



INVESTIGATIONS

**PROFESSOR
KRISTIAN LASSLETT
& UZBEK FORUM
FOR HUMAN RIGHTS**



OUT OF THE CAULDRON, INTO THE FIRE?

Risk and the Privatisation of Uzbekistan's Cotton Sector

POWER BRIEFS | CENTRAL ASIA



JUNE 2020

ABOUT THE SERIES

Drawing on the systematic methodologies behind investigative journalism, open source intelligence gathering, big-data, criminology, and political science, this series maps the transnational corporate, legal and governmental structures employed by organisations and figures in Central Asia to accumulate wealth, influence and political power. The findings will be analysed from a good governance, human rights, and democratic perspective, to draw out the big picture lessons.

Each instalment will feature a digestible analytical snapshot centring on a particular thematic, individual, or organisation, delivered in a format that is designed to be accessible to the public, useful to policy makers, and valuable to civil society.

SERIES EDITORS 2020

Professor Kristian Lasslett
Umida Niyazova
Dr Dawid Stanczak

ABOUT THE REPORT AUTHOR

Kristian Lasslett is Professor of Criminology and Head of School (Applied Social and Policy Sciences) at Ulster University. He has pioneered investigative methods and data-modelling techniques for documenting the social networks, processes and transactions essential to the organisation of grand corruption and kleptocracy. These techniques have also been employed to detect red flags in high risk governance environments. Professor Lasslett's findings have featured in a wide range of leading international scientific journals, two monographs, feature length documentaries and print-media exposés.

Uzbek Forum for Human Rights (formerly Uzbek-German Forum for Human Rights / UGF) is a Berlin-based NGO dedicated to protecting human rights and strengthening civil society in Uzbekistan. Uzbek Forum works with a network of independent human rights defenders inside Uzbekistan who conduct monitoring of human rights abuses including forced labour in the cotton and silk sectors. Uzbek Forum's evidence-based reports are used to conduct advocacy and shape policy with the Government of Uzbekistan, the EU and the UN as well as raise awareness in the regional and international media. Uzbek Forum has been twice nominated for the Human Rights and Business Award for 'important work deserving international recognition'.

CONTENTS

| | | |
|-----------------|---|-----------|
| | EXECUTIVE SUMMARY | 4 |
| PART I | INVESTIGATING THE COTTON CLUSTER SYSTEM | 8 |
| | I.I Background | 8 |
| | I.II Methodology | 12 |
| PART II | ORIGINS OF THE COTTON CLUSTER SYSTEM | 15 |
| | II.I A Pilot Cluster with Significant Red Flags | 15 |
| | II.II Expansion of the Cotton Cluster System | 20 |
| PART III | IRREGULAR OFFSHORE DEALINGS: A LOOK INSIDE THE UZTEX GROUP | 22 |
| | III.I An Overview of Uztex-InFinBank's Offshore Structure | 26 |
| | III.II The Swiss Capital International Group AG | 31 |
| | III.III Wayrex LLP | 35 |
| | III.IV Rieter Group | 38 |
| | III.V A 'Boomerang' Sales Contract between Uztex and Rieter | 41 |
| PART IV | RUSSIA'S STARBANK SCANDAL AND UZBEKISTAN'S CLUSTER SYSTEM | 45 |
| PART V | FURTHER CLUSTERS AND RED FLAGS | 56 |
| | V.I Surkhandarya Region, Sherobod District and Surkhandarya Region, Kumkurgan District | 57 |
| | V.II Andijan Region, Balikchi District | 61 |
| | V.III Bukhara Region, Romitan District and Tashkent Region, Kuychirchik District | 68 |
| | V.IV Jizzakh Region, Pakhtakor District | 68 |
| PART VI | CONCLUSION AND RECOMMENDATIONS | 70 |

EXECUTIVE SUMMARY

Cotton is historically one of Uzbekistan's most important exports. It is also the country's most contentious commodity. To pick the vast quantities of cotton, millions of people have been forced by the state to labour in unsanitary and unsafe conditions.

This has prompted an expansive domestic and international human rights campaign, and an international pledge by major apparel brands not to source cotton tainted by forced labour. In response, the Mirziyoyev government has committed to eradicating forced labour from cotton production in Uzbekistan.

The centre-piece of its strategy is a rapid privatisation of the cotton sector through a system of vertically integrated clusters. Operated by private companies, cotton clusters aim to turn raw cotton into value added textiles for domestic markets and export. During 2017/18, 63 clusters were formally created through government decree, covering 501,614 hectares of land.

It is anticipated that clusters will prime productivity gains and tackle the drivers of forced labour.

However, the rapid privatisation and corporatisation of the cotton sector comes with serious risks. Weaknesses in corporate governance and market integrity has permitted white-collar crime to thrive in the upper stratum of Uzbekistan's private sector, a process that frequently occurs under the protection, or with the connivance of, state agencies.

This has deterred foreign investment and damaged Uzbekistan's international standing.

The International Labour Organization predicts that the cluster system's economic promise depends on the inclusion of 'responsible agricultural investors'.¹

This report is based on a year-long investigation into the integrity of the cluster system and the companies selected to operate it.

Following the first iteration of this research, a corporate integrity scorecard was developed to identify risk in the cluster system. Green flags are awarded where a corporate actor exhibits traits associated with good practice, amber flags are awarded where there is an absence of key data, while red flags are attributed when evidence is identified of bad practice.

A systematic application of the scorecard to a sample of 20 clusters revealed a high proportion of red (41%) and amber flags (49%). This indicates the cotton cluster system is at significant risk of abusive practices. Green flags (10%) were almost entirely earned by one cluster operator, Indorama Kokand Textile.

¹ International Labour Organization (2019) *Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan*, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_681372.pdf (accessed 27 December 2019)

FINDINGS

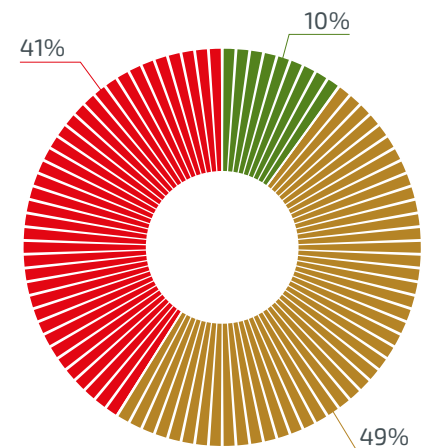


In-depth case studies were conducted on two major business groupings responsible for 11 clusters. This research uncovered serious evidence of improper corporate conduct.

THE FIRST CASE STUDY FOCUSES ON THE UZTEX GROUP. KEY FINDINGS INCLUDE:

- Uztex is a family owned conglomerate that directly operates five clusters, and claims to be the largest textile firm in Uzbekistan. The same family owns a major stake in Invest Finance Bank, a private financial institution previously associated with Gulnara Karimova, the imprisoned eldest daughter of Uzbekistan's late President, Islam Karimov.
- Shares in Uztex group companies are held through a complex offshore structure that spans Switzerland, the United Kingdom and Singapore. These offshore legal entities use nominee companies and individuals – some of whom have been tied to international money laundering scandals – which serves to publicly conceal Uztex group's beneficial owners and persons with significant control. Evidence indicates that some of these offshore entities have potentially filed misleading information on the financial scope of the group's operations.
- Media reports claim that a key controlling mind behind the Uztex group is Farkhod Mamatdjanov. Evidence collected for this case study, which includes leaked internal documents, support these claims.
- The General Director of Russia's Pyatigorsk Dairy Plant LLC, a company previously part-owned by an Uztex offshore holding company, alleges that Farkhod Mamatdjanov is involved in criminal activity, operating with protection from employees within Uzbekistan's Prosecutor General's office.
- Farkhod Mamatdjanov recently had an investment frozen by the Russian courts over concerns tied corporate property was being employed in the service of organised crime activity. This court order was prompted by a criminal investigation into Mamatdjanov launched by Russian authorities.
- Leaked Uztex records document a set of irregular transactions between Uztex group companies, Rieter, a major Swiss multinational that supplies industrial equipment for the textile sector, and an English Limited Liability Partnership, Wayrex LLP.

