THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN TRANSFORMING UZBEKISTAN'S AUTOMOTIVE INDUSTRY. THE CASE OF UZAUTO MOTORS

Azizbek Usmonovich Abrakhmatov
Treasury Director, UzAuto Motors JSC, Lecturer at Management Development Institute of Singapore in Tashkent

https://doi.org/10.5281/zenodo.14191595

Abstract. *Over the last three decades, Uzbekistan being one of the largest car manufacturing countries, has witnessed a transformation in its automotive sector, stimulated by increased demand for vehicles, stronger purchasing power of customers and increased competition in the market. Continuous progress in today's business environment requires innovation and modern solutions to improve day-to-day operations.*

Active participation of international financial institutions has played significant role in shifting local companies and banks into new levels, introducing new sources of finance, entering international capital markets, transformation of corporate governance, discovering environmental, social and governance standards, as well as international financial and rating standards.

Keywords: *automotive industry, car manufacturing, international financial institutions, transformation, corporate governance, financing, international capital markets.*

Over the years Uzbekistan has become significant player in the automotive industry in the region. Since first assembly of cars in Uzbekistan in 1996, automobile production industry has passed through various development and reorganization milestones. The first vehicle production company in Uzbekistan "UzDaewooAuto" CJSC was established in 1993 in Andijan region as a joint-venture with Korean Daewoo Motors. In 2008, following the purchase of 25 of shares by General Motors the company was renamed to "GM Uzbekistan" CJSC, and started producing light vehicles under Chevrolet brand. In 2014 production plant was opened in Pitnak, Khorezm region. In 2019, after acquisition of all shares by Uzavtosanoat JSC, the company changed its name to "UzAuto Motors" JSC.

In 2020 a new light vehicles production company ADM Jizzakh started its operations in Jizzakh region. Currently the company has established SKD (semi-knock down) and limited CKD (complete-knock down) production of Kia and Chery branded vehicles. In 2023, "BYD Uzbekistan Factory" LLC, a joint venture between "Uzavtosanoat" JSC and BYD (China), was established and started production of hybrid and fully electric vehicles in Jizzakh region. Also, various original equipment manufacturers (OEM) are manufacturing special equipment vehicles, buses, and trucks in different regions of Uzbekistan.

UzAuto Motors JSC, being the leader of the automotive industry in Central Asia, has diligently implemented global standards in corporate and financial management strategies throughout the preceding decade. This commitment stems from the evolving commercial landscape, the imperative to diversify funding streams, and bolster the company's appeal to investors. Recognizing the paramount significance of transparency and trust in international

commerce, the company initiated its transformation journey by adopting international financial reporting standards in 2017.

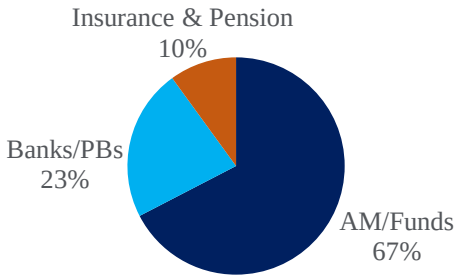
Overall financial transformation process at state-owned enterprises in Uzbekistan, particularly at UzAuto Motors JSC, is being carried out at following stages:

- financial reporting in accordance with IFRS;
- setting reliable enterprise resource planning system;
- identification of sources of financing for investment projects and initiating direct relationships with international financial institutions;
- attraction of syndicate loans or export-credit agencies backed loans based on financing needs;
- acquisition of credit rating from recognized international rating agencies;
- issuance of Eurobonds in international stock exchanges;
- environmental, social and governance reporting and rating;
- initial public offering (IPO) in local and international stock exchanges.

Emphasizing the critical role of international cooperation, the company began engaging with international financial institutions in 2019 by announcing a new investment project to manufacture new passenger car models based on General Motors' Global Emerging Markets (GEM) platform. The project was financed through a combination of the company's own funds and international loans. After negotiating with various international banks, Credit Suisse AG expressed interest in financing the project, along with support from international export-credit agencies. The company successfully secured its first international syndicate loan of EUR 150 million from Credit Suisse AG's London branch, Kazakhstan's Halyk Bank, and others in 2020. This initial direct collaboration with an international bank prompted a reassessment of the company's corporate governance, financial management, modeling, and adherence to covenants. The attraction of first syndicate loan was followed by attraction of export-credit agency backed loan in 2022 and another syndicate loan in 2023.

The long-term investment project necessitated additional funding with extended maturity and fixed costs. In a historic move, Uzbekistan issued two tranches of Eurobonds totaling USD 1 billion in 2019. This was followed by local banks issuing their own Eurobonds in international capital markets. Building on this precedent, UzAuto Motors JSC became the first corporate entity in Uzbekistan to successfully issue debut Eurobonds worth USD 300 million on the London Stock Exchange in 2021.

