



## **CURRENT STATE OF VALUATION PROCESS IN UZBEKISTAN**

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### **Abstract**

*The article empirically analyzes the current state of valuation process in Uzbekistan with the help of theoretical thoughts of scientists, regulations and reforms in the example of the Single National Valuation Standard of the Republic of Uzbekistan. Scientific conclusions are given on the basis of investigating valuation process in Uzbekistan. The purpose of the study is to analyze the current condition of valuation process in Uzbekistan in terms of collateral valuation. According to the analysis, the effectiveness of newly adopted valuation Standard is not guaranteed in practice though it includes main aspects and methods of global valuation.*

*Keywords: valuation, appraiser, valuation company, the Single National Valuation Standard*

### **INTRODUCTION**

Valuation plays an important role in achieving economic development, the development of various sectors of the economy, as well as the creation of broad opportunities for various forms of doing business in Uzbekistan. To be effective in this process, it is necessary to establish valuation methods and develop effective mechanisms to regulate this activity. Although there is a need to pay attention to these aspects in valuation practice today, we can see that its effective mechanisms have not been developed or are not applied in practice.

In global practice, valuation is important for commercial banks and companies in both developed and developing countries to increase operational efficiency, so different scientists learn and investigate different aspects of valuation such as stock valuation, business valuation, valuation of collateral for bank loans, methods of valuation and etc. In business valuation, there

are many reasons to value the businesses such as purchasing a company, acquisition, merger, IPO, credit rating and other different reasons (Sinem Derindere Köseoğlu, Saad Salman Awad Almeany (2020)).

Samaneh Sharafoddin and Elmira Emsia (2016) stress the need to take into account some factors of companies as well as scientific and practical methods in the valuation of stocks. These factors include: industrial conditions, supply and demand for company products, local and international market conditions, technology, company life, product prices, and competitive status. Although these factors are qualitative, they can be explained quantitatively using economic models.

Stock valuation is important for investors to choose low-rated stocks for added benefit, but it can be difficult to use stock valuation results because different models produce different values for the same stock. This means that the value of stocks should be valued in more methods than only one (Ping-Chen Lin, Jiah-Shing Chen (2007)).

Researchers typically use a market approach rather than discounted methods to evaluate stocks, but in recent years there has been a growing trend for analysts to use both of them (Blazej Prusak (2017)).

According to Ali Amiri, Hamid Ravanpaknodezh and Akbar Jelodari (2016), there are usually two approaches while valuing stocks. Under the first approach, a company's share price is deducted from the total value of its asset components (land, buildings, plants and machinery) after debts are written off. In the second approach, the company's stocks are equal to the present value of its cash inflows, which is associated with risk and financing costs.

Amin Akbari (2013) pointed out that the need for stock valuation on the one hand and the lack of a unified set of indicators for valuing stock on the other hand have made stock valuation one of the most important issues today.

Banks should value collaterals properly in the credit loans. The theoretical literature lists three main reasons for the use of collateral by banks. First, the bank tends to require collateral because it reduces credit loss if the loan is not repaid. Second, collateral encourages the borrower to make an accurate valuation of his or her future financial condition, which in turn can solve the problem of incorrect choice in making a loan decision by the bank. Third, collateral can reduce unforeseen problems that a borrower may have after investing in risky projects or ensuring the success of a loaned project (Regis Blazy, Laurent Weill (2006)).

The above-mentioned scientists pay attention to different features, methods and types of valuation processes, but all of them claim that valuation is one of the most important fields in the economy.

## MATERIALS AND METHODOLOGY

Today the valuation methodology (including effective valuation methods such as income approach, asset-based approach, market approach and etc.) which is globally admitted and useful to implement in companies is very necessary for valuation companies in Uzbekistan. In addition, valuation companies pay attention to the different valuation objects in order to protect companies from different losses. The market value of the valued object is the most likely price at which the object of valuation will compete in the open market. The parties in the transaction act rationally and voluntarily in their interests with all the necessary information. If the legal document or the contract on valuation of the object does not specify the exact type of value, the market value of the object should be determined. This rule also applies if the legal document defines the type of value of the object of valuation and is used in terms and situations which are not given in the legislature or valuation standards.

