AMERICAN JOURNALS
Open Access, Peer Reviewed Journals
American Journal of Business Management, Economics and Banking
ISSN (E): 2832-8078 Volume 37, June - 2025

# PRIVATIZATION OF STATE PROPERTY: ROMANIA'S EXPERIENCE AND ITS APPLICATION OPPORTUNITIES IN UZBEKISTAN

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| A B S T R A C T | K E Y W O R D S |
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| The article analyzes the experience of implementing an effective model of state property privatization in Romania — the investment fund "Fondul Proprietatea." It examines approaches to enterprise transformation, opening them to international investors through the fund, and attracting capital via IPO and SPO mechanisms. Furthermore, a comparison is made with the activities of the "National Investment Fund" established in Uzbekistan, and scientific-practical recommendations are provided for deepening the privatization process. | Privatization, market economy, corporate governance, IPO, state-owned enterprises, Fondul Proprietatea, Franklin Templeton, controlling stake, portfolio companies, capital market, corporate transparency, KPI, diversification, SPO, investor attraction. |

## Introduction

In the process of transitioning to a market economy, the privatization of state property serves as one of the most important and necessary reforms. Privatization involves not only a change in the form of ownership but also addresses a number of strategic tasks, such as strengthening competition in the economy, implementing effective management systems in enterprises, attracting international investment, and ensuring the stability of the state budget.

Global practice, especially the experience of privatization implemented over the past decades in Eastern Europe and Central Asia, is regarded as one of the key factors in economic development. In this context, the privatization policy carried out in Romania through the "Fondul Proprietatea" fund stands out as a significant example of transforming state enterprise assets, integrating them into the international investment environment, and reinforcing the principles of corporate governance.

This article analyzes the financial and economic effects of privatization based on Romania's experience, approaches to reforming state-owned enterprises, international management mechanisms, and the potential for their application in Uzbekistan. On this basis, scientifically grounded recommendations have been developed to deepen the ongoing economic reforms in the Republic and to increase the share of the private sector through the use of modern and effective mechanisms.

**Research Methodology**

This scientific article analyzes modern methods of privatizing state property, in particular the institutional approach implemented through the "Fondul Proprietatea" model applied in the Romanian experience. The research employs several methodological approaches, including analytical-methodical analysis, comparative analysis, synthesis of experience and practice, empirically grounded approach, as well as the principles of scientific consistency and systematicity.

**Literature Review**

Numerous studies on the privatization of state property have been and continue to be conducted by both foreign and domestic scholars. According to Klaus E. Meyer, a foreign researcher who studied privatization and corporate governance in Eastern Europe: “The main goal of privatization is the formation of a market economy and the improvement of efficiency. However, changes in ownership structure directly affect management systems.” [1]

Anders Åslund, a prominent researcher on the transformation processes in Central and Eastern Europe, Russia, the Caucasus, and Central Asia, states:

“Privatization was not merely an economic process, but a fundamental transformation encompassing politics, legislation, ethics, and all spheres of the economy. It became the main dividing line in the transition from a socialist to a capitalist society.” [2]

The research findings of economists I. Marcelin and I. Mazur, who have conducted scientific studies in the fields of financial development, privatization, corporate governance, and economic growth, demonstrate that privatization increases company efficiency and profitability, which in turn positively impacts economic growth [3].

According to Russian scholar A.D. Radygin and other authors, the privatization of large companies that are fully (100%) state-owned is, in practice, carried out through an initial public offering (IPO) of shares [4].

In the theoretical and empirical studies of scholars such as Savas, Elliott, and Sclar, which are dedicated to privatization, it is noted that “private enterprises are more efficient compared to state-owned ones, as they are more economical in their operations, exhibit higher labor productivity, and face fewer legal restrictions” [5].

According to domestic scholar and practitioner A. Kakhkharov, who has conducted research in the field of state property valuation and privatization: “It should be noted that the ratio of private to state ownership in the economy, as well as the benefits and controversial aspects of privatization, have been the subject of numerous studies. The analyses conducted prove that the efficiency of enterprises in private ownership is higher than that of those with state participation.” [6]

As rightly emphasized by E. Rosenbaum, F. Bönker, and H. Wagener, privatization should not be viewed as an end in itself in an economic sense. Nor should the achievement of political consensus on privatization be seen as a kind of “fetishism.” The main goal of economic transformation is to improve economic welfare through strong competition and effective labor allocation. According to these authors, the creation of a market is the most important issue, and the role of privatization should be assessed in terms of its contribution to the formation of market institutions [7].