Diagram 1: Green, amber and red flags were awarded to 20 clusters using the integrity scorecard



Cluster Risk Assessment

Green Amber Red

THE SECOND IN-DEPTH CASE STUDY INVOLVES A NUMBER OF INTERCONNECTED COMPANIES OPERATING SIX COTTON CLUSTERS. KEY FINDINGS INCLUDE:

- Russian national, Agadzhan Avanesov, and his reported assistant Vakhid Artykov, are tied through the Uzbekistani company Beshariq Tekstil JSC to resident of Kyrgyzstan, Mirakbar Yakubzhanov, and his son Murat Yakubzhanov. Beshariq Tekstil JSC operates the Beshariq cotton cluster in Uzbekistan. Murat Yakubzhanov also has an interest in five additional Uzbekistani clusters through the Textile Technologies Group, and its subsidiary Amudaryotex LLC (during 2019 Amudaryotex shares were transferred from an entity owned by Mirakbar Yakubzhanov, to one owned by Murat Yakubzhanov).
- A Novaya Gazeta investigation accuses Agadzhan Avanesov of masterminding a major financial fraud through Starbank when he was Chairman and part-owner. The report claims bank funds were loaned out recklessly to companies owned or shadow owned by Starbank's controllers. These loans were not paid back.
- Russia's Deposit Insurance Agency (DIA) claims Avanesov knowingly formed bad debts, and failed to prevent Starbank's bankruptcy. It has successfully petitioned the courts to seize Avanesov's Moscow apartment, as part of a broader legal action which aims to hold the bank's controllers personally to account for the loss of deposit holder moneys.
- Following Starbank's bankruptcy, the DIA has also successfully litigated against Uzbekistani companies, Amudaryotex LLC and Beshariq Tekstil JSC. Both companies guaranteed major loans made by Starbank to tied entities in Russia, which were defaulted on. Under current currency conversation rates these loans amount to approximately US\$21 million.
- Mirakbar Yakubzhanov claims to be a resident of Kyrgyzstan, with a registered UK office. Murat Yakubzhanov is a director at the state-owned Uzpromstroybank, and claims to be a partner at Grant Thornton Uzbekistan. Avanesov is based in Switzerland where he allegedly owns significant real-estate. Media reports from 2019 claim he is wanted by criminal authorities in Russia over the Starbank scandal.
- Avanesov denies involvement in the Beshariq cotton cluster. He denies knowledge of ongoing investigations into Starbank. He denies owning shares in Starbank. Avanesov also states he has won a US\$1.33 million damages claim against Mirakbar Yakubzhanov in Switzerland's Federal Court.

IN ADDITION TO THE CONDUCT DOCUMENTED IN THE TWO IN-DEPTH CASE STUDIES THIS REPORT FINDS A CONCERNING NUMBER OF RED FLAGS ASSOCIATED WITH OTHER CLUSTER OPERATORS. THESE RED FLAGS INCLUDE:

- The use of opaque offshore structures featuring nominees implicated in fraud and money laundering.
- The involvement of politically exposed persons in the managerial and ownership structures of cluster operators.
- The involvement of executives previously implicated in serious misconduct or white collar crime.
- Media reports linking cluster operators to fraud, corruption, and labour and farmer abuses.
- A lack of financial or corporate transparency.
- Irregular corporate filings.
- Requests for basic corporate information were sent to 19 cluster operators. No reply was received.

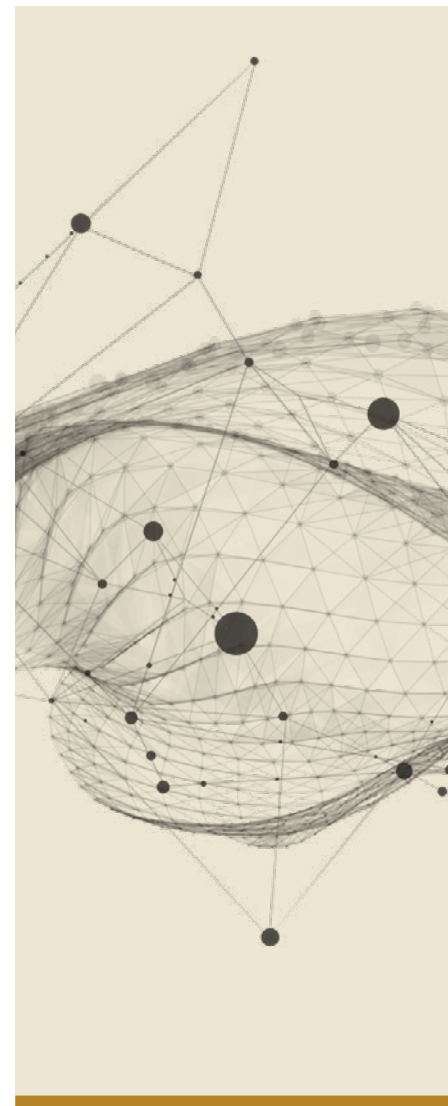
The report also finds that the dangers associated with this corporate risk environment are exacerbated by the cluster system's governance structures. In particular cluster operators are selected in an opaque manner. There appear to be no significant public reporting requirements. The government has violated its own transparency laws by not responding when basic lawful requests have been made for information on the cluster system. Furthermore, clusters remain closely entwined with regional governments, and appear to enjoy certain monopoly powers over farms included in their cluster region.

TO ADDRESS THESE CHALLENGES AT A GENERAL LEVEL, KEY RECOMMENDATIONS INCLUDE:

- Maintain a public register for incorporated legal entities that includes all historical and current filings relating to shareholdings, office holders, corporate governance, and financial returns. Require incorporated entities to declare beneficial owners and persons with significant control on a public register.
- Reform the companies law to strengthen reporting requirements, director's duties, and other mechanisms that can assure responsible business conduct.
- Systematically enforce laws requiring public agencies to transparently and competitively procure private actors wishing to bid for government business, or to benefit from government administered business opportunities.
- Ensure all procurement processes, and their outcomes, are published on a single unified database that is accessible to the public and clearly sign-posted.
- Strengthen due diligence capacity and processes within government to ensure integrity when selecting businesses to benefit from state-aid, state procurement, or state facilitated/initiated projects.
- Enforce legal rights to information and freedom of expression.

IN PARTNERSHIP WITH THESE GENERAL REFORMS, RECOMMENDATIONS TO STRENGTHEN THE COTTON CLUSTER SYSTEM INCLUDE:

- Ensure all cluster operators are selected on an open, transparent and competitive basis, with the selection process and outcomes published online in a form that is accessible to the public.
- Conduct rigorous due diligence during the selection process, to ensure only investors with a proven track record of responsible conduct are considered to operate clusters.
- Maintain rigorous oversight of cluster operators, looking at business performance, corporate integrity, labour relations, and environmental impact. Publish online all reviews of clusters, and the system more widely.
- Monitor regional monopolies enjoyed by cluster operators to ensure no abuse of power.
- Strengthen tenure rights of farmers, and circumscribe the involvement of regional government and the Prosecutor-General in cluster operations.
- Incentivise cluster operators to meet international best practice with respect to transparency, corporate governance and social responsibility.





PART I INVESTIGATING THE COTTON CLUSTER SYSTEM

PART I.I BACKGROUND

Cotton has historically been one of Uzbekistan's most significant exports, a tradition that stretches back to the Soviet era.² It is also the country's most contentious commodity. To pick the vast quantities of cotton, millions of people have been forced by the state to labour in unsanitary and unsafe conditions.³ The profits from this illicitly run industry have reportedly been managed through an opaque public fund, Selkhozfond. Muradov and Ilkhamov observe, 'the Selkhozfond is one of the least transparent institutions of public finance in the country'.⁴

² Djanibekov, U. and Finger, R. (2018) 'Agricultural risks and farm land consolidation process in transition countries: The case of cotton production in Uzbekistan', *Agricultural Systems*, 164, 223-235; Trevisani, T. (2007) 'After the Kolkhoz: Rural elites in competition', *Central Asian Survey*, 26:1, 85-104.

³ Uzbek Forum for Human Rights' annual monitoring report details human rights abuses documented during the cotton harvest, see <https://www.uzbekforum.org/category/reports/reports-only-cotton/> (accessed 20 April 2020)

⁴ Muradov, B. and Ilkhamov, A. (2014) 'Uzbekistan's cotton sector: Financial flows and distribution of resources', Working Paper, Open Society Foundations, October, p.18, available online: <https://www.opensocietyfoundations.org/uploads/ddbf43f7-1528-4b79-a61d-94ee36f808c9/uzbekistans-cotton-sector-20141021.pdf> (accessed 8 October 2019)



TO PICK THE VAST QUANTITIES OF COTTON, MILLIONS OF PEOPLE HAVE BEEN FORCED BY THE STATE TO LABOUR IN UNSANITARY AND UNSAFE CONDITIONS.³

After President Islam Karimov's death in 2016, his successor Shavkat Mirziyoyev pivoted towards an official policy prohibiting forced labour in the cotton sector. While this policy has yet to be fully realised in practice, labour monitors are documenting positive change.⁵

During 2017/18 the Mirziyoyev government revealed its long-term plan for economically transforming the cotton sector, and tackling the

structural drivers of forced labour.⁶ Echoing a wider strategic pattern, the Uzbekistani government has proposed privatising raw cotton production, and vertically integrating cotton into textile manufacturing through a 'cotton cluster' system.