In Uzbekistan, the government has adopted the Single National Valuation Standard of the Republic of Uzbekistan, which was registered by the Ministry of Justice on June 4, 2020 under № 3239, in order to regulate valuation process effectively, provide solutions for different sudden situations and ease the process of adapting international valuation methods and practices. The Single National Valuation Standard includes several aspects of global valuation standards and provides for the harmonization of national valuation standards with the principles of international valuation standards and the unification of 13 existing documents on the basis of the Regulation approved by the Decree of the President of the Republic of Uzbekistan № 5505 dated August 8, 2018. In addition, The Law "On Valuation Activities", the Decree of the President of the Republic of Uzbekistan №5953 of March 2, 2020 and the Resolution of the President of the Republic of Uzbekistan №4381 of July 1, 2019 help to control and regulate valuation process on the basis of the principles of international valuation standards and practices. The legislature defines the procedure for carrying out valuation activities, including the procedure for valuing property, types of value, object of valuation, approaches to valuation and valuation methods, as well as the procedure for valuing property in all forms of ownership.

Table 1 Structure of the Single National Valuation Standard of the Republic of Uzbekistan (01.05.2020)

<b>Units</b>	<b>Meaning of the Standard</b>	<b>NVS (National Valuation Standard)</b>
Unit 1	Principles, terms and definitions used in valuation process	NVS № 1
Unit 2	Tasks related to valuation	NVS № 2

<b>Units</b>	<b>Meaning of the Standard</b>	<b>NVS (National Valuation Standard)</b>
Unit 3	Study and analysis in valuation process	NVS № 3
Unit 4	Reports in valuation	NVS № 4
Unit 5	Databases of valuation	NVS № 5
Unit 6	Methods of valuation	NVS № 6
Unit 7	Business and business participation valuation	NVS № 7
Unit 8	Real estate valuation	NVS № 8
Unit 9	Intangible assets valuation	NVS № 9
Unit 10	Inventories valuation	NVS № 10
Unit 11	Machine and equipment valuation	NVS № 11
Unit 12	Valuation of public housing fund for privatization purposes	NVS № 12
Unit 13	General requirements for internal rules of quality control of appraisers' work	NVS № 13

The Single National Valuation Standard consists of Principles, Terms and Definition Used in Valuation Activities, Tasks of Valuation, Studies and Analysis of Valuation, Reports of Valuation, Databases of Valuation, Methods of Valuation, Business and Business Participation Valuation, Real Estate Valuation, Intangible asset valuation, inventory valuation, machinery and equipment valuation, valuation of state housing funds for privatization purposes and general requirements for internal rules of quality control of appraisers' work (Table 1).

## RESULTS

While analyzing the current state of valuation process in Uzbekistan, it is essential to pay attention the activities of valuation companies. In accordance with the Law of the Republic of Uzbekistan "On valuation activities", valuation activities are carried out on the basis of a license. Today, all 231 state-registered legal entities operate on the basis of licenses to carry out valuation activities in Uzbekistan (Table 2).

At the same time, 5 global organizations in the field of valuation are operating in Uzbekistan. These are Ernst&Young Valuation LLC, Grant Thornton Valuation LLC, Deloitte LLC, KPMG Valuation and Consulting LLC and PRICE WATER HOUSE COOPERS BUSINESS ADVISORY SERVICES LLC. These foreign valuation organizations are engaged in valuation activities with a license to conduct valuation activities in the manner prescribed by law.

Table 2 The number valuation companies and appraisers in Uzbekistan

<b>№</b>	<b>Regions</b>	<b>The number of valuation companies licensed</b>	<b>The number of certificated appraisers</b>
1.	Tashkent city	107	398
2.	Tashkent	2	72
3.	Syrdarya	1	15
4.	Jizzakh	3	27
5.	Samarkand	13	92
6.	Fergana	19	109
7.	Namangan	12	69
8.	Andijan	14	103
9.	Kashkadarya	8	61
10.	Surkhandarya	6	28
11.	Navai	5	36
12.	Bukhara	16	64
13.	Khorezm	14	57
14.	The Republic of Karakalpakstan	11	58
<b>Total</b>		<b>231</b>	<b>1189</b>

*Source: www.davbaho.uz – The licensing the valuation and real estate activities of the State Assets Management Agency of the Republic of Uzbekistan*

Activities and practices of such foreign companies in Uzbekistan comes handy to improve valuation process in national companies so increasing the number of foreign companies is beneficial to develop valuation practice in Uzbekistan. To achieve the development of valuation practices the authority is trying to form the business environment for valuation companies by improving the legislature, especially, the Single National Valuation Standards.