According to domestic researcher in the field of securities trading, Farkhod Mukhamedov: “The securities market has been stagnant for many years, and if the government is truly committed to developing this market, it must take decisive action, carry out radical reforms, and widely privatize joint-stock companies with state participation." [8]

According to Professor B. Kobilov of the University of Texas:

"If the process of privatizing state-owned enterprises continues effectively, private capital will begin to enter the market, and its liquidity will increase." [9]

In the author's view, "the state is the worst manager." Therefore, accelerating the privatization process and significantly reducing the state's share will contribute to the further development of market relations.

**Analysis and Results**

Privatization is one of the most important elements of economic transformation and achieving higher levels of development. It should contribute to increasing budget revenues, improving the living conditions of the population, ensuring the future development of companies by attracting know-how and private capital, and, overall, enhancing the efficiency of resource utilization across all sectors.

At the same time, it should be noted that the measures taken by the government have not yet produced significant results. It is still premature to speak of major achievements in this area. Nevertheless, the economic well-being of the country largely depends on the successful implementation of privatization.

International practice offers successful examples in the field of privatization. In particular, we would like to draw attention to the experience of Romania, where conditions were created to promote the privatization process—conditions that in many ways resemble the current situation in Uzbekistan.

Since the early 2000s, Romania has experienced a sharp increase in gross domestic product — from USD 37 billion in 2000 to USD 98 billion in 2005, representing a rise in per capita income from approximately USD 1,700 to over USD 4,500. The main contributing factor was the increase in export volumes to European countries [10].

An inflation targeting system was introduced, the privatization of the banking sector began, tax reforms were implemented, and pension and healthcare system reforms were actively discussed. At the same time, a high share of state ownership remained in the country, enterprises were inefficient, serious problems related to corruption persisted, and the domestic capital market remained underdeveloped [11].

In 2005, at the initiative of the government, a special investment fund called Fondul Proprietatea was established, into which the state transferred its shares in 80 companies. These included strategically important assets such as electricity and gas production and distribution (including nuclear power plants), seaports on the Black Sea, airports, and other enterprises.

It should be noted that in most cases, minority stakes (10–20%) were transferred rather than controlling shares subject to privatization. As a result, control over the enterprises (51% or more) remained with the state.

Several years were required for approval, evaluation, and other legislative procedures, and only in 2008 did the process of selecting an international manager for the fund begin. In 2009, the winner of the tender — which included participation from over 30 investment firms — was Franklin Templeton, a company managing assets worth USD 1.4 trillion and ranked among the world's top 20 asset management firms with a history of over 70 years.

The involvement of a major international player with a strong reputation, proven expertise in managing funds and companies, and a broad client base immediately helped position the country on the radar of international investors. In addition, the company opened its largest office outside the United States in Bucharest, employing dozens of local and international specialists, which facilitated the transfer of knowledge, experience, and know-how to the local market.

Franklin Templeton initiated the regular practice of hosting conferences and meetings with analysts at both the local and international levels, inviting company executives and government representatives for open dialogue with investors.

By 2011, the privatization fund Fondul Proprietatea was listed on the local stock exchange, allowing shareholders to freely trade shares and enabling new investors to purchase them. This gave the general population—who previously had little trust in direct investment in individual state-owned enterprises—the opportunity to participate in the capital of major national companies.

Moreover, many of the individual companies seemed too small or too risky for foreign institutional portfolio investors. For such investors, the fund provided an opportunity to invest in shares with sufficient scale, quality management, transparency, and liquidity on the stock exchange.

In 2015, global depositary receipts (GDRs) of the fund were listed on the London Stock Exchange, marking one of the largest instances of direct investment inflows into the capital of Romanian companies. The funds raised by the fund were directed toward financing investment projects of its portfolio companies. Internal competitive procedures and project efficiency were taken into account, with the implementation of clear KPIs and management regulations.

A key component of the fund's success has been the high-quality performance of the fund manager, whose contract was extended multiple times. It was precisely the international and independent status of the manager that allowed for effective management of shares not under direct supervision of the companies' supervisory boards and enabled the manager to hold seats on those boards. This, in turn, led to significant achievements, including countering corruption and protecting the interests of the state and the population as shareholders.

In particular, the actions of the fund managers contributed to uncovering and ending corruption schemes in the electricity and gas distribution sectors, increasing the profitability of portfolio companies by 10 to 15 times over 6–7 years, and nearly doubling dividend income, among other accomplishments.

These results were achieved through the following measures:

- implementation of high standards of corporate governance;
- involvement of independent board members and external advisors with a strong focus on company development;
- limitation of unjustified interference by state authorities;
- introduction of incentive-based management programs linked to share price dynamics and company profitability (executives realized that earning official bonuses for strong performance is more beneficial than seeking corrupt income);
- diversification of funding sources for portfolio companies.