Cotton clusters refer to regionally located value-added production chains where raw cotton is processed and turned into textile products for domestic

markets and export. Each cluster is operated by a single private company, or companies. It appears for the most part cluster operators will outsource raw cotton production to farmers. President Mirziyoyev anticipates that the cotton sector will be fully privatized by 2022.⁷ Although regional governments (hokimiyats) remain important actors in the new system.

⁵ Gill, A. (2019) *They said we wouldn't have to pick and now they send us to the fields: Forced labour in Uzbekistan's cotton harvest 2018*, Uzbek-German Forum for Human Rights, April, available online: http://uzbekgermanforum.org/wp-content/uploads/2019/04/Cotton_Harvest_2018_Klein_Mail.pdf (8 October 2019); International Labour Organization (2019) *Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan*, April, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipecc/documents/publication/wcms_681372.pdf (accessed 8 October 2019)

⁶ 'Shavkat Mirziyoyev: There are still 3.5 months before the end of the year, we should determine plans for next year today', Website of the President of the Republic of Uzbekistan, 12 September 2018, available online: <https://president.uz/ru/lists/view/2024> (accessed 1 January 2020); 'Cluster system: Development prospects', Committee on Agriculture and Water Management, Oliy Majlis, 2 May 2019, available online: <http://parliament.gov.uz/ru/events/committee/25863/> (accessed 1 January 2020); International Labour Organization (2019) *Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan*, 1 April, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipecc/documents/publication/wcms_681372.pdf (accessed 27 December 2019)

⁷ Syundyukova, N. (2018) 'Uzbek President: The state will no longer deal with cotton', *The Qazaq Times*, 3 December, available online: <https://qazaqtimes.com/en/article/52668> (accessed 8 October 2019); *On Approval of a Strategy for the Development of Agriculture of the Republic of Uzbekistan for 2020-2030*, Decree, President of the Republic of Uzbekistan, No.UP-5853, 23 October 2019, available online: <https://www.lex.uz/ru/docs/4567337> (accessed 2 January 2020)

Table 1: Cluster creation by official decree during 2017/18

| Govt of Uzbekistan Decree | Clusters Created | Hectares |
|--|------------------|----------|
| On Measures to Create a Modern Cotton-Growing and Textile Cluster in the Syrdarya Region, 15 September 2017 | 2 | 18,000 |
| On Measures to Introduce Modern Forms of Organizing Cotton-Textile Production, 25 January 2018 | 13 | 140,901 |
| On Measures to Create Modern Cotton-Textile Production by Indorama Company (Singapore) in the Republic of Uzbekistan, 8 August 2018. | 4 | 40,000 |
| On Measures to Create a Modern Agricultural Cluster in Jizzakh Region, 11 September 2018 | 1 | 2,000 |
| On Additional Measures for the Further Development of Cotton and Textile Industries, 19 September 2018 | 43 | 300,713 |

The reform has already won notable praise from international commentators. *The Economist*, for example, led with the following headline in 2019, 'for the sake of workers, Uzbekistan is privatising its cotton industry'.⁸ The International Labour Organization has also lent its qualified support, arguing that the cluster system will potentially help to increase productivity and remove the drivers of forced labour, if transparently governed with responsible investors and supportive tenure arrangements for farmers.⁹

In order to accelerate the cluster system's growth, the government of Uzbekistan has supplied finance, public assets, and tax relief to cluster operators. During 2017/18, 63 clusters were formally created through a number of government decrees, covering 501,614 hectares of land.

The rapid pace of privatisation has the lure of greater value retention in Uzbekistan, and improved commercial conditions for farmers and labour. However, it is not without risks. The International Labour Organization underlines that the cluster system's promise depends on the selection of 'responsible agricultural investors'.¹⁰

This is a significant challenge in Uzbekistan, where white-collar crime, such as fraud, market manipulation, and corruption, remain enduring problems in the upper strata of the private sector.

While the Mirziyoyev government has committed to significant anti-corruption reforms, serious gaps remain particularly in the areas of corporate governance and market integrity. The laws which have been passed, primarily in the area of public integrity, are limited in effect by a lack of administrative capacity and political will.

⁸ 'For the sake of workers, Uzbekistan is privatising its cotton industry', *The Economist*, 17 October 2019, available online: <https://www.economist.com/asia/2019/10/17/for-the-sake-of-workers-uzbekistan-is-privatising-its-cotton-industry> (accessed 18 October 2019)

⁹ International Labour Organization (2019) Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan, 1 April, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_681372.pdf (accessed 8 October 2019)

¹⁰ International Labour Organization (2019) Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan, 1 April, p.87, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_681372.pdf (accessed 27 December 2019)

Given that the cotton sector has a history of systematic human rights abuses, and corruption, rapid privatisation in a climate marked by regulatory weakness poses acute risks, especially given broader challenges the government faces in attracting credible investors.¹¹ These risks include:

- The outsourcing of human rights violations to the private sector.
- Abuse by cluster operators of weaker parties in the cotton value chain, including smallholder farmers and labourers.
- The improper provision of aid, preferential treatment and market advantage to cluster operators that have ties/influence with public officials; and
- Misuse of the cluster system by private operators to facilitate fraud, misappropriation, money-laundering and other illicit activities.
- A failure to meet minimal integrity standards required for full reintegration into international textile and garment supply chains.

While important research is being conducted on the cluster system's economic potential, and its labour track record to date, assessing the corporate integrity of those private actors charged with administering clusters remains an urgent outstanding task.

Determining corporate integrity is complicated by the challenging informational context in Uzbekistan. There is little guidance to be had on effective methods for verifying the credentials of corporate operators, or the data-points through which such checks can be carried out.



¹¹ *On Approval of the Investment Policy Strategy of the Republic of Uzbekistan until 2025*, draft Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.3394, 10 May 2019, available online: <https://regulation.gov.uz/ru/document/3394> (accessed 2 January 2020)

PART I.II

METHODOLOGY

This study draws on a suite of investigative methods and data-modelling techniques, which have been adapted to meet the challenging informational context in Uzbekistan. Using these methods an integrity-analysis of the cluster system's corporate operators was conducted, looking at indicators associated with transparency, good governance, corporate social responsibility, and professional track-record. These indicators were drawn from benchmarks set out in manuals and guidance issued by the ADB, EBRD, IFC, OECD, UNODC and World Bank.¹²

This analysis is underpinned by a working hypothesis that open and transparent corporate entities, with appropriate policies, expertise, and assets, who are prepared to account for their activities publicly, are at a lower risk of engaging in improper conduct, as compared to companies that are opaque, and which exhibit warning signs such as personnel or investors implicated in illicit practices.

In the initial phase of this research all clusters formalised through government decree between 15/9/2017 and 18/3/2019 (71 in total), were scrutinised on the basis of transparency, corporate governance and professional track record. This was an experimental process, looking at what data could be obtained to verify integrity in Uzbekistan's business environment (and in certain offshore locations used by cluster operators). Different methods were employed to obtain meaningful information under the aforementioned four core headings.

¹² Asian Development Bank Office of Anti-Corruption and Integrity (2015) *Integrity principles and guidelines*, available online: <https://www.adb.org/sites/default/files/institutional-document/32131/integrity-principles-guidelines.pdf> (accessed 2 March 2020); European Bank for Reconstruction and Development, 'Client due diligence', no date, available online: <https://www.ebrd.com/what-we-do/client-due-diligence.html> (accessed 2 March 2020); Financial Action Task Force (2019) *International standards on combating money laundering and the financing of terrorism & proliferation*, available online: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf (accessed 2 March 2020); International Bank for Reconstruction and Development (2016) *Guidelines on preventing and combating fraud and corruption in projects financed by IBRD loans and IDA credits and grants*, available online: [https://policies.worldbank.org/sites/ppf3/PPFDocuments/40394039anti-corruption%20guidelines%20\(as%20revised%20as%20of%20july%201,%202016\).pdf](https://policies.worldbank.org/sites/ppf3/PPFDocuments/40394039anti-corruption%20guidelines%20(as%20revised%20as%20of%20july%201,%202016).pdf) (accessed 2 March 2020); International Finance Corporation (2016) *Update on tax issues and the policy on the use of offshore financial centres in World Bank Group private sector operations*, available online: <https://www.ifc.org/wps/wcm/connect/8b51badf-48e8-4052-918c-5639850717d4/Summary-Updated-Report-on-OFC-Implementation-July-2016.pdf?MOD=AJPERES&CVID=ltHVgO-> (accessed 2 March 2020); Organisation for Economic Cooperation and Development (2015) *G20/OECD Principles of corporate governance*, available online: <http://dx.doi.org/10.1787/9789264236882-en> (accessed 2 March 2020); Organisation for Economic Cooperation and Development (2018), *OECD due diligence guidance for responsible business conduct*, available online: <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf> (accessed 2 March 2020); Organisation for Economic Cooperation and Development (2009) *OECD principles for integrity in public procurement*, available online: <https://www.oecd.org/gov/ethics/48994520.pdf> (accessed 2 March 2020); United Nations Office on Drugs and Crime (2013) *Guidebook on anti-corruption in public procurement and the management of public finances*, available online: https://www.unodc.org/documents/corruption/Publications/2013/Guidebook_on_anti-corruption_in_public_procurement_and_the_management_of_public_finances.pdf (accessed 2 March 2020); World Bank (2010) *Fraud and corruption awareness handbook*, available online: siteresources.worldbank.org/INTDOI/Resourses/INT_inside_fraud_text_090909.pdf (accessed 2 March 2020).

