

HOW TO PARTICIPATE IN THE LOCALIZATION PROGRAM

A thorough analysis of reports from economic establishments over the last three years suggests that the Program of Localization has really become an efficacious factor behind the development of production, putting into production of new commodity categories and expansion of the range of industrial-technical output and consumer goods. Launching the production of a wide selection of product groups, such as lorries, special means of transport, urban and international buses, rolled metal, section pipes for gas mains, wall panels filled with ecologically pure basalt fiber and vermiculite, seemed incredible in Uzbekistan several years ago.

Today, wide ranges of quality commodities are made at indigenous enterprises based on industrial cooperation. These include refrigerators, air-conditioners, automatic and semi-automatic washing machines, electric and gas cookers, combined photoelectric stations, light-diode bulbs, mobile telephones, tablet PCs and other product categories, previously imported to the Republic.

By and large, the policy pursued by the Uzbek government to boost the development of the real sector of the national economy, by processing local raw materials on the basis of both the localization of production and industrial cooperation, has completely proved its value. Moreover, it has become one of the main factors of the nation's economic growth and the improvement of material welfare of its population.

The popularity of these stimulating mechanisms tends to augment year in, year out, with localizations projects swelling in number. The same is true of enterprises that supply their produce under industrial cooperation agreements.

In this connection, the appropriate question, "How to become a participant of the Localization Program?" can be heard very frequently.

The legislative framework for such participation is formed by the following documents: the Presidential Resolution No ПП-1048, "On the Program for Localization of production of finished goods, components and materials on the basis of industrial cooperation" as of January 27, 2009, and the Presidential Resolution, "On the Localization Program for the next period" (as a rule for the period of 3 years and forecast parameters for the next year), for instance, the Presidential Resolution No ПП-2120, "On the Program for Localization of production of finished goods, components and materials for the period 2014-2016" dated February 4, 2004.

Both the initiation mechanisms and a procedure for consideration of localization projects are specified in the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No 154, "On the procedure for formation of the Program for Localization of production of finished goods, components and materials on the basis of industrial cooperation" as of July 21, 2010.

A given document provides for the creation of an integral system, in conformity with which such local programs are elaborated and implemented, with the functions being distributed among and the plenary powers determined for the Ministry of Economy, the Ministry of Foreign Economic Relations, Investment and Trade, initiators of localization projects and other authorities.

It is stipulated, in particular, that localization programs are approved by the President of the Republic of Uzbekistan.

Decisions to include new projects in the Localization Program and to introduce amendments into the approved Localization Program may be made by the following authorities:

The Special Interdepartmental Commission for Implementation of Localization Programs – in cases where it is required to introduce corrections into some parameters of the Localization Program, with the exception of those bringing down the established level of localization;

The Cabinet of Ministers of the Republic of Uzbekistan – in cases where it is required to introduce amendments into both the parameters and a list of localization projects, following the appropriate proposals from the Special Interdepartmental Commission.

A localization program is formed by the Special Interdepartmental Commission's Secretariat, consisting of personnel of the Ministry of Economy of the Republic of Uzbekistan, on the basis of proposals presented by project initiators, such as ministries, departments, local authorities, enterprises and associations.

Another question is: how such proposals are formed?

First of all, a proposal is formed taking into account a list of imported goods, whose production can be launched at domestic enterprises on the basis of local raw materials. Such a list of imports is compiled in a centralized way in the process of the scrupulous analytical work carried out by the Ministry of Economy, the Ministry of Foreign Economic Relations, Investment and Trade, the State Committee on Demonopolization and Competition Development of the Republic of Uzbekistan, in conjunction with the Ministry

of Agriculture and Water Supply, the State Committee on Geology and Mineral Resources of the Republic of Uzbekistan, the Uztyazhneftegazkhimproekt Institute and other specialized institutions, on the basis of their in-detail study of mineral, raw stuff, industrial, scientific-technical and labour potentialities and appropriate infrastructural facilities available in the Republic's regions.

Localization projects are also initiated by economic establishments themselves, including ministries, departments, local authorities, economic associations and enterprises proceeding from the expediency of their development, modernization and expansion of the scope of their production and economic linkages.

