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Prospects for Improving the Collective Investment Environment in Uzbekistan and Enhancing Legislation Related to the Sector

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Annotation: This article examines the ongoing reforms in the investment legislation of the Republic of Uzbekistan with a particular focus on the development of collective investment mechanisms and institutional investors. It analyzes recent legislative innovations, including the introduction of the concepts of potential investors, qualified investors, investment companies, management companies, and venture funds. The study identifies existing gaps in the legal regulation of collective investment activities, especially the absence of comprehensive and stable norms in core legislative acts. Drawing on comparative legal analysis of the United States and Germany, the article evaluates foreign models of investment funds, institutional investors, and private pension systems. Based on this analysis, specific legislative proposals are formulated to supplement the Law of the Republic of Uzbekistan "On Investment and Mutual Funds" with new legal definitions and regulatory provisions. The implementation of these proposals is expected to strengthen legal certainty, enhance investor protection, and stimulate the growth of collective investment and institutional investors in Uzbekistan.

Key words: Collective investment; institutional investors; investment companies; venture funds; management companies; private pension funds; qualified investors; investment legislation; Uzbekistan; comparative legal analysis.

Introduction. Over the past years, a number of additional measures have been adopted in Uzbekistan to reform national legislation based on new approaches aimed at improving the investment climate, attracting foreign investment, further developing investment attraction mechanisms, and increasing the activity of domestic investors.

One of the notable legislative innovations in this regard is the use of such concepts as **"potential investor"**, **"qualified investor"**, as well as **"investment company"**, **"management company"**, and **"venture fund"** in the Decree of the President of the Republic of Uzbekistan No. PF–5583 dated November 24, 2018, *"On Additional Measures to Improve Mechanisms for Financing Projects in the Field of Entrepreneurship and Innovation"*[1].

In the **Address of the President of the Republic of Uzbekistan**, **Shavkat Mirziyoyev, to the Oliy Majlis and the people of Uzbekistan** on December 26, 2025, a program consisting of six key priority areas to be implemented in 2026 was outlined. The second priority area of this program is devoted to transitioning the economy to a model of technological and innovation-driven growth. In particular, it emphasizes the need to develop the market for new financial instruments such as venture funds, startups, and fintech, as well as to legally guarantee the rights of all participants operating in this sector[2].

A **potential investor** is a person who has sufficient economic capacity to actively engage in investment relations but lacks adequate knowledge about where and to whom to direct their financial

[1] . Decree of the President of the Republic of Uzbekistan No. PF–5583, On Additional Measures to Improve Mechanisms for Financing Projects in the Field of Entrepreneurship and Innovation, 24 November 2018.
[2] . Shavkat Mirziyoyev, Address to the Oliy Majlis and the people of Uzbekistan, delivered on December 26, 2025. Official transcript published on the website of the President of Uzbekistan.

Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
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resources. A similar concept, namely **"prospective (potential) investor,"** is also used in Articles 26 and 28 of the Law of the Republic of Uzbekistan *"On Investments and Investment Activity."* However, the Law does not define which investors qualify as potential investors[3]. In economic literature, such investors are often referred to as **pre-investors**. The term *pre-investor* reflects a person who is preparing to make large-scale investments[4].

In addition, Paragraph 2 of the above-mentioned Presidential Decree provides legal definitions for the concepts of **"qualified investor," "investment company," "management company,"** and **"venture fund."** This Decree was adopted to promote the establishment and development of investment companies in Uzbekistan. The creation of venture funds stipulated in the Decree is also intended to address one of the key shortcomings in the sector—namely, the ineffective functioning of the collective investment system .

However, these institutions are not reflected in the Law of the Republic of Uzbekistan *"On Investment and Mutual Funds."*[5] As a result, stable legal norms governing this sphere have not yet been established in a comprehensive legislative act. Naturally, this situation affects not only foreign investors but also domestic ones, since any investor evaluates the level of legal protection primarily based on the stability and clarity of the legal framework[6]. Consequently, the legal foundations regulating capital markets and collective investment activities in Uzbekistan remain underdeveloped, which, in turn, hinders the large-scale operation and expansion of the institutions introduced by the Presidential Decree.

Less than a year after the issuance of the Decree, the Cabinet of Ministers adopted Resolution No. 414 dated May 17, 2019, *"On Approval of the Regulation on the Activities of Investment and Management Companies."*[7] Following this decision, a number of investment companies were established.