Information was extracted from corporate registries, stock exchange filings, and legal databases, available in Uzbekistan, Russia, Switzerland, Singapore, Thailand, and the United Kingdom. This data was modelled and cross referenced with supplementary information drawn from corporate, government, and media websites. A formal freedom of information request was submitted to the Government of Uzbekistan, while 19 Russian language requests for basic corporate information were submitted to cluster operators. No reply was received to any of these requests.

As this process took place iteratively, a systematic set of analytical criteria emerged benchmarked against international standards for corporate

governance (see footnote 12), which provided a consistent platform for measuring corporate integrity.

This iterative process gave rise to the 'corporate integrity scorecard'. The corporate integrity scorecard is both an investigative and analytical tool. It contains indicia of good and bad practice with respect to transparency, corporate governance and professional track record. Green flags are awarded where a corporate actor exhibits traits associated with good practice, amber flags are awarded where there is an absence of key data, while red flags are attributed when evidence is identified of bad practice. Accordingly, in this report red flags denote organisational features, professional practices, and transactions, that are credibly

associated with improper, illegal or criminal conduct. Red flags do not necessarily infer improper, illegal or criminal activity has taken place. However, they do ordinarily form a legitimate basis for heightened scrutiny by regulatory authorities, and their delegates (such as financial institutions). Their existence would also normally be a deterrent for responsible market actors, such as companies committed to responsible sourcing.

The benchmarked criteria included in the scorecard acts as an investigative prompt on the one hand, while on the other it offers a broader analytical snapshot of sectoral risk with respect to abusive practices.

Table 2: Pilot Corporate Integrity Scorecard

| Green Flag: Fully Transparent with Demonstrated Responsible Business Conduct | Amber Flag: No Public Information Available | Red Flag: Actively Non-Transparent with Record of Violating Responsible Business Conduct Benchmarks |
|--|---|--|
| Beneficial owners and persons with significant control declared | Beneficial owners not publicly disclosed | Use of opaque legal structures |
| Financially transparent with credible financial information | Shareholders not publicly disclosed | Nominee shareholders, directors or head office |
| Public information available on senior managers and directors | Identity of senior management team not disclosed | Use of secrecy jurisdiction |
| Public information available on corporate policies | No substantive public information available on the track record, skills or experience of senior management team | Provision of false or misleading financial/corporate information |
| Corporate social responsibility policy in place and publicly available | No public information on corporate policies | Current/past legal or regulatory violations by beneficial owners |
| Annual reports publicly available | No public information on corporate track record | Current/past legal or regulatory violations by managers |
| Responds to public requests for information | No publicly available annual reports | Non-human rights-compliant or illegal business practices |
| Owners, managers, affiliated entities and company have credible track record in relevant sector | No publicly available financial information | Ties to politically exposed persons |
| Company secured public contracts, assets and other opportunities via competitive, transparent and open process | No response to request for information | Secured public contracts, assets, and other opportunities, without public tender, or cognate process |

Some caution must be exercised. This assessment of integrity and risk is an approximation based off a pilot method which requires the application of professional judgement using evidence and internationally recognised benchmarks. This analytical process takes place in an opaque market context where there are significant challenges in accessing even basic information. Therefore, it is not an assessment that can be conducted with clinical accuracy. The aim rather is to produce a reasonable approximation based off a transparent criteria, robust data, and evidenced based analytical decisions, with scope for refining the integrity scorecard in future iterations.

Following the first round of investigative examinations covering all clusters formally established under decrees passed during 2017-19, a smaller sample of 20 clusters was intensively evaluated in the final three months of 2019.¹³ This provided an opportunity to systematically apply the integrity scorecard to assess risk in the cotton cluster system.

Based off initial due diligence conducted earlier in 2019, of the 20 selected clusters, seven had been labelled green, six amber, and seven red, based on their integrity profile. Once this more systematic tool was applied, with established methods for identifying data-points, the cumulate distribution of flags shifted towards amber and red. This was primarily a result of information on the public record, which may have initially earned a cluster a green flag, leading to a line of inquiry

that uncovered serious evidence of bad practice. It also signals the more robust criteria for transparency incorporated into the scorecard, which some clusters were not able to meet.

At a quantitative level the key findings from the scorecard's application include:

- The cluster sample population exhibited 15 green flags, 75 amber flags and 63 red flags.
- The significant number of amber flags (49% of the total flags awarded) indicates that the cotton cluster system is marked by a fundamental lack of transparency, and an absence of evidence on the public record of good governance and professionalism.
- The significant number of red flags (41% of the total flags awarded) suggests that a serious segment of the cotton cluster system is operated by private entities where there is an elevated risk of improper conduct.
- The green flags were almost entirely earned by one cluster operator, Indorama Kokand Textile, for transparency and corporate governance.¹⁴

During the evaluation two large business groupings were selected for case study research. They appeared to have responsibility for the largest number of clusters, 5 and 6 respectively. The case studies were populated with data drawn from company filings, government records, leaked documents, court judgements, and

select secondary sources. Controlling minds behind these business groupings were also given an opportunity to respond.

These two groupings exhibited a significant number of red flags, based off an initial application of the corporate integrity scorecard. For example, secrecy jurisdictions had been employed in which to establish opaque legal structures populated by nominee office holders, while corporate filings on occasions appeared to contain misleading/false financial information.

Further inquiries uncovered evidence that linked these business groupings to serious improper conduct, which impinged upon the clusters they operate in a variety of ways. The case studies, therefore, provide demonstrable evidence of the potential conduct at play when clusters exhibit a significant number of red flags.¹⁵

The following report presents findings from the two in-depth case studies, and the wider analysis conducted of the cluster system in Uzbekistan using the integrity scorecard. To begin, part two sets out the governance framework and pilot clusters that helped to establish the cotton cluster system during 2017. Parts three and four detail the in-depth case studies. Part five catalogues a selection of clusters that exhibited a high number of red flags. The report's conclusion will consider recommendations that can help to strengthen corporate integrity in the cluster system.

¹³ This analysis covered Ellikala, Kurgantepa, Romitan, Kuychirchik, Pakhator, Karshi, Nishan, Sardoba, Oqoltin, Navbahor, Konimex, Uchkurgan, Shovot, Oqdaryo, Mirzaabad, Khovos, Chinaz, Rishton, Toshlok, and Kushtepa districts.

¹⁴ Though the integrity of Indorama Kokand Textile's professional track record in Uzbekistan is a strongly contested matter. It has been the subject of serious allegations that its Uzbekistani textile operations sourced cotton produced through forced labour. See, Human Rights Watch, 'Uzbekistan: Forced labour linked to World Bank corporate loan', 6 July 2016, available online: <https://www.hrw.org/news/2016/07/06/uzbekistan-forced-labor-linked-world-bank-corporate-loan> (accessed 10 January 2020)

¹⁵ It is anticipated that the data produced through application of the integrity scorecard will in future iterations be cross-matched with data produced by cotton sector monitors, in order to determine whether high risk clusters from a corporate risk perspective are more likely to commit labour and other commercial infractions.

PART II

ORIGINS OF THE COTTON CLUSTER SYSTEM

PART II.1

A PILOT CLUSTER WITH SIGNIFICANT RED FLAGS

In 2017 the Mirziyoyev government announced it would pilot a new cotton cluster system. The pilot Bek cluster, as it became known, was formally established on 15 September 2017 by Presidential decree, and located in the Syrdarya region.¹⁶ The pilot's design, and the companies awarded the right to operate Bek cluster, foreshadow some of the risks and vulnerabilities that would manifest on a wider scale as the cotton cluster system rapidly expanded during 2018 and 2019.

¹⁶ *On Measures to Create a Modern Cotton-Growing and Textile Cluster in the Syrdarya Region*, Decree, President of the Republic of Uzbekistan, No.PP-3279, 15 September 2017, available online: <http://lex.uz/docs/3352681> (accessed 8 October 2019)

Under article two of the Presidential decree, 18,000 hectares of irrigated land is granted to Bek cluster. The decree does not explicitly state whether an access fee or annual rent will be charged. Article four of the decree grants the cluster operator custom payment exemptions up until 1 January 2022, while article 11 requires the state-controlled Asaka Bank, and other commercial banks, to provide the cluster with 'concessional credit lines'. The total investment earmarked for the pilot cluster is estimated at US\$165 million based on projections in annex 2 of the decree.

