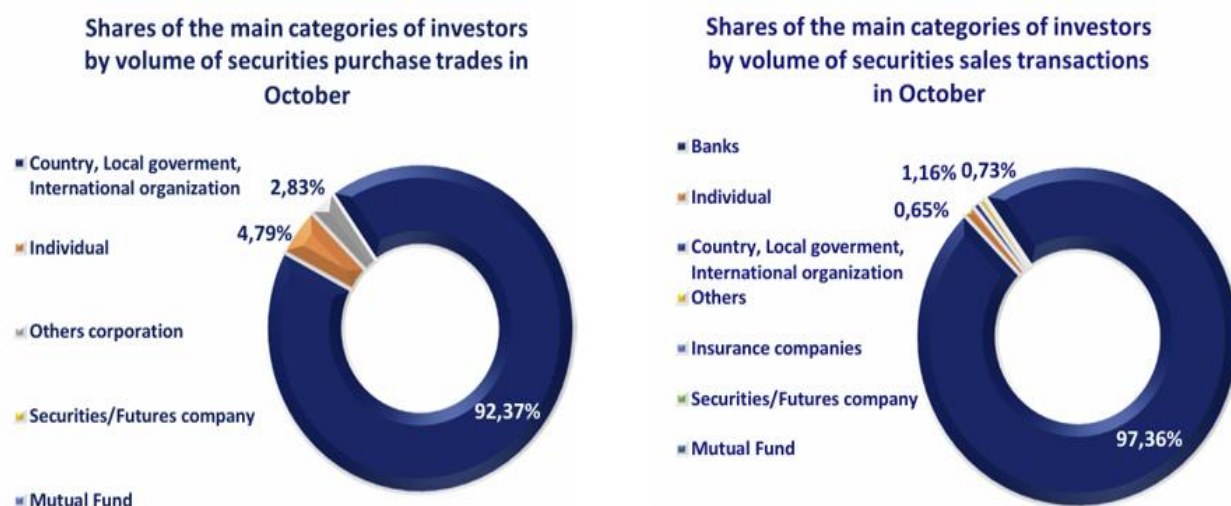


Picture 2. Number of Retail Investors in Korea (Number of individual stock owners of listed companies with December fiscal year)

Source: Korea Securities Department.

At present, the share of individual investors in the stock market is very low, with selling and buying accounting for 4.99% and 0.79% of total transactions respectively in October last year, and the impact of retail investors on the market is minimal.

The proportion of individual investors in the Korean stock market has increased significantly in recent years. As of 2023, retail investors accounted for about 70% of total stock trading. In July 2024, the foreigners accounted for 36.1% of the market capitalization of the KOSPI market(Main Board Market).



Picture 3. Shares of main categories of investors

Source: Tashkent Stock Exchange.

In the case of an initial public offering, lead managers determines the demand for the public offering shares in advance to set the public offering price, which is called book building or demand forecasting.

When a company lists its shares on the Stock market, it is a competitive bidding method in which institutional investors are asked to submit a price for the public offering, and then the average favorite prices of institutional investors are calculated after deducting the highest and lowest prices to set the public offering price at a reasonable level. This type of method is widely used in the world.

However, most Uzbek securities companies are small, and lack financial capacity and do not act as underwriters. The offer price is determined after consultation between UzSAMA, the companies wishing to list, and finally securities brokers. Of course, even in this case, the government side still controls the pricing processes

Typically, underwriters communicate with companies seeking a listing over a long period of time, helping them to restructure themselves into a company suitable for a listing, and the company will eventually submit an IPO due diligence report, taking sufficient time to thoroughly review the issuer's financial performance, business risks and management capabilities. If the due diligence process reveals serious problems, the lead manager should work with the issuer to correct or withdraw the offering. However, in Uzbekistan, there is no such function of a securities company.

The lead manager should also check the company's track record with the stock exchange. In Uzbekistan, however, the brokerage firms do not play a due diligence role for listing candidates. The government, not the stock exchange, is responsible for examining companies that want to go public.

The transparency and disclosure practices of SOEs in Uzbekistan face several challenges. Efforts to improve transparency and accountability are ongoing, with initiatives to adopt

international accounting standards. However, challenges remain in achieving full compliance and transparency (Nicolo' and Andrade's-Peña, 2024).