Specifically, according to statistical data:

1) in 2019, **ADUI (Abu Dhabi Uzbek Investment)** was established with an authorized capital of USD 1 billion;

2) in 2020, **UzAssets Investment Company** was established with an authorized capital of 20 billion UZS;

3) in 2023, **AUIC – Azerbaijan–Uzbekistan Investment Company** was established with an authorized capital of USD 500 million.

Nevertheless, collective investment did not experience large-scale growth, as major investment companies fully owned and managed by the private sector failed to emerge. It should be noted that in all the investment companies mentioned above, the government acts as a founder. In particular, UzAssets Investment Company is fully state-owned and operates under the sole ownership of the State Assets Management Agency[8].

Methodology. The research is based on a combination of doctrinal legal analysis, comparative legal methodology, and systematic interpretation of normative legal acts. National legislation of the Republic of Uzbekistan regulating investment activity, collective investment, and pension systems was

[3] . Law of the Republic of Uzbekistan, On Investments and Investment Activity, No. LRU–598, 25 December 2019, Arts. 26 and 28.
[4] . Gompers, P., Lerner, J., The Venture Capital Cycle, 2nd edn (MIT Press, Cambridge, MA, 2004), pp. 25–48.
[5] . Law of the Republic of Uzbekistan, On Investment and Mutual Funds, No. LRU–392, 25 August 2015.
[6] . North, D. C., Institutions, Institutional Change and Economic Performance (Cambridge University Press, Cambridge, 1990), pp. 54–68.
[7] . Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 414, On Approval of the Regulation on the Activities of Investment and Management Companies, 17 May 2019.
[8] . State Assets Management Agency of the Republic of Uzbekistan, Annual Report 2023 (Tashkent, 2024).

Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

analyzed to identify existing gaps and inconsistencies. In addition, foreign legal frameworks—primarily those of the United States and Germany—were examined to assess best practices in regulating investment funds, institutional investors, and private pension systems[9]. Official statistical data, regulatory acts, and strategic policy documents were also used to support the analysis. The study applies a normative approach to develop concrete legislative proposals aimed at improving the legal framework governing collective investment in Uzbekistan.

Collective Investment and Pension Funds. In the context of collective investment (crowdfunding), private pension funds and savings funds also play a significant role[10]. Assessing the existing practice and legal regulation in Uzbekistan, it can be observed that pension fund activities and supervision are entirely under state control, carried out by the Extra-Budgetary Pension Fund under the Ministry of Economy and Finance[11].

However, foreign experience demonstrates that transferring pension funds to the private sector and investing their resources in reliable and sustainable collective investment projects can be highly beneficial. In some countries facing demographic challenges—particularly an increasing share of the elderly population—this institution is viewed not only as a driver of economic growth but also as a solution to social problems[12].

At the same time, **Goal 49 of the "Uzbekistan – 2030" Strategy** outlines the following objectives, which also envisage improving collective investment mechanisms and increasing public participation:

- increasing the volume of freely traded securities to USD 8 billion;
- doubling portfolio investment volumes through the establishment of mutual and venture funds;
- offering shares of 40 state-owned enterprises through "People's IPOs" and introducing mechanisms to encourage public participation in IPOs[13].

Overall, as a result of the legal reforms described above, the concept of **"institutional investor"** has emerged in Uzbek legislation. An institutional investor is not an individual or a single business entity, but rather a legal entity professionally engaged in investment activities. Therefore, participants in collective investment must operate professionally, possess legal entity status, and function as business entities[14].

Analysis of Foreign Experience. In the field of collective investment—particularly regarding institutional investors, investment funds, and private pension systems—the experiences of the **United States** and **Germany** are of particular importance.

United States. In the United States, institutional investors include insurance companies, pension funds, and various investment funds. These entities pool idle funds from individuals and legal entities and participate in financing different projects[15].

The **U.S. Securities and Exchange Commission (SEC)** is the primary regulatory authority overseeing the activities of investment companies and investment advisers[16].

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[9] . Zweigert, K., Kötz, H., An Introduction to Comparative Law, 3rd edn (Oxford University Press, Oxford, 2011), pp. 33–58

[10] . Bodie, Z., Merton, R., Finance of Pension Systems (Harvard Business School Press, Boston, 2002), pp. 1–29

[11] . Regulation on the Extra-Budgetary Pension Fund under the Ministry of Economy and Finance of the Republic of Uzbekistan, approved by Resolution of the Cabinet of Ministers No. 259, 30 March 2018.