The Presidential decree affords the cluster operator greater commercial freedom than has historically been extended to farmers. Article nine allows the pilot cluster to freely dispose of cotton products and determine price policy. The decree also touches on the sensitive area of labour relations. Article 10 states that the cluster operator is 'to carry out settlements with farm workers on the land allotted to him on the basis of labor contracts on the principle of fair pay for labor and social support'. No additional guidance is provided on this principal, or how fair pay should be calculated.

Article one of the Presidential decree states that the companies selected to operate the pilot cluster were chosen on the basis of a proposal made by the Ministry of Agriculture and Water Resources, the Ministry of Economy, the Ministry of Finance, the Council of Farmers of Uzbekistan, the Hokimiyat of the Syrdarya region, HC Uzpakhtasanoatexport, JSC Uzbekengilsanoat, local firm Mirzaobod Universal Trade Cluster LLC, Trontex LP and Gratum Trading LP. There is no reference to a public tender, or competitive evaluation. No additional evidence could be located on the public record which would suggest a tender took place, or that selection was governed through an alternative open and transparent process. This could conflict with Uzbekistan's law *On Anti-Corruption* which requires open and transparent competition.¹⁷

A freedom of information request for the proposal cited above was lodged in the required legal form with the Ministry of Agriculture. It was not responded to. A subsequent complaint submitted to the President's Office failed to prompt a response either. This is a breach of the government's legal obligations set out in Article 19 of the

law, *On the Openness of the Activities of Public Authorities and Administration*.¹⁸ Under the law authorities must respond within 15 working days after registering a request for information.

Two foreign companies are selected in the decree to partner with local firm, Mirzaobod Universal Trade Cluster LLC, in the cluster's operation. They are Trontex LP and Gratum Trading LP. Both are Scottish Limited Partnerships. Domestic media headlines in Uzbekistan suggested: 'The British will build a modern agricultural cluster in Uzbekistan'.¹⁹

Up until 2007 Scottish Limited Partnerships (SLP) were an obscure and rarely used legal form. After 2007 SLPs rapidly proliferated.²⁰ In part, this spike in demand has been linked by UK criminal authorities and independent investigators, to certain legal features of the SLP that have proven attractive to money launderers and white collar criminals (although it is important to underline not all SLPs are used for improper or illegal purposes).²¹

¹⁷ *On Anti-Corruption*, Law of the Republic of Uzbekistan, No.ZRU-419, 3 January 2017, available online: www.lex.uz/ru/docs/3088013 (accessed 11 October 2019)

¹⁸ *On the Openness of the Activities of Public Authorities and Administration*, Law of the Republic of Uzbekistan, No.ZRU-369, 5 May 2014, available online: lex.uz/docs/2381138 (accessed 8 October 2019)

¹⁹ 'The British will build a modern agricultural cluster in Uzbekistan', *Podrobno*, 18 September 2017, available online: <https://podrobno.uz/cat/economic/britantsy-postroyat-v-uzbekistane-sovremennyy-agroklaster/> (accessed 14 September 2019)

²⁰ Bellingcat Investigation Team (2019) *Smash & grab: The UK's money laundering machine*, Bellingcat, 1 October, available online: <https://www.bellingcat.com/news/uk-and-europe/2019/10/01/smash-and-grab-the-uks-money-laundering-machine/> (accessed 8 October 2019); Department of Business, Energy & Industrial Strategy (2018) 'Crackdown on abuse of UK businesses for foreign money laundering', press release, 29 April, available online: <https://www.gov.uk/government/news/crackdown-on-abuse-of-uk-businesses-for-foreign-money-laundering> (accessed 8 October 2019)

²¹ Cartin, G. (2017) *Offshore in the UK: Analysing the use of Scottish Limited Partnerships*, Transparency International and Bellingcat, June, available online: <https://www.transparency.org.uk/publications/offshore-in-the-uk/> (accessed 8 October 2019)

Historically virtually no public reporting requirements have been placed on SLPs, allowing them to operate with complete financial and organisational secrecy. SLPs enjoy a UK address and the market confidence that goes along with that but unlike its English, Welsh and Northern Ireland equivalents, Scottish Limited Partnerships can enter into contracts and own property.²² They are also tax neutral. Together these factors have made SLPs an attractive vehicle for white-collar crime. In a 2017 national risk assessment of money laundering and terrorist financing, HM Treasury and the UK Home Office confirm: 'They are particularly attractive to criminals due to the fact that under Scottish law the partnership is a distinct legal personality, separate from the partners and is subject to fewer reporting and transparency obligations than most other corporate forms'.²³

Following legal reforms, from 26 June 2017, SLPs are required to declare persons with significant control (PSC).²⁴ However, the UK's corporate registrar

has no mandate or capacity to verify PSC declarations made by SLPs. The system, in effect, relies on entities to make truthful declarations.

It cannot be inferred from the above analysis that Trontex LP and Gratum Trading LP were set up to facilitate improper activity through the pilot Bek cluster. However, the use of this entity type given its opaque features and legal rights, constitutes a red flag from a risk perspective.

Both Trontex LP and Gratum Trading LP were established by the Edinburgh based Global Advisors in September 2015 and September 2016 respectively.²⁵ Trontex LP's principal place of business is 1st Floor Office, 86A Constitution Street, Edinburgh. Gratum Trading LP's registered office address is Office 8, 44-46 Morningside Road, Edinburgh.

This is the same registered office address used by Esperansa Group LP.²⁶ Research from 2019 documented Esperansa Group LP's 68.19% interest

in Akfa Dream World.²⁷ The latter company is part of the Akfa group, which was founded by the current Mayor of Tashkent, Jahongir Artikhodjaev. Akfa Dream World is one of the main investors in the controversial US\$1.3 billion Tashkent City property development, which the Mayor is charged with overseeing.²⁸ It is not clear whether Gratum Trading LP has any affiliation with the Akfa group beyond a shared registered office address.

²² Department for Business, Energy, and Industrial Strategy (2018) *Limited partnerships: Reform of limited partnership law*, 30 April, pp.11 & 14, available online: data.parliament.uk/DepositedPapers/Files/DEP2018-0413/limited-partnerships-review-of-limited-partnership-law.pdf (accessed 8 October 2019)

²³ HM Treasury and Home Office (2017) *National risk assessment of money laundering and terrorist financing 2017*, October, p.62, available online: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf (accessed 8 October 2019); see also Cartin, G. (2017) *Offshore in the UK: Analysing the use of Scottish Limited Partnerships*, Transparency International and Bellingcat, June, available online: <https://www.transparency.org.uk/publications/offshore-in-the-uk/> (accessed 8 October 2019)

²⁴ *Scottish Partnerships (Register of People with Significant Control) Regulations 2017*

²⁵ Gratum Trading LP, Application for Registration of a Limited Partnership, 20 September 2016, available online: <https://beta.companieshouse.gov.uk/company/SL028316/filing-history> (accessed 8 October 2019); Trontex LP, Application for Registration of a Limited Partnership, 16 September 2015, available online: <https://beta.companieshouse.gov.uk/company/SL022512/filing-history> (accessed 8 October 2019)

²⁶ Esperansa Group LP, Change of Address LP6, 24 October 2017, available online: beta.companieshouse.gov.uk/company/SL025982/filing-history (accessed 8 October 2019)

²⁷ Akfa Dream World LLC, Company Extract, Reg No 557636, Unified Portal of Interactive Public Services, accessed 14 September 2019.

²⁸ See <http://tcibc.uz/about.html?tab=investors> (accessed 8 October 2019)

Gratum Trading LP and Trontex LP share the same General Partner and Limited Partner, Greencircle Services Ltd and Lemford Business Solutions Ltd. These are nominee partners registered in the Central American country of Belize. They are associated with a range of partnerships registered in Scotland. It was noted above that under UK reforms SLPs must now declare PSCs. It is permissible to declare another legal entity as PSC, providing it is one which also is required under law to declare its PSCs or is subject to analogous transparency requirements.²⁹

On the 6 November 2018, Gratum Trading LP and Trontex LP declared Galore Trade LP and Intrus Alliance LP respectively as their PSCs. They are Irish Limited Partnerships with a shared registered address in Cork.³⁰ Both LPs were established on 14 June 2018.³¹ Irish Limited Partnerships are not required to publicly register beneficial owners, or persons with significant control.³² Under the *Scottish Partnerships (Register of People with Significant Control) Regulations 2017*, it would appear unlawful to declare such an entity as PSC.

After the 2017 pilot decree appointing Gratum Trading LP and Trontex LP as the Bek cluster operators, neither SLP has been subsequently cited in cotton cluster decrees. Gratum Trading LP was dissolved on 30 September 2019, Trontex LP was dissolved on 29 November 2019. Mirzaobod Universal Trade Cluster is now the only company noted as operating Bek cluster.