The Supervisory Boards in Uzbek SOEs often include government officials, a practice that can lead to conflicts of interest. This arrangement is reminiscent of governance structures in other state- dominated economies, where political influence can undermine the board independence and effectiveness of boards.

The disclosure obligations of listed companies can be divided into timely and regular disclosures, and it is difficult for investors to obtain accurate corporate information because the company's information is not accurately recorded in the quarterly report as well as the annual report, which are periodic disclosures. In the case of timely disclosure, the disclosure must be made as soon as the reason for disclosure occurs. However, it is showing problems in investor protection due to the lack of immediacy in Uzbekistan market.

The Tashkent Stock Exchange (TSE) in Uzbekistan serves as a platform for the listing of several state-owned enterprises (SOEs) that are key to the country's economic landscape. These companies span various sectors, reflecting Uzbekistan's economic diversification and the government's strategy to increase transparency and attract foreign investment through public listings.

Key sectors and SOEs on the Tashkent Stock Exchange include energy, banking and financial services, telecommunications, utilities, transport and logistics, mining and metallurgy, and agriculture.

Some SOEs have been partially privatized and are now listed on the Exchange. The government has outlines a strategy to further privatize SOEs, targeting sectors that can thrive in a competitive environment. This new phase of the "People's IPO" follows a presidential decree issued on 19 April 2024, which outlined the primary and secondary public offering of shares of several large-companies.

Table 1.

12 major SOEs

Almalyk Mining and Metallurgical Combine (2%)
Uzbektelecom (2%)
O'zbekiston Pochtasi (UzPost) (5%)
Elektron onlayn-auksionlarni tashkil etish (Organizing Electronic Online Auctions) (5%)
Uzbek Commodity Exchange (2.4%)
O'zbekgeologiya qidiruv (Uzbek Geological Exploration) (2%)
Uzbekgeofizika (2%)
O'zbekgidroenergo (Uzbekhydroenergo) (2%)
Uztemiryulkonteyner (4%)
Temiryo'lkargo (Utycargo) (4%)
UzAuto Motors Powertrain (5%)
RSE "Toshkent" (5%)

※ SOEs in blue are Exchange-listed companies, The number in parenthesis indicates the percentage of authorized capital to be privatized. Source: UzSAMA website "News"

Table 2.

IPO/SPO Cases

Sector	Listed SOEs	Products/Services
Manufacturing	Kvarts(IPO/SPO) Dec. 27, 2019	Building Glass
Manufacturing	Jizzax Plastmassa(IPO) March 18, 2020	Supplying Film and Pipes to agricultural and construction sectors
Manufacturing	Mexanika Zavodi(SPO) Oct. 27, 2020	Production of spare parts for aircraft
Energy	Uzbekneftegaz(part of UZSE's quotation list) April 4, 2022	National oil and gas
Telecommunication	Uzbektelecom(IPO) Dec. 20, 2023	Offering internet, mobile, and fixed-line services
Insurance	Uzbekinvest(IPO) Dec. 20, 2023	Export/Import Insurance Company
Automotive	UzAuto Motors(IPO) Feb. 20, 2023	Prominent automotive manufacture
Exchange	Uzbek Republican Commodity Exchange(SPO) Nov. 13, 2024	Commodity Exchange

Source: Tashkent Stock Exchange.

There are 12 large SOEs seeking a listing, but only three have gone through an IPO/SPO to date. Notably, only one company has been listed since 2024. It is unlikely that these large SOEs will be able to list all at once in the near future. This is because the market is not yet able to handle the volume of large offerings. In the case of the UzAuto IPO, only 29.1% of the offer was sold, so market conditions are still not favorable (Freedom Broker News, 2023).

The government seems to have set a timeframe of one to two years for the listing of SOEs, which is somewhat unrealistic.



Picture 4. Overview of Joint Stock Companies with a state share on December 1, 2024

Source: Tashkent Stock Exchange.

As of January 2024, 70.11% of the 89 listed companies are SOEs, and 94.27% of the total transaction value of the market is SOE transactions, which has a very high impact on the overall market.

The Uzbek stock market is currently being dominated by a few leading stocks due to extremely low trading volumes. The majority of transactions are large-volume transactions between listed companies and strategic partners rather than between retail investors. The

existing market leaders can change quickly if a new large stock is listed. The government is the largest market participant, with retail investors playing a minor role. Large listed companies are also state-owned enterprises.

Discuss international case studies.