[12] . OECD, Pensions at a Glance 2021: OECD and G20 Indicators (OECD Publishing, Paris, 2021), pp. 15–41.

[13] . Strategy "Uzbekistan–2030", approved by Presidential Decree No. PF–158, 11 September 2023, Goal 49.

[14] . IOSCO, Objectives and Principles of Securities Regulation (International Organization of Securities Commissions, Madrid, 2017), Principles 24–28 (Collective Investment Schemes).

[15] . Malkiel, B. G., A Random Walk Down Wall Street, 12th edn (W. W. Norton & Company, New York, 2019), pp. 395–420

Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

The principal law governing investment companies is the **Investment Company Act of 1940**. Pursuant to this Act, the SEC has adopted various regulations governing investment company activities, which are published in **Title 17, Part 270 of the Code of Federal Regulations (CFR)**[17].

Persons managing the portfolios of registered investment companies are required to register with the SEC as investment advisers in accordance with the **Investment Advisers Act of 1940**. This Act, together with the SEC regulations issued thereunder, governs the activities of registered investment advisers. These rules are published in **17 CFR, Part 275**[18].

Other federal securities laws, such as the **Securities Act of 1933** and the **Securities Exchange Act of 1934**, also apply to investment companies.

Under the Investment Company Act of 1940, investment companies are classified as **management companies**, **unit investment trusts**, or **face-amount certificate companies**.

In addition to public pension provision, the U.S. also has a well-developed private pension system, similar to those in the United Kingdom, France, and Germany.

There are two main types of private pension plans in the U.S.: **single-employer plans** and **multi-employer plans**, the latter typically covering unionized workers employed by multiple employers. Both types are regulated by the **Employee Retirement Income Security Act of 1974 (ERISA)**[19].

ERISA does not prescribe specific investment instruments but requires pension plan sponsors to act as fiduciaries. This means they must prioritize the interests of plan participants (future retirees) over their own. Investments must be prudent and diversified to minimize the risk of significant losses[20].

Traditionally, pension funds allocate assets among bonds, equities, and real estate. In search of higher returns and diversification, there is a growing trend toward alternative investments, including direct investments, hedge funds, commodities, derivatives, and high-yield bonds.

Germany. In Germany, investment activities are regulated by a number of national legal acts, as well as by European Union legislation.

The key documents typically required to establish an investment partnership include a **Limited Partnership Agreement (LPA)** and a **Private Placement Memorandum (PPM)**, although these are not legally mandatory in the case of institutional investors.

Contractual funds are established by a fund manager based on a contractual relationship with investors.

There is no strict legal requirement that an investment fund must be managed within Germany. However, the **Alternative Investment Fund Managers (AIFM) Directive** and the **German Capital Investment Code (KAGB)** establish specific requirements for cross-border management of alternative investment funds (AIFs). Generally, funds domiciled in Germany are managed by managers located in Germany[21].

The **Federal Financial Supervisory Authority (BaFin)** is responsible for regulating funds and fund managers. Investment fund management in Germany is governed by the KAGB, which implements the EU **UCITS Directive (2009/65/EC)**[22] and the **AIFM Directive**[23]. The law requires managers to be

[16] . Securities Exchange Act of 1934, Pub. L. No. 73–291, 48 Stat. 881 (United States).
[17] . Investment Company Act of 1940, Pub. L. No. 76–768, 54 Stat. 789; see also 17 CFR Part 270.
[18] . Investment Advisers Act of 1940, Pub. L. No. 76–768, 54 Stat. 847; see also 17 CFR Part 275.
[19] . Employee Retirement Income Security Act of 1974 (ERISA), Pub. L. No. 93–406, 88 Stat. 829.
[20] . Langbein, J. H., "The Supreme Court Flunks Trusts," Supreme Court Review, Vol. 1990 (1991), pp. 207–237
[21] . German Capital Investment Code (Kapitalanlagegesetzbuch – KAGB), Federal Law Gazette I, p. 1981, as amended.
[22] . UCITS Directive, Directive 2009/65/EC of the European Parliament and of the Council.
[23] . Alternative Investment Fund Managers Directive (AIFMD), Directive 2011/61/EU of the European Parliament and of the Council.

Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

fully licensed or registered with BaFin[24]. If a fund is internally managed, the fund itself must obtain a license or registration.