Mirzaobod Universal Trade Cluster is owned by Ulugbek Sotiboldiev (87.44%) and Bek Metal Production MCHJ (12.56%).³³ Sotiboldiev is a senior operative within the ruling Uzbekistan Liberal Democratic Party. In 2018 he was listed as Chairman of the party's Syrdarya Regional Council.³⁴ More recently Sotiboldiev has been elected to the Senate of the Oliy Majlis and is a member of the Senate Budget and Economic Reform Committee.³⁵ From a risk assessment perspective he would, accordingly, be regarded as a politically exposed persons.³⁶

Given that an opaque process was used to select the Bek cluster operators, which included a local company majority owned by a senior operative

from the ruling political party, and two SLPs that have circumvented UK transparency reforms, which together were fronting a US\$165 million investment, this as a whole constitutes a series of serious red flags from a risk perspective. The type of red flags witnessed with the Bek pilot cluster would be observed on a wider scale as the cluster system expanded during 2018.

²⁹ *The Scottish Partnerships (Register of People with Significant Control) Regulations 2017*, 1(3); Financial Action Task Force (2018) *Anti-money laundering and counter-terrorist financing measures – United Kingdom*, Fourth Round Mutual Evaluation Report, available online: <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf> (accessed 18 October 2019)

³⁰ See Gratum Trading LP, Persons with Significant Control, 6 November 2018, available online: <https://beta.companieshouse.gov.uk/company/SL028316/persons-with-significant-control> (accessed 10 October 2019); Trontex LP, Persons with Significant Control, 6 November 2018, available online: <https://beta.companieshouse.gov.uk/company/SL022512/persons-with-significant-control> (accessed 11 November 2019).

³¹ List Of Limited Partnerships, Companies Registration Office, December 2019, available online: <https://www.cro.ie/Portals/0/Publications/A%20list%20of%20the%20LPs/Limited%20Partnerships%20Alphabetical%20Order.pdf> (accessed 2 February 2020)

³² See *Limited Partnerships Act, 1907*

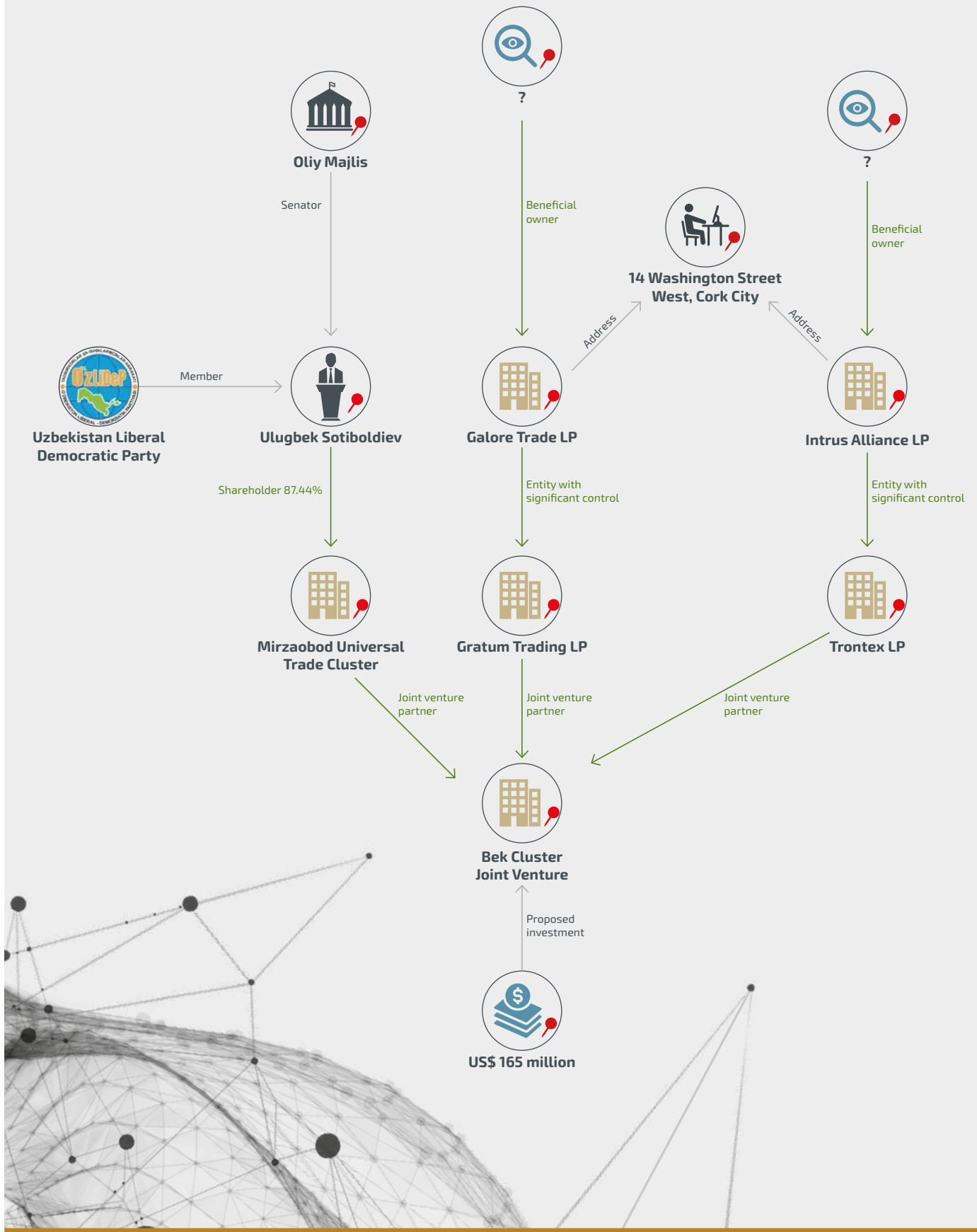
³³ Mirzaobod Universal Trade Cluster LLC, Company Extract, Reg No.4367, Unified Portal of Interactive Public Services, accessed 6 December 2019.

³⁴ 'Chairman of the Syrdarya Regional Council of UzLiDeP, Senator Ulugbek Sotiboldiev held an open dialogue with Syrdarya students', Liberal Democratic Party of Uzbekistan, 27 November 2018, available online: <https://uzlidedp.uz/ru/news-of-party/3519> (accessed 2 February 2019)

³⁵ 'The head of the company, which the president set as an example, was elected to the Senate', Spot, 8 September 2018, available online: <https://www.spot.uz/ru/2018/09/08/bek-klaster/> (accessed 2 February 2020); 'Ulugbek Sotiboldiev: Very high custom duties in Uzbekistan', Kun.uz, 13 July 2019, available online: <https://kun.uz/ru/news/2019/07/13/ulugbek-sotiboldiyev-v-uzbekistane-tamojyennyje-poshliny-ochen-vysokiye> (accessed 2 February 2020)

³⁶ Financial Action Task Force (2013) *Politically Exposed Persons*, Financial Action Task Force, June, available online: <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-PEP-Rec12-22.pdf> (accessed 2 February 2020)

Diagram 2: Bek cluster joint venture partners and their affiliations (2017-2019)



PART II.11

EXPANSION OF THE COTTON CLUSTER SYSTEM

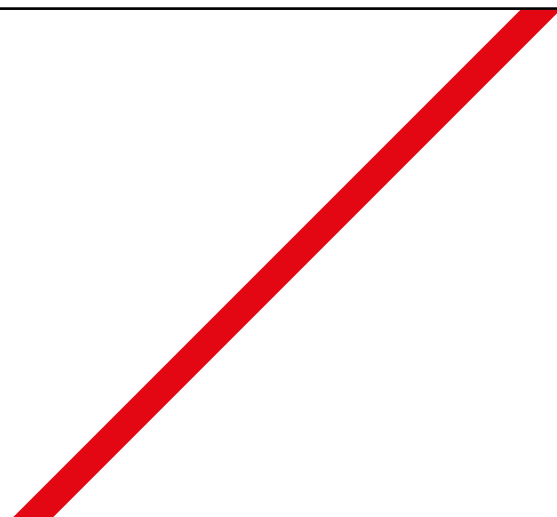
The formal expansion of the cotton cluster system during 2018 was initiated through a Cabinet of Ministers decree dated 25 January 2018.³⁷ The decree extends the cluster system to encompass 13 more regions with 17 associated cluster companies, covering 132,808 hectares of land.

Like with the pilot cluster, it appears that the companies appointed to operate these new clusters were not selected through a transparent, competitive process. Instead, the governing decree states that cluster operators were chosen on the basis of a proposal made by each company in conjunction with the relevant regional government. A freedom of information request for a copy of these proposals, made in the legally required format, was not responded to by the Ministry of Agriculture, or the President's Office. It was noted in the previous section that this is a breach of their legal obligations under article 19 of the law *On the Openness of the Activities of Public Authorities and Administration*.³⁸

The 25 January 2018 decree also sets out the state aid which will be provided to the cotton clusters. Article four declares that operators will be provided with loans from the State Support Fund for Agriculture under the Ministry of Finance. These loans will fund at least 60% of the costs required for the cultivation and supply of raw cotton, at a capped interest rate of 3%. Additionally, provisions are made for the extension of preferential credit lines to help co-finance proposals put forward by cluster operators.