Companies within the fund that are managed more effectively gain the opportunity to independently access capital markets to attract both debt and equity financing through the issuance of bonds and shares on local and international stock exchanges.

In this model, the state's benefits are based on the following factors:

• The state retains control over enterprises, and even in strategic sectors, it does not risk losing this control (51% is held directly, and the remaining portion indirectly through the fund's shareholding);

• The increase in the share price of portfolio companies enables a regular rise in the value of the state's remaining stakes, which can later be privatized. In other words, the state, by utilizing the services of an international asset manager, increases the value of its equity holdings and ultimately maximizes fiscal gains for the state budget;
• Government officials are relieved of the responsibility for enterprise development, as all such tasks are delegated to the international fund manager. The state only needs to ensure the manager's compliance with contractual obligations, KPIs, and national legal requirements. Moreover, the manager's presence protects state-owned enterprises from unjustified interference by officials, as well as from corruption and conflicts of interest. The fund manager exercises strict oversight of its employees and consultants, adhering not only to local legislation but also to international agreements, while maintaining its professional reputation;
• Once a certain level of performance and governance quality is achieved in line with the KPIs, the fund and the state can partially sell existing shares to private investors via a secondary public offering (SPO) on domestic or international exchanges. The proceeds from these sales are directed to the state budget;
• Modernized and efficient companies establish a dividend policy that generates significantly higher income for the budget, enabling the government to allocate funds for financing social infrastructure and services.
Thanks to the listing of the Fondul Proprietatea fund and its portfolio companies, the Bucharest Stock Exchange has become one of the fastest-growing exchanges in the Eastern European region in recent years. The development of the privatization fund has been one of the driving factors behind this growth. In particular, in September 2019, Romania was granted the status of a "Secondary Emerging Market" in the FTSE index, replacing its previous classification as a "Frontier Market." This milestone opened new opportunities for attracting large international investors to the country's market and its securities.
The following image presents the advantages of Romania's state property privatization scheme through the Fondul Proprietatea fund.

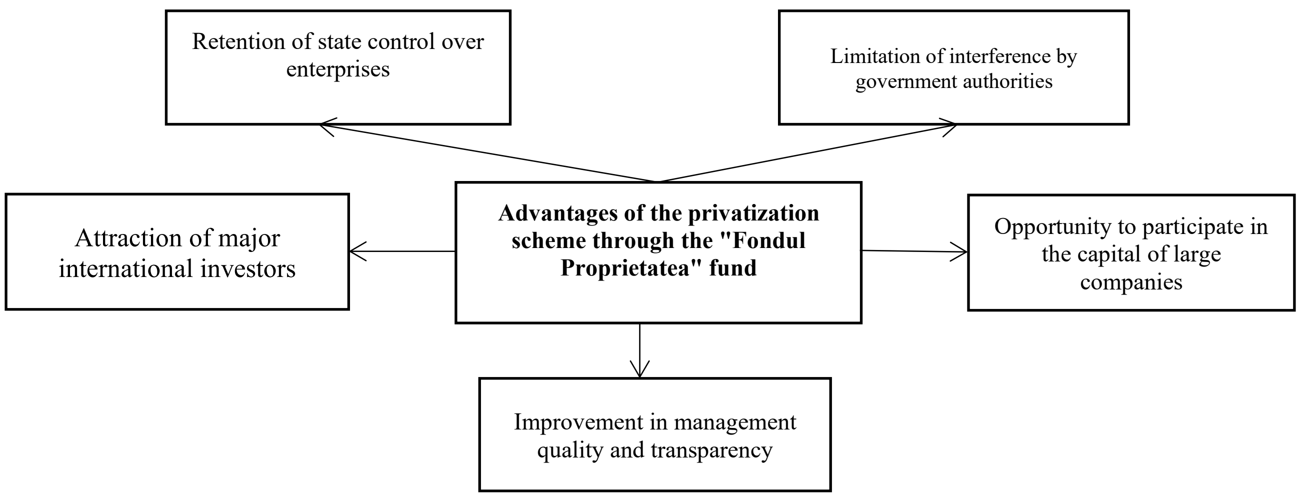


**Figure 1. Advantages of the state property privatization scheme in Romania through the "Fondul Proprietatea" fund.**

If we take a closer look at Figure 1, the advantages of implementing this scheme can be summarized as follows:

• Retention of state control over enterprises even after the transformation process is completed, allowing for continued oversight and governance;
• Relieving excessive burdens on government bodies and limiting their interference, which can otherwise hinder the achievement of effective privatization outcomes;
• Providing opportunities for the population, as well as for local and international portfolio investors, to participate in the capital of major national companies considered as "national assets";
• Improving the quality of management, transparency, and financial performance of enterprises, while enhancing oversight of spending in state-owned companies;
• Attracting attention and financing from major international investors into the national economy without state guarantees, and creating alternative sources of funding beyond traditional bank loans.