German investors investing in investment funds include retail investors, institutional investors, high-net-worth individuals (HNWIs), and family offices. Institutional investors primarily consist of professional pension schemes (berufsständische Versorgungswerke), insurance companies, tax-exempt corporate pension funds (Pensionskassen and Pensionsfonds), and banks[25].

Proposals Based on the Analysis. Based on the results of the analysis, it is recommended to supplement the Law of the Republic of Uzbekistan *"On Investment and Mutual Funds"* with the following provisions:

Article 4[1]. Investment Company

An investment company is a commercial organization engaged in forming and pooling funds attracted from qualified investors for subsequent investment in innovative and other promising projects, managed by a management company.

Article 4[2]. Management Company

A management company is a commercial organization that manages the investment contributions of an investment company in accordance with an agreement concluded between them.

Article 4[3]. Venture Fund

A venture fund is an investment company under the management of a management company, intended exclusively for investing pooled funds in high-risk venture projects.

Article 4[4]. Private Pension Fund

A private pension fund is a commercial organization that directs funds voluntarily contributed by citizens of the Republic of Uzbekistan to pension accounts into promising investment projects. The organizational and legal form and management procedures of a private pension fund shall be determined by its founding documents.

Article 4[5]. Qualified Investors

Qualified investors are legal entities and individuals, including foreign persons, who have contributed investment funds of not less than 500 million Uzbek soums, in national currency and/or foreign currency at the Central Bank exchange rate on the date of contribution, to investment companies.

Article 4[6]. Investment Contributions

Investment contributions are funds provided by a qualified investor to an investment company for the purpose of conducting investment activities and do not constitute a share in the authorized capital of the investment company.

Article 4[7]. High-Risk Venture Projects

High-risk venture projects are projects typically at an early stage of development or expansion, of a commercial nature, where expected returns are realized in the long term and the risk of capital loss is high.

Article 4[8]. Innovative Activity

[24] . Act Establishing the Federal Financial Supervisory Authority (Finanzdienstleistungsaufsichtsgesetz – FinDAG), Federal Law Gazette I, p. 1310.
[25] . European Central Bank, Institutional Investors Statistics (ECB Statistical Data Warehouse, Frankfurt, 2022).

Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

Innovative activity is activity aimed at creating and using intellectual products, researching original ideas, transforming them into goods and services, and organizing the effective satisfaction of demand for such goods and services[26].

The incorporation of these provisions into legislation would significantly contribute to the growth of collective investment and the increase in the number of institutional investors.

Results and Discussion. The analysis demonstrates that despite significant reforms aimed at improving the investment climate in Uzbekistan, the legal regulation of collective investment remains fragmented and underdeveloped. Although presidential decrees and governmental resolutions have introduced key institutional concepts, these are not sufficiently reflected in core legislative acts, which undermines legal stability and investor confidence.

The study reveals that the dominance of state-owned investment companies limits the development of private collective investment mechanisms. In contrast, foreign experience—particularly in the United States and Germany—shows that diversified institutional investors, including private pension funds and professionally managed investment funds, play a crucial role in mobilizing long-term capital and supporting economic growth.

The absence of private pension funds and the limited scope of qualified investors further constrain the expansion of collective investment in Uzbekistan. The proposed legislative amendments seek to address these shortcomings by clearly defining the legal status, functions, and operational principles of investment companies, management companies, venture funds, private pension funds, and qualified investors. These measures would contribute to aligning national legislation with international standards and improving the effectiveness of collective investment mechanisms.

Conclusion. The development of collective investment and institutional investors is a key prerequisite for strengthening Uzbekistan's capital markets and achieving long-term economic growth. The current legislative framework, while reflecting important reforms, lacks comprehensive and stable regulation of newly introduced investment institutions. This article demonstrates that incorporating clear legal definitions and regulatory provisions into the Law of the Republic of Uzbekistan "On Investment and Mutual Funds" is essential for enhancing legal certainty, investor protection, and market efficiency.

The proposed legislative amendments, informed by foreign experience and national policy objectives, would facilitate the growth of private investment companies, venture funds, and private pension funds. Ultimately, these reforms would promote broader public participation in investment activities, increase the volume of collective investment, and support the formation of a sustainable and competitive investment ecosystem in Uzbekistan.

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Volume: 5 Issue: 01 | Jan–2026 ISSN: 2720-6882
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16. Securities Exchange Act of 1934, Pub. L. No. 73–291, 48 Stat. 881 (United States).
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