During the preparation for the Eurobonds issuance, with significant involvement from the global coordinator Citigroup plc and joint bookrunners Raiffeisen Bank International, Natixis, and MUFG, the company underwent a pivotal transformation in its financial management. First, the company obtained credit ratings from leading international agencies, including Fitch Ratings (B+, stable outlook) and S&P Global (B+, stable outlook). The time required to prepare financial reports in accordance with IFRS was significantly reduced to 180 days. Additionally, the company began issuing half-year financial reports with audit reviews. Furthermore, arrangements were made with international banks for future collaboration in new areas, such as trade finance. Good preparation for the transaction allowed the company to be the first non-sovereign issuer in the history of Uzbekistan to issue bonds in 144A and RegS formats. As per issuance results allocation of bonds among investor types and regions was as follows:



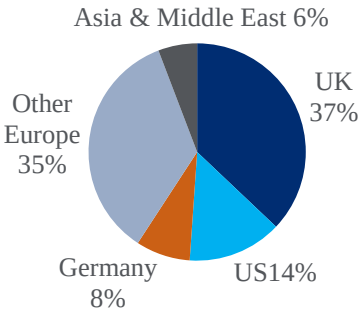


Figure 1.

Allocation of UzAuto Motors JSC USD 300m Eurobonds in 2021 by investor types and geography.

Key transaction achievements were defined by Citigroup as follows:

- Inaugural international public transaction for UzAuto and first ever Uzbek Corporate Eurobond issuance;
- First non-sovereign bond issued in 144A/RegS format out of Uzbekistan;
- Impressive tightening of 52.5bps from IPT to landing on the back of strong investor response;
- Near 5x oversubscription at peak and the largest orderbook by an Uzbek SOE ever;
- Lowest coupon for non-IG EM Auto producer since 2014.

The company is continuing dialogue with international investors by holding videoconference calls, non-deal roadshows and updating on company's financial performance and maintaining investors' interest in industry and peer issuers from Uzbekistan.

Another important step for transformation of local SOEs is setting effective corporate social responsibility standards within organization. Corporate social responsibility is the concept that companies are accountable for generating beneficial effects on society and the environment. CSR enables companies to implement sustainable practices that positively affect the environment. This involves lowering carbon emissions, enhancing energy efficiency, sourcing materials sustainably, and managing supply chains responsibly. Placing effective CSR standards at the company allows the attraction of affordable financing from international investors, e.g. by issuing green bonds. UzAuto Motors JSC is actively working in cooperation with international consultants on developing its ESG strategy. The company has published its first ESG self-report in 2023 and externally prepared ESG report together with audit and rating being drafted.

One of the final stages of financial transformation of a state-owned automotive company is initial public offering at local and international stock markets. In addition to raising capital for investment projects, IPO allows the company to increase its corporate governance standards, transparency and social responsibility. The public offering of shares in international capital markets is planned to be conducted with the support and advice of international financial institutions. This will serve as a crucial element in the final stages of transforming a local company into an international entity.

REFERENCES

1. Stiglitz, J.E. (2002). Globalization and Its Discontents. W.W. Norton & Company.
2. Marshall, K. (2008). The World Bank: From Reconstruction to Development to Equity. Routledge.
3. Vreeland, J.R. (2003). The IMF and Economic Development. Cambridge University Press.

4. Sundaram, J.K. and Ocampo, J.A., eds. (2008). Reforming the International Financial System for Development. Columbia University Press.

5. O'Brien, M.F.G. and Jorgensen, P.D., eds. (2016). The Role of International Financial Institutions in Global Financial Crises. Edward Elgar Publishing.

6. Mosley, P. (1995). Debt and Development: The Role of Foreign Aid and International Financial Institutions in Economic Development. Routledge.

7. Paloni, A. and Zanardi, M., eds. (2006). The IMF, World Bank and Policy Reform. Routledge.

8. Boughton, J.M. (2012). Tearing Down Walls: The International Monetary Fund 1990-1999. International Monetary Fund.

9. Woods, N. (2006). The Globalizers: The IMF, the World Bank, and Their Borrowers. Cornell University Press.

10. Killick, T. (1998). Aid and the Political Economy of Policy Change. Routledge.

11. Grabel, I. (2018). When Things Don’t Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence. MIT Press.

12. Helleiner, E. (2014). The Status Quo Crisis: Global Financial Governance After the 2008 Meltdown. Oxford University Press.

13. Easterly, W. (2006). The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good. Penguin Press.

14. Stiglitz, J.E. and Greenwald, B. (2014). Creating a Learning Society: A New Approach to Growth, Development, and Social Progress. Columbia University Press.

15. Palley, T.I. (2015). Financialization: The Economics of Finance Capital Domination. Palgrave Macmillan.