Table 3 The changes in the Single National Valuation Standards

<b>№</b>	<b>Valuation Process</b>	<b>The Former State</b>	<b>The Latter State</b>
1.	<b>Fixed Assets</b>	When assessing the value of fixed assets, their value determined by the results of the valuation should not be less than the residual value of the balance sheet, reflected in the	Such a restriction has been cancelled. As a result, the appraisers eliminated the dependence of the unrealized residual value on the residual

<b>№</b>	<b>Valuation Process</b>	<b>The Former State</b>	<b>The Latter State</b>
		accounting of the enterprise and reflected in the balance sheet of the enterprise.	value of the property as a result of the rvaluation of the property.
<b>2.</b>	<b>Real Estate</b>	In the valuation for the purpose of privatization of real estate, if the calculated total depreciation is more than 70 percent, 70 percent is taken as the basic indicator of depreciation.	Such a restriction has been cancelled. As a result, as a result of the rvaluation of the appraisers' property, the dependence of the unrealized residual value on the residual value was eliminated.
<b>3.</b>	<b>The Rights of Using Lands</b>	Valuation of the value of land use rights is carried out by capitalizing the land rent rate equal to the land tax on the date of valuation. In this case, the capitalization rate is set equal to the refinancing rate of the Central Bank of the Republic of Uzbekistan.	Such a restriction has been cancelled. As a result, the valuation of land rent or right of use is based on market data.
<b>4.</b>	<b>Transport</b>	In assessing the value of fixed assets, the value determined by the results of their valuation is reflected in the accounting of the enterprise and the balance sheet balance, which is reflected in the balance sheet of the enterprise.	Such a restriction has been cancelled.
<b>5.</b>	<b>Off-Balance Firms</b>	Deduction of 50 percent depreciation on the off-balance sheet value of the economic inventory in use, belonging to the assessed enterprise.	Such a restriction has been cancelled.
<b>6.</b>	<b>Stocks</b>	The calculations that give the maximum amount of value are accepted as the final value of the shares. In this case, the value of the block of shares may not be less than the value of the book value.	The final value of the block of shares is taken as the coordinated value of the approaches used.
<b>7.</b>	<b>Business Valuation</b>	Discount rate when assessing the value of enterprises, including the percentage of state-owned shares, stakes, shares in the charter capital of enterprises, deducting 2% of the long-term growth rate of cash flows.	These requirements are not addressed within the standards at all, the standards only set out the principles and rules of valuation, and reflect the best world practice.

After adopting the Single National Valuation Standards several valuation processes are changed in order to increase the effectiveness of valuation. For instance, valuation of fixed assets, real estate, transport and etc. covers the changes (Table 3).

Table 4 Difference between the National Standard of Property Valuation and the Single National Valuation Standard