These proposals, included in the Localization Program as recommended ones, determine the directions in which to develop the manufacturing industry in the country. Apart from the Localization Program itself, these proposals can be viewed at the web site of the Board of Directors of the International Industrial Fair and Cooperation Exchange.

Ministries, economic associations, local authorities together with indigenous enterprises thoroughly study these proposals, whereupon they work out the stages and time periods required to launch the production of new categories of localized goods (coordination of technical parameters and requirements to the quality of new produce, preparation of production facilities, production and trial of an experimental specimen, readiness for mass production etc.).

A package of such measures is finally approved by heads of the Cabinet of Ministers' corresponding complexes.

If not a single enterprise expresses the wish to put into production new categories of localized output, the Secretariat of the Special Interdepartmental Commission sends a proposal to the following organizations:

The Ministry of Foreign Economic Relations, Investment and Trade of the Republic of Uzbekistan – to elucidate whether or not the attraction of foreign investments is expedient for putting into production one or another recommended category of localized product;

The Academy of Sciences of the Republic of Uzbekistan – to study the expediency of developing an acceptable scheme for the distribution of production of parts and units, which are needed for putting into production more complex categories of localized produce at several enterprises on the

basis of industrial cooperation; as well as to develop new efficient technologies and to conduct scientific-technical and developmental works.

The second direction in which localization projects are formed is the work on the improvement of economic linkages and the development of industrial cooperation carried out by ministries, economic establishments, regional khokimiyats and enterprises. In this case, project initiators should ensure:

The organization within the framework of sectoral and regional industrial fairs of presentations of new categories of produce they recommend for putting into production;

The conclusion with partners of agreements that specify the conditions on which to combine efforts for putting into production new categories of produce on the basis of industrial cooperation;

The fulfillment of approved measures designed to localize the production of recommended commodity categories.

While putting into production new localized commodity categories, the initiators of localization projects work out and submit to the Secretariat of the Special Interdepartmental Commission a passport of localization project, enclosing an appropriate application and a report of an enterprise's performance over the past two years.

The assessment and inclusion of projects in the Localization Program are carried out on the basis of unified criteria and requirements imposed on both the formation and insertion of corrections into the Localization Program.

On what grounds is a proposal for the inclusion of a project in the Localization Program put forward? To begin with, a project's parameters should meet the following criteria:

The availability of production capacities and local raw materials needed for the organization of production of localized output;

The localized output should account for no less than 30 per cent of the localization level;

The localized output's CN FEA commodity position should differ from that of the initial raw stuff at least by one of the first four figures;

The availability of demand for localized produce in the home market and abroad;

The availability of similar imported produce (with the exception of cases where new commodity categories are made);

The availability of agreements or preliminary understandings signed with potential consumers of localized produce;

The selling price for localized produce should not be higher than that for similar imported goods (including carriage charges associated with the delivery of imports to the Republic of Uzbekistan, taxes and customs duties).

At the same time, enterprises that have introduced the international quality management system have the preference for the inclusion in the Localization Program of their projects, provided the latter meet all the foregoing criteria.

Developing the production of new categories of output and setting up new production facilities entail the resolution of a number of organizational and technical problems. Moreover, it is not always possible to reach a high level of localization and deep processing of localized produce, in keeping with the “sufficient rate of processing” international criterion, just from the start of its serial production.

In a move to impart more flexibility to the decision-making process, the Special Interdepartmental Commission is given the right to make a decision (by way of exception) on the inclusion in the Localization Program of the following projects:

Localization projects, whose level of localization does not exceed 30 per cent – on condition that it will be brought to 30 per cent within 12 months;

Localization projects, which do not guarantee the change of the output's CN FEA commodity position, compared with that of the initial raw material, by one of the first four figures at the minimum, on condition that the economic expediency of production is precisely assessed.

It should be mentioned that in the Localization Program for the period 2014-2016 only 1 project out of 472 ones has a localization level below 30 per cent and 9 projects have a localization level that varies from 30 per cent to 35 per cent.

Another significant thing, which deserves special attention, is the requirement to limit the term fixed for the inclusion of a project in the Localization Program.

To localize the production of one category of output, an enterprise is included in the Localization Program for a term of no less than 3 years.