³⁷ *On Measures to Introduce Modern Forms of Organizing Cotton-Textile Production*, Cabinet of Ministers of the Republic of Uzbekistan, 25 January 2018, available online: www.lex.uz/ru/docs/3527483 (accessed 11 October 2019)

³⁸ *On the Openness of the Activities of Public Authorities and Administration*, Law of the Republic of Uzbekistan, No.ZRU-369, 5 May 2014, available online: www.lex.uz/docs/2381138 (accessed 8 October 2019)



Exemptions are also provided for. Cluster organisers are given custom duty exemptions under article 13 up until 1 January 2020. Where cluster organisers are directly involved in raw cotton production, it is unclear whether they will be allocated land on a zero cost basis, or on the basis of a commercial arrangement with annual rent.

An additional Cabinet of Ministers decree passed on 31 March 2018, orders the sale of building and structures of ginneries and cotton-harvesting centres to cluster operators. The conditions governing these sales to ensure value for money, transparency, and probity, are not specified in the decree.³⁹

Returning back to the 25 January 2018 decree, it enumerates a number of governance mechanisms for the new cluster system. It is envisaged in the decree that each cluster will, to an extent, subcontract the production of raw cotton out to farmers. To help facilitate subcontracting arrangements, article three stipulates that the government will produce a standard contract. The Prosecutor General's Office is responsible for overseeing compliance between the contracting parties (i.e. the cluster organiser and farmer). It is also assigned responsibility for ensuring 'the efficient use of land in the framework of cotton and textile production'.

A number of articles in the decree regulate the provision of inputs,

price setting for raw cotton and the processing of raw cotton by ginneries, and the sale of by-products. A monitoring system is also provided for. Under article 11 Territorial Working Groups are established in order to monitor the organisation of cotton-textile production, and make recommendations for improvements.

A copy of the standard contract, and the reports issued by Territorial Working Groups, were requested using right to information laws. However, as noted above, the government bodies concerned failed to comply with their legal requirement to respond.

On 19 September 2018 a Cabinet of Ministers resolution was passed expanding the cotton cluster system further. It introduced 44 more clusters, covering 300,713 hectares of land (subsequent amendments increased this to 58 clusters, covering 463,836 hectares).⁴⁰ Like with the January decree, the new cluster operators were chosen on the basis of submissions made by the companies in conjunction with the relevant regional government. It does not appear that this was an open or competitive process.

While the resolution replicates the governance framework set out in the earlier January decree, it contains a number of additional clauses worth noting. Most critically, it appears that farmers who fail to fulfill their contractual obligation to cluster organisers, face the loss of their

land, the rights over which will be reallocated to the cluster organiser. It is also established that cluster operators must submit monthly analytical and tabular materials on their performance to government.

Concern, in particular, has been raised over the compromised position of farmers under these arrangements established during 2018.⁴¹ Evidence that regional governments remain closely involved in cluster operations (see Part V), has compounded these concerns. The risk of abuse and potential impropriety incentivised by such governance arrangements, will be heightened if the organisational actors responsible for cluster operations are not open, transparent and responsible corporate citizens. As the opening of this report made clear, there is a worrying number of red flags in the sector. The following two sections document the problematic conduct which can lie behind business groupings that exhibit serious red flags.

³⁹ *On Additional Measures for the Organization of Cotton-Textile Productions and Clusters*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.253, 31 March 2018, available online: <https://www.lex.uz/ru/docs/3607500> (accessed 11 October 2019)

⁴⁰ *On Additional Measures for the Further Development of Cotton and Textile Industries*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.744, 19 September 2018, available online: <https://www.lex.uz/docs/3906242> (accessed 2 February 2020)

⁴¹ International Labour Organization (2019) *Third party monitoring of child labour and forced labour during the 2018 cotton harvest in Uzbekistan*, 1 April, available online: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_681372.pdf (accessed 8 October 2019)

PART III

IRREGULAR OFFSHORE DEALINGS: A LOOK INSIDE THE UZTEX GROUP

The Uztex group has become one notable corporate face publicly fronting Uzbekistan’s cluster system experiment. The company was profiled by *The Economist* in a 2019 article on the Government of Uzbekistan’s cotton privatisation initiative.⁴² The magazine reports: ‘The firm (Uztex) is keen to show off how well it treats its workers: they earn seven times the minimum wage, with perks like free health care thrown in’. It continues: ‘On Uztex’s factory floor, a smiling seamstress holds up a t-shirt emblazoned with a slogan that seems to speak to the industry’s aspirations. “Ready to be different,” it reads’.

| ДАСТА НАВИ | 1-СИНФ | | 2-СИНФ | | 3-СИНФ | |
|---------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | ЎЗГАРТАШМА ВАЗНИИ НИСБАТИ % | НАМЛИКНИНГ ВАЗНИИ НИСБАТИ % | ЎЗГАРТАШМА ВАЗНИИ НИСБАТИ % | НАМЛИКНИНГ ВАЗНИИ НИСБАТИ % | ЎЗГАРТАШМА ВАЗНИИ НИСБАТИ % | НАМЛИКНИНГ ВАЗНИИ НИСБАТИ % |
| I | 3.0 | 9.0 | 10.0 | 12.0 | 16.0 | 14.0 |
| II | 5.0 | 10.0 | 10.0 | 13.0 | 16.0 | 16.0 |
| III | 8.0 | 11.0 | 12.0 | 15.0 | 18.0 | 18.0 |
| IV | 12.0 | 13.0 | 16.0 | 17.0 | 20.0 | 20.0 |
| V | - | - | - | - | 22.0 | 22.0 |

⁴² ‘For the sake of workers, Uzbekistan is privatising its cotton industry’, *The Economist*, 17 October 2019, available online: <https://www.economist.com/asia/2019/10/17/for-the-sake-of-workers-uzbekistan-is-privatising-its-cotton-industry> (accessed 18 October 2019)

Uztex's significant role in the cotton cluster system is not surprising, given its size. In a 2017 company brochure Uztex group claims to be 'the largest manufacturer of textile goods in Uzbekistan. It consists of eight factories, where several thousand employees work'.⁴³

This expansive operation is administered through a number of locally incorporated legal entities. They include, *Uztex Uchkurgan LLC*, *Uchkurgan Textile LLC*, *Katqala-Teks LLC*, *Shovot Tekstil LLC*, *Uztex Shovot LLC*, *Eurotex Global LLC*, *Uztex Tashkent LLC*, *Uztex Group LLC*, *Textile Finance Namangan LLC*, and *Textile Finance Khorezm LLC*. The italicised entities are responsible for clusters across five districts, as set out in table three. Uztex shareholders are primarily offshore entities incorporated in the UK, Singapore and Switzerland.

Table 3: Uztex cotton clusters, September 2019⁴⁴

| Cluster | Cluster Operator | Charter Capital (USD) | Principal Shareholders |
|-------------------------------------|------------------------------|-----------------------|---|
| Namangan region, Uchkurgan district | Textile Finance Namangan LLC | \$3,958,352 | Maritex Industrial LLP (100%) |
| Khorezm region, Shavatsky district | Textile Finance Khorezm LLC | \$13,655,770 | Swiss Capital International Group AG (96.59%) |
| Namangan region, Naryn district | Uztex Uchkurgan LLC | \$40,059,960 | Hightex Singapore PTE (96.75%) |
| Namangan region, Uychi district | Uchkurgan Textile LLC | \$39,735,357 | DF Industries LLP (83.01%) |
| Khorezm region, Yangibazar district | Shovot Tekstil LLC | \$47,157,853 | Intrade AG (89.18%) |

⁴³ Razetdinova, J. (2017) 'Investment in workforce - is investment in the future of the company', Uztex Magazine, No.1 Autumn, available online: <https://www.yumpu.com/en/document/read/59560256/eng-light-uztex-> (accessed 30 December 2019)

⁴⁴ Textile Finance Namangan LLC, Company Extract, Reg No.66, Unified Portal of Interactive Public Services, accessed 28 September 2019; Textile Finance Khorezm LLC, Company Extract, Reg No.118, Unified Portal of Interactive Public Services, accessed 28 September 2019; Uztex Uchkurgan LLC, Company Extract, Reg No.12230, Unified Portal of Interactive Public Services, accessed 28 September 2019; Uchkurgan Textile LLC, Company Extract, Reg No.25330, Unified Portal of Interactive Public Services, accessed 28 September 2019; Shovot Tekstil LLC, Company Extract, Reg No.335, Unified Portal of Interactive Public Services, accessed 28 September 2019.