According to the National Standard of Property Valuation	According to the Single National Valuation Standard	Note
<p>When performing an appraisal, the appraiser should use the income, comparative and cost approaches of the appraisal (or justify the reasons for refusing to use).</p> <p>Standard № 10, Paragraph 23</p>	<p>If the appraiser is confident in the accuracy and reliability of the single valuation method, taking into account the terms of the valuation task, there is no need to use more than one valuation method.</p> <p>If more than one valuation approach and method or several methods are used within a single approach, the conclusion of the valuation obtained using such approaches and / or methods should be substantiated, and the process of analyzing and finalizing different valuations should be described in the report.</p> <p>SECTION VI. VALUATION APPROACHES AND METHODS, Paragraph 97</p>	<p>If the appraiser is confident in the reliability of the data collected to carry out the valuation work, he or she may use one approach that is deemed most appropriate, taking into account the condition of the valuation task. In turn, it is possible to perform valuation work using multiple methods within a single approach.</p>
<p>When assessing the value of fixed assets, their value determined by the results of the valuation should not be less than the residual value of the balance sheet, reflected in the accounting of the enterprise and reflected in the balance sheet of the enterprise.</p> <p>Standard № 8, Paragraph 53.</p>	<p>The obligation that the determined appraisal value should not be less than the residual value of the balance sheet is removed.</p>	<p>Even if the real market value of the object of valuation represents a value less than the residual value of the balance sheet, the final price must represent the market value.</p>
<p>In the valuation of the right to use real estate and / or land plots as the capitalization rate - in the amount equal to the refinancing rate of the Central Bank of the Republic of Uzbekistan.</p> <p>Standard № 8, Paragraph 30.</p>	<p>The capitalization rate is calculated by the appraiser.</p> <p>SECTION VI. VALUATION APPROACHES AND METHODS, Paragraph 148.</p>	<p>The refinancing rate was set by the Central Bank of the Republic of Uzbekistan from 14.09.2020 to 14%:  <math>100,000,000 / 14\% = 714,285,714</math> soums</p> <p>If the capitalization rate is determined by the appraiser to be 25%:  <math>100,000,000 / 25\% = 400,000,000</math> soums</p>

The National Standard of Real Estate Valuation of the Republic of Uzbekistan included a separate valuation standard governing the valuation of privatization objects. This standard ensures the integrity of the mechanism for determining the market value of privatization objects and private real estate. This, in turn, plays an important role in the implementation of investment projects in Uzbekistan by foreign investors. In the Table 4, a few changes are given in the legislature after adopting the Single National Valuation Standard.

## DISCUSSION

Today the government is paying to improve valuation activity in Uzbekistan. Although the authority of Uzbekistan put into practice the newly adopted the Single National Valuation Standard, there are several problematic sides related to the implementation of the Standard. Firstly, implementing the latter standard takes some time because valuation companies operated the former standard during several years. In this process, appraisers should learn the changes and new requirements during valuation processes and the authority should also pay attention to increase the qualification of the specialists.

Secondly, the effectiveness of newly adopted Standard is not guaranteed in practice though it includes main aspects and methods of global valuation. Sometimes adapting features of global valuation practices to national practice may be unsuccessful if the indicators and features are not evaluated properly.

Thirdly, the development level of financial market also plays important role in the valuation processes. If the financial market develops well, needs for valuation of stocks, businesses, real estates and etc. will increase and affect the valuation activities positively. Otherwise, it may be useless to strengthen the legislature of valuation activities in Uzbekistan.

Fourthly, another problem is related to information which is given by regional appraisers and valuation companies. There are lack of information and information asymmetry when the general tendency of valuation activities should be analyzed in Uzbekistan.

At the moment, valuation companies in Uzbekistan are facing some of these problems, but the reforms in the valuation field will bring enormous benefit if these changes put into practice well.

## CONCLUSION

While learning the current state of valuation process in Uzbekistan, the following conclusions are given. First, valuation is crucial for companies and commercial banks in purchasing companies, acquisition, merger, credit rating, initial public offering and others, because valuation gives a chance to know fair value of objects.



Second, companies need to take into account some factors of companies such as industrial conditions, supply and demand for company products, local and international market conditions, technology, company life, product prices, and competitive status in the valuation of stocks. These factors can be helpful to identify qualitative and quantitative information in valuation.

Third, the authority should pay attention to qualification of appraisers in Uzbekistan. Increasing of their knowledge on valuation comes handy to develop valuation activities in Uzbekistan. Additionally, it is useful to implement the Single National Valuation Standards in valuation companies and organizations.

Fourth, the authority of valuation activities should create the single database of appraisers and valuation companies in Uzbekistan. It can be helpful to ease information transactions and prevent appraisers and valuation companies from information asymmetry. Moreover, the single database can be useful to count different statistics related to valuation and receive valuation reports. Today there are problems related to lack of information of regional valuation companies due to low level of qualification, infrastructure and others. This database comes handy to solve such problems.

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