In exceptional cases, the Special Interdepartmental Commission may prolong the term fixed for an enterprise's inclusion in the Localization Program, provided the following requirements are met:

A step-by-step increase of the localization level and a reduction of the share of imports in the prime cost of localized produce by organizing a deeper processing of local mineral and raw material resources and by developing (for example, by means of industrial cooperation) the production of components and materials previously imported to the Republic of Uzbekistan;

The transition to mass production of new categories of localized commodities, which are much in demand in the home market.

Taking into account the fact that production processes constantly evolve, as life itself changes in the course of time, project initiators are entitled to correct the initial parameters indicated in their projects.

The following corrections may be inserted in the Localization Program: the inclusion of new localization projects; alteration of separate parameters (such as forecast figures of production volumes and technical parameters, the name of a project, the name of an enterprise etc.) and exclusion of separate projects from the Localization Program previously included therein.

So, the initiators of projects meant to be included in the Localization Program are provided with ample opportunity to develop production of new product categories and to raise the level of localization. Besides, the terms, on which projects are included in the Localization Program, are transparent, simple and flexible enough. As for the Localization Program itself, it contains a multitude of unprecedented measures designed to encourage indigenous enterprises to process local raw materials.

As well as that, the state imposes certain limitations on localization projects, down to the exclusion from the Localization Program.

With a view to maintaining the sound competition in the home market, projects to manufacture the following product categories are not included in the Localization Program:

Products, which are made in the sound competitive environment;

The home market is satiated with a given product category or there are other local manufacturers of similar produce (in terms of technical and consumer characteristics); and production volumes of a given product category fully cover the home market's demand.

Grounds, on which projects may be excluded from the Localization Program, are as follows:

Liquidation of an enterprise or force majeure circumstances;

The absence of demand for a given product category in the home market, because of its non-competitiveness by both the quality and the price;

Non-fulfillment of the parameters forecast in the Localization Program (the production volume of more than 50 per cent and the localization level of over 10 percentage points to be reached by the end of the year);

The availability of the sound competitive environment, satiation of the home market or emergence of other local manufacturers of similar produce (in terms of technical and consumer characteristics), whose production volumes completely cover the home market's demand (but not earlier than 12 months after the privilege is granted);

Exposure of cases, where the funds released because of tax breaks and customs duty-related privileges are not used for the indicated purposes.

As soon as a project is excluded from the Localization Program, an enterprise, which implements a given project, is divested of its right to enjoy the tax breaks and customs duty-related privileges that are granted under the Localization Program.

One more important question concerns a package of documents that a project initiator is required to work out, and a body, to which these documents are to be sent.

The project initiators direct their proposals to correct the way in which new approved projects are included in and excluded from the Localization Program to the Secretariat of the Special Interdepartmental Commission, enclosing the documents set forth below:

For projects proposed for inclusion in the Localization Program – an application asking to include a project in the Localization Program, and for projects, whose privileges, in keeping with the legislation, may be used following a Special Interdepartmental Commission's decision – an application asking to use privileges.

Enclosed with the application should be the following documents:

A localization project's passport, containing a detailed description of technological equipment, parts and the technological process of localized commodity production;

An enterprise's approved bookkeeping balance (Form No 1) and an account of financial results (Form No 2) achieved by a given enterprise over the past two years, with a corresponding note made by state tax authorities;

To correct several parameters in projects included in the Localization Program – a more precisely defined passport of a localization project (with the exception of cases where only an increase of production volumes is concerned), an explanatory note, substantiating the need to change separate parameters, together with analytical materials and tables;

For projects proposed for exclusion from the Localization Program – an explanatory note, substantiating the need to exclude a project from the Program for Localization of production of finished goods, components and materials on the basis of industrial cooperation, approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No 154 “On additional measures to improve the mechanism for creating and realizing the Program for Localization of production of finished goods, components and materials on the basis of industrial cooperation” as of July 21st, 2010.

It should be observed that the documents presented to the Secretariat of the Special Interdepartmental Commission (it will be recalled that Secretariat’s functions are entrusted to the Ministry of Economy) are to be signed by an enterprise’s head and chief accountant.

It is also necessary to emphasize that a project’s initiator is responsible for the authenticity of provided information, pursuant to the law.