In general, the overseas stock market has not only expanded positively through the listing of SOEs, such as expanding the investor base and market capitalization, liquidity, but also contributed to the expansion of the market as well as the improvement of the legal framework. Governments around the world have attempted to use SOE listings to introduce a "culture" of equity investment and gain public support for SOE IPOs.

However, in the few cases where SOE listings have had a negative impact on capital market development, the market infrastructure has been too weak to give foreign and domestic investors sufficient confidence that market processes can operate effectively and protect investor interests. In all these cases, weak capital market infrastructure was the root cause (Wyman, 2021).

In advanced markets, shares are allocated to individual investors, pension funds, mutual funds and foreign investors, while in frontier markets, in the absence of an adequate investor base, newly issued shares are distributed to company employees and a limited number of retail investors.

While the listing of SOEs is generally associated with improved corporate governance, better corporate performance and increased market capitalization, this is not the case in all markets. In some early stage markets, the absence of institutional investors means that large volumes of shares cannot be targeted for IPOs, resulting in large issue price discounts to attract retail participation.

The lack of liquidity resulting from the limited supply of shares is a factor that prevents the market from establishing a stable price with a narrow bid-ask spread.

In India, China, and Turkey, where SOEs' listing has had a positive effect on stock markets. It has also had a positive effect on overall corporate performance, including operating profit, by streamlining corporate management. This has been achieved through the introduction of financial reporting regulations in line with the private sector, better corporate governance, compliance with disclosure requirements, and a more profit-orientated management approach.

China has a large number of state-owned enterprises, and many have gone public in both domestic and international stock markets, such as the IPO of China Mobile, Sinopec, and Bank of China. These IPOs have contributed significantly to China's stock market capitalization. The Indian government has used IPOs to reduce its stakes in various public sector undertakings, like Oil and Natural Gas Corporation (ONGC) and Indian Oil Corporation (IOC). These offerings helped increase liquidity in the Indian stock market and brought more foreign investors into Indian equities.

Turkey has pursued privatization and partial privatization of state-owned enterprises since the 1980s as part of its broader economic reforms. These efforts often involve listing SOEs on the stock market through Initial Public Offerings to enhance corporate governance, attract foreign investment, and raise government revenue. Additionally, Turkey's stock market has grown significantly over the years, partly fueled by these IPOs.

South Korea has numerous SOEs operating in industries such as energy, utilities, infrastructure, and finance. Over the years, the South Korean government has occasionally pursued the privatization or partial privatization of some SOEs through initial public offerings (IPOs). This is often done to improve management efficiency, enhance transparency, and reduce the financial burden on the government, while contributing to the expansion of stock market.

State-owned enterprises play a crucial role in stock market growth, especially when they go public through IPOs. These IPOs offer various benefits like enhanced corporate governance and efficiency and innovation, capital generation, market diversification, and attracting

investors, job creation. In the long run, successful SOE IPOs and their integration into the stock market can help spur overall economic development and market growth.

However, challenges such as maintaining efficient management post-privatization and managing government influence remain important considerations.

And it also comes with challenges, such as the need for regulatory compliance, and the risk of market volatility. Careful planning and management are essential to maximize the benefits while mitigating potential downsides.

Conclusion and suggestions.

Compared to for-profit private enterprises, public enterprises, which do not have an urgent need for competition, tend to have lower management efficiency due to organizational laxity and bureaucracy. Given that small Uzbek private enterprises, which value competition and efficiency, accounted for 53% of the country's GDP in the period January to September 2024 according to the Statistics Agency under the President of the Republic of Uzbekistan, the need to promote the private sector is once again being felt.

In this context, the privatization of state-owned enterprises is an urgent necessity and its impact on the economy is considered to be very significant.

As you can see, the Uzbek market is still in its infancy and hasn't garnered much public attention or investor interest. The stock market itself is also an unusual type of market where certain stocks or industries are overwhelmingly dominant. In 2022, the average free float of the Uzbekistan market stands at 14.55% (Free float refers to shares that are available for trading and are held by the investors, including institutional investors, retail investors, and other market participants. The number of free float is calculated by excluding shares held by insiders, such as company officers and employees, as well as shares held by strategic investors or other significant shareholders. Free float in Korean stock market was 58.1% in 2016.). This indicates that the number of shares available for trading is very limited. The general public still prefers to invest in real estate and bank deposits, and there is very little awareness of investing in equities.