**Table 1 Stages of State Property Privatization Based on the Romanian Experience[1]**

| № | Stage Name | Key Actions | Expected Results |
|---|---|---|---|
| 1. | Fund Formation | Transfer of shares of state-owned companies to the fund; involvement of an international asset management company | Achieving effective and professional management while retaining state control |
| 2. | Listing on the Domestic Exchange | Registration of the fund on the national stock exchange | Increased transparency and investor trust in the fund |
| 3. | Attracting Investment via IPO and SPO | Sale of fund shares to local and foreign investors through IPO and SPO; allocation of proceeds for development | Enterprise development, fund activity financing, increased budget revenues |
| 4. | Listing on International Exchange | Registration of the fund on an international stock exchange | Involvement of major international investors |
| 5. | Listing of Portfolio Companies | Registration of portfolio companies on domestic and international stock exchanges | Sale of company shares at high prices, maximizing revenues for the budget and shareholders |

A detailed explanation of the stages of the privatization process described in Table 1 is presented below:

1. Fund Formation. The state retains control and transfers part of the shares of state-owned companies to the fund. The fund is managed by an international asset management company.
2. Listing of the Fund on the Domestic Exchange. The fund is registered on the national stock exchange.
3. Attracting Investments through IPO. Local and foreign investors are given the opportunity to purchase shares of the fund through an IPO. The proceeds from the IPO are used for company development and to finance the fund's operations. In addition, local and foreign investors may acquire shares through an SPO. The funds raised from the SPO are directed to the state budget.
4. Listing on an International Exchange. To attract a large number of international investors, the fund is registered on an international stock exchange.

[1] Prepared by the author

5. Listing of Portfolio Companies. Portfolio companies are listed on domestic and international stock exchanges to attract investors and raise financing. As a result, the state and the fund have the opportunity to sell their shares at higher prices, maximizing returns for the state budget and fund shareholders.

In accordance with the Decree of the President of the Republic of Uzbekistan dated August 27, 2024, No. PP-303 [12], the Joint-Stock Company "National Investment Fund of the Republic of Uzbekistan" was established and officially registered on December 24, 2024. The Ministry of Economy and Finance of the Republic of Uzbekistan is the sole founder of the fund.

The fund's capital was formed through the transfer of shareholdings ranging from 20% to 40% in 18 state-owned enterprises and commercial banks (Table 2).

**Table 2 List of enterprises and commercial banks whose shares are transferred to form the charter capital of the JSC "National Investment Fund of the Republic of Uzbekistan" [12]**

| № | Name | Transferred Share (%) |
|---|---|---|
| 1 | JSC "Navoiyazot" | 25 |
| 2 | JSC "Regional Electric Networks" | 40 |
| 3 | JSC "Thermal Power Stations" | 25 |
| 4 | JSC "Uzbekistan Airports" | 25 |
| 5 | Joint-Stock Commercial Bank "Xalq banki" | 30 |
| 6 | JSC "Uzbekhydroenergo" | 20 |
| 7 | JSCB "Microcreditbank" | 40 |
| 8 | JSC "Uzbektelecom" | 25 |
| 9 | JSCB "Business Development Bank" | 25 |
| 10 | JSC "Uzbekistan Airways" | 25 |
| 11 | JSC "Railway Infrastructure" | 25 |
| 12 | JSC "Regional Gas Supply" | 40 |
| 13 | JSC "Toshshahartansservice" | 25 |
| 14 | JSC "Uzbekistan Post" | 25 |
| 15 | JSC “National Electric Grid of Uzbekistan” | 40 |
| 16 | JSC "Republican Commodity Exchange of Uzbekistan" | 40 |
| 17 | JSC "Uzbekinvest" | 20 |
| 18 | JSC “Uzsuvtaminot” | 40 |

This Table 2 presents a list of 18 major enterprises and commercial banks whose state shares are being transferred to form the charter capital of the Joint-Stock Company "National Investment Fund of the Republic of Uzbekistan", along with the percentage of shares allocated to the fund.