Insisting on the provision by a project initiator of any additional information, which is stipulated neither in the legislation nor in the present Regulations, is not allowed.

Depending on a project’s aim and sources of funding, the Secretariat of the Special Interdepartmental Commission should send, within two days, the proposals put forward by project initiators to corresponding authorities for consideration.

Proceeding with the publication of materials under the heading “How to participate in the Localization Program”, we consider it timely to comment upon the form of a localization project’s passport.

To begin with, it is necessary to point out that the passport of a localization project is a principal document, in keeping with which a project to produce localized output is implemented. It is one of the obligatory documents required to be submitted to the Secretariat of the Special Interdepartmental Commission when initiating a localization project.

The passport’s form is unified for all enterprises, irrespective of their type of ownership and line of activity. The unified form of the passport is specified in the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No 154, “On additional measures to improve the formation and

realization of the Program for localization of production of finished goods, components and materials on the basis of industrial cooperation” dated July 21, 2010.

A localization project’s passport consists of 11 structured sections, each of which provides detailed parameters of production of localized output, thus making it possible to comprehensively assess whether it is expedient or not to implement a given project. Its passport represents a simple table designed to demonstrate all manner of indicators that characterize a localization project, which is proposed for realization. Let’s consider these parameters in more detail.

In Section I, “Main information on the enterprise and localized produce”, a project’s initiator indicates the name of an enterprise, its OKPO code, INN, the form of ownership, the name of a higher authority, the legal address of an enterprise, the date of its creation and the line of activity it carries out (OKONX).

Besides, a general characteristic of an enterprise is provided, including the area occupied, the actual floor space of buildings and structures, industrial infrastructural facilities, basic industrial funds, production ground and its preparedness for the installation of equipment.

As far as localized produce is concerned, the following data are indicated: the name of produce, an appropriate code of Commodity Nomenclature of Foreign Economic Activity (the CN FEA 2012 version), correspondence of produce to the GOST, OST, TU and O’zDst standards and its technical parameters. In addition, this Section provides a detailed description of the technological process and equipment used to turn out a localized commodity, as well as its maximum production capacity.

The information presented in Section I gives a comprehensive idea of an enterprise and localized produce it plans to manufacture.

In Section II, a project’s initiator declares a series of predicted production-related parameters for the next 3 years, such as the volume and value of production, the level of produce localization and exports volumes of localized produce. If the level of localization is planned to increase on a stage-by-stage basis, a project’s initiator should indicate the concrete names of parts, raw stuff and materials in order to substantiate a gradually growing localization level. It should be stressed here that the parameters indicated in a given Section of the passport (in case of its approval) are used as a basis on which to shape the Localization Program and become an estimated reference point for their subsequent monitoring.

The very title of Section III – “Indicators of efficiency” – speaks for itself. The results of calculations of a project’s efficiency indicators are given in this Section. A project’s initiator also indicates the value added, which an enterprise is expected to generate when turning out localized produce. Its level is defined as the equivalent of a total amount of depreciation charges, profit and wages. The effect of import substantiation is also estimated here, which represents an alternative value of imports of similar produce. The saving of foreign exchange is forecast as the production volume divided by an average monthly rate of exchange, minus the amount of funds used to purchase imported parts and components needed for the production of localized output.

Additionally, a given Section contains the following indicators: the number of new jobs to be created in the course of realization of a localization project and a prospective volume of funds to be released thanks to the application of privileges.

Section IV presents calculations of turnover (in days) of the stocks of raw materials in the stock-house and finished goods, payment for raw materials, parts and municipal services and the period of entry of sales receipts.

In Section V, some basic economic parameters of planned production are determined. In fact, it is a financial forecast of a localization project, which shows conditional-variable costs, including the funds required to purchase imported and local raw stuff, materials and parts, municipal-services costs and other production-related expenditure.

Furthermore, conditional-variable costs (excluding the wage fund) are indicated in a given Section. Production, marketing and other kinds of expenditure are also determined here. Since all calculations are made in thou. Soum, it is very important to indicate the exchange course as of the date of filling in the passport.