With a weak stock market base, it is very difficult for SOEs to go public through large share sales. As a result, the Uzbek government's initial plan to privatize companies through IPOs or SPOs has stalled.

On the other hand, some problems have been identified, particularly in the area of corporate governance, such as the participation of government officials in the management bodies of SOEs, leading to conflicts of interest, the lack of a well-functioning management system, the lack of transparency in the management of SOEs, and the lack of regular analysis of their performance.

Corporate governance should be strengthened to promote transparency and confidence in companies, and audit reports prepared in accordance with International Financial Reporting Standards should be submitted at the earliest possible date. If it is difficult to implement it all at once, it is worth considering phasing in based on the company size, as is the case in Korea (Korea began to gradually phasing in the standard for domestic listed companies in 2009. In 2011, listed companies worth more than KRW 2 trillion (\$1,736 million based on the exchange rate at the end of 2011) were required to use international accounting standards, and in 2013, the mandate was extended to listed companies worth less than KRW 2 trillion.), which began phasing in the standard for domestic listed companies in 2009.

However, with institutional investors playing a minor role, it is unlikely that significant improvements in corporate governance can be realistically expected with offering volumes ranging from -4% of the authorized capital.

Regarding non-compliance with disclosure obligations, the Exchange may consider imposing penalty points or violation sanctions on listed companies, in order to ensure that investors' right to know about listed companies is protected. With failure to fulfill disclosure

obligations, investors will find it difficult to have confidence in companies, while deterring active participation in the market (The Korean Stock Exchange assigns penalty points to listed companies for non-compliance with disclosure requirements. The accumulation of penalty points can result in a company being placed in administrative issues or delisted.).

In addition, in order to facilitate the provision of information on listed companies to foreign investors, it is worth considering the introduction of an English language timely disclosure system in addition to the improvement of the disclosure system. Of course, in order to minimize the cost and hassle of English translation of timely disclosures, it would be good to consider a plan for the exchange to collectively translate the contents of timely disclosures of listed companies into English and upload them to the disclosure system on the next day of the Uzbek domestic disclosure day.

And the normalization of the securities brokerage firm's function as an IB will help improve the IPO price determination process for listing applicants, and it will be necessary for securities brokerage firms to conduct preliminary due diligence (Thorough analysis of the company's business model, financials, industry trends, etc. to arrive at a fair valuation and marketing strategy to maximize value.) on issuers for successful IPOs. A well-capitalized brokerage industry that can handle a large volume of subscriptions (Wyman, 2021).

Well-funded brokerage firms should be encouraged to fulfil their role as investment banks. Mergers between smaller brokerage firms may be considered to create larger firms with financial resources.

Uzbekistan's first peoples' IPO program in September/October last year was conducted under unconventional selling conditions and attracted a large public participation (The first Peoples' IPO program was launched in September-November 2024 with the public offering of 4.44% of UZEX shares. The people's share refers to the public offer and sale of company shares to individuals or the general public. This has been introduced as a way of raising capital needed by the country for the countries' economic development plan. Peoples' IPOs are usually offered at face value and can benefit from market gains.). People's IPO programs will help broaden the investor base and open the public's eyes to financial products. However, an excessive supply of shares could destabilize the market. Therefore, a moderate level of government share sales should be carried out.

In 1988 and 1989, POSCO and KEPCO In 1988 and 1989, POSCO and KEPCO offered their shares to the public with the aim of broadening the base of equity investors and developing the capital market in Korea. It was also intended to help people build financial assets (In April 1988, the government sold 31.28 million shares, or 34.1 per cent of the government's 69.1 per cent stake, to 3.22 million people through a public offering in the name of income redistribution. The purchasers included 3.11 million people from the lower and middle income groups, 101,000 general subscribers, and 20,000 members of employee stock ownership union. The sale price was 15,000 won per share. The distribution of employee stock ownership union members and the middle and lower income groups was set at 15,000 won, 30% off the public offering price. The following year, in 1989, KEPCO was privatized and distributed 127.75 million shares. In 1991, three years after IPO, POSCO's share price fell 59% from its listing price, while KEPCO's share price fell 43% from its listing price two years after IPO. The KOSPI index had been plummeting since April 1989.).

However, as the shares of POSCO and KEPCO were offered in large quantities at that time, the share prices plummeted and the income redistribution goals were not achieved.