From the data in the table, it is evident that the sectors prioritized for transfer into the fund include industry, infrastructure, and energy. In other words, most of the enterprises listed belong to strategic sectors. Specifically:

1) In the energy sector: JSC "Regional Electric Networks", JSC “National Electric Grid of Uzbekistan”, JSC "Thermal Power Stations", JSC "Uzbekhydroenergo", JSC "Regional Gas Supply", and JSC “Uzsuvtaminot”;

2) In the transport and logistics sector: Uzbekistan Airways, Uzbekistan Airports, and Railway Infrastructure;

3) In the telecommunications and postal sectors: Uzbektelecom and Uzbekistan Post;

4) In the chemical sector: Navoiyazot. This highlights the significant role of these enterprises in shaping the fund's charter capital.

In addition, the financial sector, especially the banking sector, plays an active role in capital formation. Notably, 30% of shares in “Xalq banki”’s Bank, 40% of shares in Microcreditbank, and 25% of shares in the Business Development Bank are planned for transfer to the fund. This suggests that the transformation and enhancement of investment attractiveness of these financial institutions are regarded as strategic priorities.

The shares range from 20% to 40%, with an average share of 29.7%. This structure indicates a preparation for future privatization while retaining state control. The approach focuses on maintaining active governance without fully relinquishing control. The state has retained majority shareholdings and is in a strong position for potential IPO/SPO stages.

Overall, this table is an important component of the broader strategy for transforming Uzbekistan’s largest and most strategic enterprises through the National Investment Fund, attracting investment, and integrating them into the market. The fund’s charter capital is diversified, sectorally balanced, and includes companies that are attractive to international investors.

Similarly to Romania, at the beginning of 2025, a trust management agreement for investment assets was signed between the National Investment Fund of Uzbekistan and LLC Franklin Templeton Asset Management.

Franklin Templeton was founded in 1947 in the United States and currently operates in more than 30 countries.

According to the agreement, Franklin Templeton manages an investment portfolio consisting of shares in 18 state-owned enterprises and commercial banks owned by the fund and implements transformation programs aimed at increasing their investment attractiveness. Once these programs are completed, the shares of the fund and the enterprises and banks under its management will be listed on local and international stock exchanges.

In our view, a separate privatization fund has been established in our country, following Romania’s example. Just as Fondul Proprietatea in Romania was placed under the trust management of Franklin Templeton, the Joint-Stock Company “National Investment Fund of the Republic of Uzbekistan” has also been entrusted to Franklin Templeton. In other words, a scenario similar to that of Romania is being implemented in our country. The main reason for applying the Romanian privatization model is the successful experience of its implementation in Romania.

**Conclusions and Recommendations**

The experience of Romania demonstrates that an innovative model of state asset privatization through a dedicated investment fund — Fondul Proprietatea — has yielded strong results. This model contributed to strengthening corporate governance in enterprises while maintaining state control, increasing transparency, attracting major international investors, and developing the capital market. Uzbekistan is also adopting this approach. The establishment of the Joint-Stock Company "National Investment Fund of the Republic of Uzbekistan" in 2024 represents a strategic step in this direction, and the delegation of trust management to Franklin Templeton marks a qualitatively new phase of privatization in the country. This approach, modeled on the Romanian experience, serves as a key foundation for the gradual transition of large state-owned enterprises to open markets, their transformation, and enhancement of investment appeal in Uzbekistan.

Based on the findings of this study, the following scientific and practical recommendations have been developed:

1. Implement a pre-transformation assessment system for state-owned enterprises. A standardized KPI system must be developed to evaluate efficiency levels, financial health, governance quality, and market readiness of SOEs subject to privatization. Based on this index, enterprises ready for IPO/SPO are selected and prioritized.
2. Gradually accelerate the listing of portfolio companies on domestic and international exchanges. As in Romania, listing should begin on the local stock exchange, followed by the issuance of GDRs or ADRs on international exchanges under a carefully crafted plan. Throughout this process, transparency, investor trust, and liquidity must be prioritized.
3. Expand mechanisms of trust management through international independent assetmanagers**.** Building on the Franklin Templeton experience, Uzbekistan could also establish partnerships with other major investment firms (e.g., BlackRock, Vanguard, Ashmore Group). Such management ensures high transparency, anti-corruption oversight, and knowledge exchange.
4. Enhance the capacity of local professionals and promote knowledge transfer. Mentorship and transfer programs should be organized for local staff working alongside international experts within privatized portfolio companies. This will help improve the quality of local management and institutional resilience.
5. Implement a gradual strategy to reduce state ownership**.** Initially, minority stakes (10–25%) can be offered through IPOs. Depending on management quality and profitability, additional shares may be sold via SPOs. This approach allows the state to maximize revenues while progressively increasing corporate independence.

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