Another part of Section V deals with calculations of the amount of wage expenditure, taking into account the total sum, including income tax, deductions to the Pension Fund, social insurance and trade-union dues.

It is also necessary to indicate the form of payment, current rates of taxes, their calculation base and periodicity of payment.

Having calculated all the indicators referred to in Section V, the initiator of a localization project prognosticates the main items of financial expenditure expected to be borne when realizing a given project. It should

be observed that all calculations provided in this Section are made on the basis of the maximum production capacity.

In Section VI, "Calculation of produce's prime cost", the amount of expenses associated with the production of localized output is determined, including the cost of imported and local raw stuff, materials and parts, as well as other expenditure, such as the net cost of production and the selling price of output.

It should be mentioned that the prime cost is calculated for each category of localized produce, with the indication of all expenses borne, down to the formation of the selling price. Production expenditure is determined as required in the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No 54, "On the approval of Regulations on the composition of expenditure associated with the production and sale of goods (works, services) and on the procedure for forming financial results" dated February 5, 1999.

When filling in a given Section, it is necessary to remember that raw stuff, materials and parts should be ranked with imports and domestics; at the same time, imported articles purchased in the home market should be classified as imports. A given Section eventually shows a share of imports and domestics in the prime cost of localized produce. This indicator is one of those priority figures that are taken into account when assessing a project's efficacy.

Section VII considers such aspects as a project's value and sources of funding. The following figures are indicated here: the amount of fixed assets, the value of buildings and structures, equipment used to turn out localized produce, and the cost of building-and-erection works needed to launch the production of localized output. All assets are divided into existing and acquired ones. Besides that, the amount of circulating capital, financial and other costs should be indicated in this Section.

In Section VII, the initiator of a localization project shows the sources from which its implementation will be financed, which is characterized by the declared and formed charter capital and, in case of the attraction of loans, by the terms on which credit is extended, its repayment schedule, the term for which certain privileges are valid, interest rates and other credit-servicing expenses. A list of founders and shareholders, the amount and character of their contribution and their share of an enterprise's charter capital are also indicated in a given Section.

What is important to note at this point is that the overwhelming majority of localization projects are financed by enterprises themselves, out of their

own funds. The fact that such projects are implemented on the basis of their existing industrial capacities minimizes their realization-related costs.

In Section VIII, a project's initiator provides a monthly schedule graph of implementation of both a localization project itself and the investments (capital investments) attracted to finance it. As far as operational production facilities are concerned, it is necessary to indicate only the year of their commissioning in a given Section.

Section IX is one of the most important and fundamental parts in a localization project's passport, in terms of the assessment of its efficacy and expedience. This Section considers the marketing strategy of a localization project. You must admit that, irrespective of how attractive a localization project looks from the economic point of view, proceeding from all the previous calculations, it seems rather problematic to speak about its promising character without working out its marketing strategy.

When working out the marketing strategy of a localization project, its initiator has to assess a whole spectrum of factors and aspects, such as the channels of sale, the availability of trade mark, brand, agreements or preliminary agreements with potential buyers of their produce, and even the availability of competitors and their share of the market. In addition, the competitive advantages of localized produce are determined, by comparing them with similar goods, both imported and those made domestically, and by analyzing its quality and price, taking into consideration the level of demand for such kind of produce at home and abroad alike.

The passport of a localization project encloses commercial proposals, which are put forward by competitors and valid on the date of filling in the passport.

In Section X, the initiator of a localization project indicates information on suppliers of raw materials and parts. The form of this Section implies the provision of the following necessary data: the name of raw material and parts, together with the CN FEA code at the level of 10 digits (irrespective of whether they are imported or purchased from indigenous manufacturers), technical parameters, suppliers, the volume and term of delivery, and the availability of contracting.

Section XI, the last one in the passport of a localization project, contains information on consumers of localized produce. The following information should be indicated in a table: the name of a buyer, No and the date of signing a contract, the name of supplied (localized) produce, the volume of delivery under the contract (in kind and value), No and the date of the

contract's registration at a director's office of the International Industrial Fair and Co-operation Exchange.

Therefore, looking at the passport of a localization project, one can see that it covers all the stages of production - from the purchase of raw material through its processing – to the production of localized output. This document allows the initiator of a localization project to accurately determine its efficacy, plan production and financial flows, and determine guarantees for the sale of localized output.