The recommendations for successful people's IPO programs are to set up a system to conduct various publicity activities to encourage people to participate actively, to make the operation of the system transparent, to have a system to gather public opinion and to obtain a loan from a financial institution to finance for the purchase of shares.

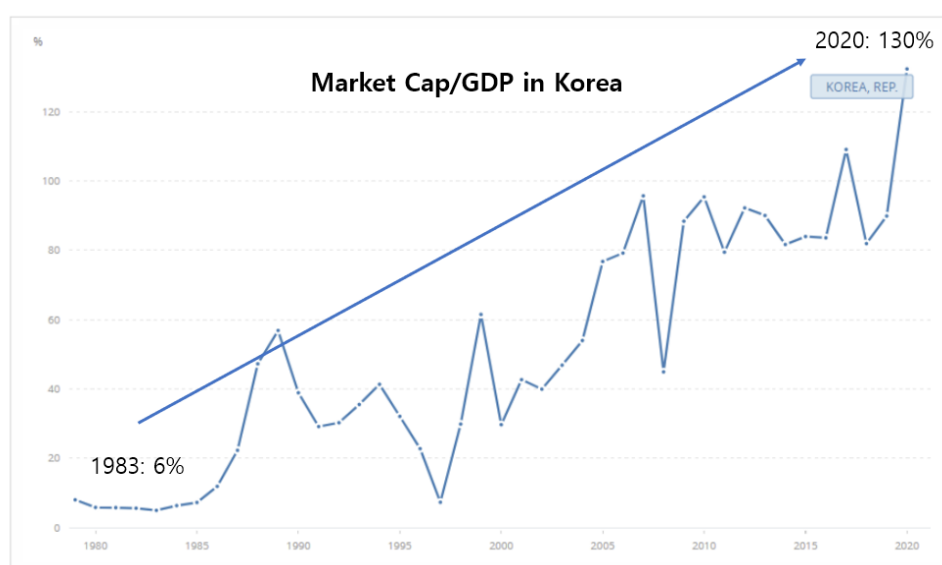
The more developed a country's market economy is, the more it raises funds from the stock market. Therefore, the higher the ratio of market capitalization to GDP is, the more

mature the stock market is. The ratio is also influenced by the state of economic development: if high growth is expected in the future, the stock market will receive a growth premium and become larger, causing the ratio to increase.

Korea's per capita income had increased 540-fold over the past 70 years from 1953 to 2024, with an average annual increase of 9.4%. Market capitalization had also shown steady growth along with GDP expansion. The market cap/GDP ratio risen dramatically from 6% in 1983 to 130% in 2020. In 2022, the ratio for the Uzbek stock market was 13.26%.

The graph below shows that the stock market does not grow overnight, but as the real economy grows, companies grow with it, and as the demand for funds expands, the market expands through companies' demand to raise funds from the stock market.

In the case of Korea, economic development has led to an increase in the income level of the population, which has naturally led to the expansion of banking functions. This, combined with the increasing demand for funds from companies and the public's desire for high investment returns, led to the accelerated growth of the stock market.



Picture 5. Market Cap/GDP in Korea

Source: Korea Exchange & Korean Statistical Information Service.

In order to increase public interest in equities, the dividend payment policy of state-owned enterprises should be continued.

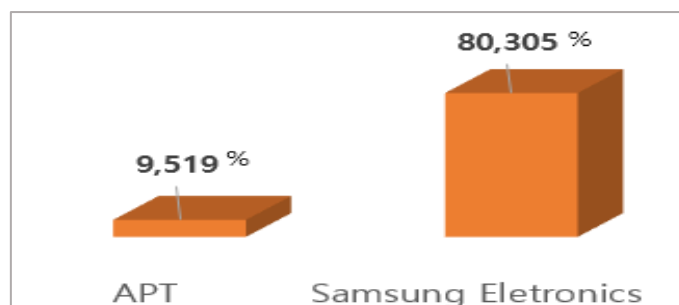
The government's role in IPOs should also be gradually handed over to the market. At present, the government is in charge of almost all functions such as IPO pricing and listing examinations, which is understandable given that the market foundation is too weak. However, efforts should be made to promote the market infrastructure and let the market take over some functions in the near future.