All sections of the passport are specific, at the same time they are interrelated. It should be observed that the initiator of a localization project is responsible for the reliability of all the information and data provided there. The passport is signed by an enterprise's head and chief accountant and stamped.

Both the consideration and presentation of expert resolutions on the proposals submitted by initiators of localization projects are carried out as required in Regulations on the procedure for interaction between state authorities and project initiators in the formation of the Localization Program, approved by the Resolution of the President of the Republic of Uzbekistan No ПП-1236 as of 1st December, 2009.

To minimize both the burden of bureaucratic procedures and the time it takes to undergo all the obligatory procedures, the proposals are assessed by all authorized bodies simultaneously. At the same time, each of them presents its resolution, being guided by its own precisely specified functions and powers.

For example, the Ministry of Economy of the Republic of Uzbekistan accomplishes the overall assessment of economic expenditure of localization projects, reveals their correspondence to the purposes and tasks of the Localization Program and analyzes the feasibility of their implementation and the possibility of achieving a proposed localization level.

The Ministry of Foreign Economic Relations, Investment and Trade of the Republic of Uzbekistan, in turn, assesses the efficiency of a localization project and the feasibility of its realization on the basis of analysis of its foreign economic parameters. Analysis of customs statistics shows that similar produce (by the CN FEA at the level of 10 digits) is imported to the country. Besides, the Ministry gives a proposed marketing concept its careful consideration and assessment, including the sales prospects of localized output. The sufficient level of processing of localized produce is also determined.

In cases where the initiator of a localization project envisages to export localized output, the Ministry of Foreign Economic Relations, Investment and Trade of the Republic of Uzbekistan conducts a marketing study of parameters of its selling prices in foreign markets.

The State Committee on Demonopolization and Competition Development of the Republic of Uzbekistan assesses the competitive environment, the level of monopolization and satiation of the market with interchangeable commodities and price formation.

If a localization project is funded out of centralized sources or credits extended against the guarantee of the Uzbek government, the Ministry of Finance of the Republic of Uzbekistan issues a resolution on its economic efficiency.

Given the diversity of production activities and individual peculiarities of localization projects, the Ministry of Economy of the Republic of Uzbekistan, in coordination with the Cabinet of Ministers of the Republic of Uzbekistan, may set up, if need be, interim working groups of experts from authorized bodies.

Having considered the proposals submitted by initiators of localization projects, the authorized bodies send their well-grounded resolutions to the Secretariat of the Special Interdepartmental Commission. A copy is sent to a project's initiator.

If certain defects are revealed in the passport of a localization project, all the documents are returned to a project's initiator for their correction in keeping with the indicated remarks.

After all the indicated defects are eliminated, the corrected documents are repeatedly considered in accordance with the procedure recounted above.

It is appropriate to mention here that when assessing localization projects, all the previously mentioned departments perform not only expert functions. They mainly act as consultative bodies, which assist project initiators in drawing up documents in compliance with the requirements, correctly planning the strategy of production and sale of localized produce and finding partners for industrial cooperation etc.

The Secretariat of the Special Interdepartmental Commission generalizes all the resolutions presented by the authorized bodies, drafts a protocol of the Special Interdepartmental Commission and, where necessary, a governmental decision, coordinates it as required and submits to the Cabinet of Ministers of the Republic of Uzbekistan.

A decision to include a project in the Localization Program is taken collectively at a sitting of the Special Interdepartmental Commission on the basis of corresponding resolutions.

At its sittings, the Special Interdepartmental Commission, jointly with corresponding information-analytical divisions of the Cabinet of Ministers of the Republic of Uzbekistan, consider all the proposals (resolutions) submitted, whereupon they decide whether it is expedient or not to insert corrections in the Localization Program.

Such decisions are taken by the simple majority of votes of those present at a meeting.

The decisions of the Special Interdepartmental Commission are drawn up in the form of protocol, which is signed by all its members and approved by its chairperson.

The decisions taken by the Special Interdepartmental Commission serve as a basis on which to work out a governmental resolution on the inclusion of a project in the Localization Program. (Source: "Businesspartner.uz" newspaper)