As domestic listings have become difficult, the government appears to be turning its attention to foreign listings of SOEs. As of 1 April 2022, the Uzbek government introduced regulations to facilitate the issuance of securities by local companies in foreign markets.

Listing a company abroad can provide access to global funding and enhance a company's brand image. On the other hand, it can be expensive and complicated, requiring changes in accounting standards, legal fees and regulatory compliance. If a company fails to meet investors' high expectations after an overseas listing, it risks a sharp drop in share price and a loss of credibility.

Comparing the growth rate of Gangnam (It is located south of the Han River in Seoul and is a symbol of wealth.) real estate such as apartments, one of the country's real estate blue chips, with that of Samsung Electronics, the Korean stock market leader, over the past 40 years from

1980 to 2020, the former, has risen by 9,519% and the latter by a whopping 80,305%. I think the biggest reason for the expansion of the retail investor base in Korea is that investors have become convinced that they can make money by investing in equities for the long term.



Picture 6. Long Term Holding Returns fir AOT and Samsung Electronics

Source: a daily 2020.1.13., www.edaily.co.kr.

The KOSDAQ (The Korea Securities Dealers Automated Quotation (KOSDAQ) is a stock market focused on technology stocks in South Korea, established in 1996.) market, which was dominated by stocks related to the IT industry, experienced a massive price explosion in 1999 and early 2000 as the IT industry, including the Internet, gained prominence as a new industry in the new economy. Although the IT bubble eventually ended in a crash, reckless investment by the general public also occurred amid the market overheating phenomenon at that time.

For a market to get hot, individuals have to lose their minds and rush into the market. Bubbles are created when individuals rush into the market like crazy, open accounts, put money in and buy, no questions asked. It's when the little old ladies with the shopping trolleys come out and say "let's buy shares" that the flame is lit. For that to happen, I think there has to be some momentum to convince people that they can make money by investing in equities.

There are a significant number of full time investors in Korea who invest exclusively in equities, and many retirees and young people participate in the market as individual investors.

References:

IBRD (2023) *International Bank for Reconstruction and Development/The World Bank, Businesses Of The State (BOS) and Private Sector Development.*

IBRD (2023) *The International Bank for Reconstruction and Development/World Bank Group (December 2023), Uzbekistan Integrated State-Owned Enterprises Framework (iSOEF) Assessment.*

Nicolo', G., & Andrades-Peña, F. J. (2024). *Does corporate governance influence environmental, social and governance disclosure practices of state-owned enterprises? An international study.* *Corporate Social Responsibility and Environmental Management*, None.

OECD (2016), *Broadening the Ownership of State-Owned Enterprises: A Comparison of Governance Practices.*

OECD Working Group (2003), *Privatizing State-Owned Enterprises: An Overview of Policies and Practices in OECD Countries*

Oliver Wyman (2021), *Listing State-owned Enterprises in Emerging and Developing Economics: Lessons learned from 30 years of success and failure*, the World Bank.

Otabek Narzиеv (2021), *Uzbekistan SOEs: past reforms, existing problems, and future perspectives*, *The American Journal of Political Science Law and Criminology* (ISSN – 2693-0803)

Said Gulyamov, et al. (2021), *State Role And Securities Market Development in Uzbekistan*, *The American Journal of Political Science Law and Criminology*, (ISSN – 2693-0803)

Sanja Borkovic and Peter Tabak (2020), *Economic Performance of State-owned Enterprises in Emerging Economies*, European Bank report

Shiqi Wu (2024), *Financial Impact Analysis of the Restructuring and Listing of State-Owned*

Enterprises, Highlights in Business, Economics and Management, Volume 24.

Sunita Kikeri (2020) Privatization of State-Owned Enterprises, The Governance Brief, Is. 47

Umidjon Abdullaev (2018), State-owned Enterprises in Uzbekistan: Taking Stock and Options for the Future, European Bank for Reconstruction and Development (EBRD).

Umidjon Abdullaev (2020), State-owned Enterprises in Uzbekistan: Taking Stock and Some Reform Priorities, Asian Development Bank Institute 1068.

William L.Megginson and Maria K. Boutchkova (2000), The impact of privatization on capital market development and individual share ownership, NOTA DI LAVORO 53.2000.

Zufar Ashurov (2014), The Corporate Governance in Uzbekistan: A Special Focus on the Board's Supervisory Role Compared with German Practice, Corporate Board: Role, Duties & Composition, Volume 10, Issue 3.