Uztex's website features no information on the senior executive team, directors, or owners. However, press reports mention key individuals alleged to be involved with the group. The most notable reoccurring name is 43 year old Uzbekistani national, Farkhod Mamatdjanov. In a 2014 industry report, he is said to be the owner of the Uztex group.⁴⁵ A similar claim was published in an Italian newspaper two years later during 2016.⁴⁶ In a recent government announcement Mamatdjanov is listed as Uztex group Chairman.⁴⁷

A corporate brochure produced by Uztex in 2017 confirms the group is controlled by the Mamatdjanov family. It features an interview with Fakhritdin Mamatdjanov the family's elder patriarch. Mamatdjanov Snr claims he and his son Farkhod began the business in the mid-1990s running a polypropylene bag production factory. Mamatdjanov Snr states this was when 'our way to Uztex Group began'.⁴⁸

Radio Ozodlik also alleges that Farkhod Mamatdjanov (the son of Fakhritdin Mamatdjanov) is the shadow owner of Invest Finance Bank (InFinBank).⁴⁹

InFinBank is a joint stock company commercial bank established in Uzbekistan during 2007. It has been appointed by the government to service a number of cotton clusters allocated to the Uztex group.

InFinBank made headlines during 2013 when it was reported to be the banker for a large corporate group believed to be owned by President Islam Karimov's eldest daughter, Gulnara Karimova. Karimova headed an expansive organised crime operation that used the power of her father's office to monopolise lucrative business and rent-seeking opportunities in Uzbekistan.⁵⁰ A Radio Ozodlik source claims when Karimova came under investigation by Uzbekistani authorities, her media arm, the Terra Group, had 'more than a dozen accounts [with InFinBank] and the total turnover in them is so large that bank experts have not yet been able to prepare a report on the details for the investigator'.⁵¹

In a boost to its public standing, during 2017 InFinBank was selected by the Asian Development Bank to partner in its Trade Finance Program.⁵²

⁴⁵ 'The Uztex spinning plant becomes ECOized', *Texdata International*, 19 March 2014, available online: <https://www.texdata.com/news/Spinning/7693.The-UZTEX-Spinning-Plant-becomes-â€žECOizedâ€œ.html> (accessed 30 December 2019)

⁴⁶ 'Lonati raddoppia il "colpo" in Uzbekistan', *Bresciaoggi*, 5 February 2016, available online: <https://www.bresciaoggi.it/home/economia/lonati-raddoppia-il-colpo-in-uzbekistan-1.4623429> (accessed 7 October 2019)

⁴⁷ 'On rewarding in connection with the twenty-eighth anniversary of independence of the Republic of Uzbekistan a group of civil servants and workers in the industrial and socio-economic sectors', Decree, President of the Republic of Uzbekistan, 30 August 2019, available online: uza.uz/ru/documents/onagrazhdenii-v-svyazi-s-dvadsatvosmiletiem-nezavisimosti-30-08-2019 (accessed 10 February 2020)

⁴⁸ 'Work as the essence of life - Interview with Mamatjanov Fakhritdin Djuraevich', *Uztex Magazine*, No.1 Autumn 2017, available online: <https://www.yumpu.com/en/document/read/59560256/eng-light-uztux-> (accessed 30 December 2019)

⁴⁹ Babadzhanov, S. (2018) 'Half a billion dollars lawsuit filed against ex-Prosecutor General Kadyrov', *Radio Ozodlik*, 6 March, available online: <https://rus.ozodlik.org/a/29080195.html> (accessed 30 December 2019)

⁵⁰ 'United States sanctions human rights abusers and corrupt actors across the globe', US Department of Treasury, 21 December 2017, available online: <https://home.treasury.gov/news/press-releases/sm0243> (accessed 12 February 2020)

⁵¹ 'Gulnara Karimova's Terra group bank accounts have been frozen', *Radio Ozodlik*, 29 October 2013, available online: <https://www.ozodlik.org/a/25151464.html> (accessed 28 December 2019)

⁵² 'ADB, InFin Bank sign trade finance deal in Uzbekistan', Asian Development Bank, 5 July 2017, available online: <https://www.adb.org/news/adb-infin-bank-sign-trade-finance-deal-uzbekistan> (accessed 30 December 2019)

Looking to its ownership structure, InFinBank's 2015 financial statements claim the institution is 'ultimately controlled by Mr Mamatjanov Fakhritdin Djuraevich', Farkhod's father and Uztex group elder.⁵³ Over the past four years Mamatdjanov Snr has retained a significant stake in InFinBank, alongside Swiss Capital International Group AG, and Alfa Group LLC, an Uzbekistani firm majority owned by English Limited Liability Partnership, Wayrex LLP (99.99%).⁵⁴ Swiss Capital and Alfa Group have also been used to hold shares in the Uztex group. Historically a significant investment vehicle for InFinBank is InFinleasing. Its shares were held by Nargiza Mamatdjanova when the company extract was checked in December 2019.⁵⁵ According to a source familiar with the Mamatdjanov family, she is the wife of Farkhod Mamatdjanov.

It would appear there is credible body of evidence to support the contention that Uztex and InFinBank are part of the same conglomerate controlled by the Mamatdjanov family.

Careful examination of Uztex-InFinBank's offshore shareholding structure reveals more about the ultimate ownership of these major brands, and the business methods they employ.

Table 4: Invest Finance Bank shareholders⁵⁶

| 2016 February | 2017 February | 2018 February | 2019 June |
|--|--|--|--|
| Mamartdjanov Fakhritdin Djuraevich (24.9%) | Swiss Capital International Group (20%) | Swiss Capital International Group (20%) | Swiss Capital International Group (35%) |
| Prestij Rielt (19.63%) | Mamatdjanov Fakhritdin Djuraevich (19.92%) | Real Plast Servis (19.82%) | Mamatdjanov Fakhritdin Djuraevich (34.86%) |
| Agroplastimpeks (17.56%) | Prestij Rielt (15.70%) | Alfa Group (15.88%) | Uztex Tashkent (12.7%) |
| Broker Investment (10.33%) | Agroplastimpeks (14.05%) | Prestij Rielt (13.97%) | Prestij Rielt (9.28%) |
| Real Plast Servis (7.16%) | Broker Investment (8.27%) | Agroplastimpeks (10.87%) | Azia Trans Terminal (8.15%) |
| Alfa Group (3.32%) | Alfa Group (2.66%) | Mamatdjanov Fakhritdin Djuraevich (10.39%) | |

⁵³ Invest Finance Bank (2015), *Invest Finance Bank: Consolidated Financial Statements and Independent Auditor's Report*, 31 December, available online: <https://www.infinbank.com/upload/iblock/334/334a2e4b766c89287373061f77f09da6.pdf> (accessed 10 October 2019)

⁵⁴ Alfa Group, Company Extract, Reg No.777, Unified Portal of Interactive Public Services, accessed 14 February 2020.

⁵⁵ InFinleasing, Company Extract, Reg No.17889, Unified Portal of Interactive Public Services, accessed 30 December 2019.

⁵⁶ Abdullaev, Z.C. (2016), 'Attraction of foreign investments to JCSB "InFinBank"', 10 February, available online: <https://www.infinbank.com/en/press/news/2016/02/552/> (accessed 10 February 2020); Extraordinary general meeting of shareholders, InFinBank, 17 February 2017, available online: <http://www.infinbank.com/upload/iblock/82a/82ad7d67cd9aff689e92b48dfd7ce8fd.doc> (accessed 10 February 2020); Extraordinary general meeting of shareholders, InFinBank, 14 February 2018, available online: <https://www.infinbank.com/en/investors/decisions/2018/08/2085/> (accessed 10 February 2020); Ordinary general meeting of shareholders, InFinBank, 25 June 2019, available online: <https://www.infinbank.com/en/investors/decisions/2019/06/2065/> (accessed 10 February 2020)

PART III.I

AN OVERVIEW OF UZTEX- INFINBANK'S OFFSHORE STRUCTURE

As noted above, a significant volume of the shares held in Uztex entities, and InFinBank, are ultimately owned by a number of offshore entities based in the United Kingdom, Switzerland and Singapore. In addition to these offshore entities, Farkhod Mamatdjanov's brother Doniyor has a minority stake in Katqala-Teks (10.03%) and Eurotex Global (13.44%).⁵⁷ His other brother Dilshod has a 7.34 stake in Uztex Tashkent.⁵⁸

Table 5: Uztex linked offshore entities, accounts, UK⁵⁹

| Legal Entity | Principal Business | Profit | Assets | Notable People |
|-------------------------|---|---------|----------|---|
| Maritex Industrial LLP | Trade agent for textile goods | £3,482 | £22,357 | Accounts signed by Ali Moulaye (2016, 2017) and Kang Dong-Hee (2018) |
| DF Industries LLP | Trade agent for construction materials | £7,601 | £49,704 | Accounts signed by Ali Moulaye (2014, 2015, 2016) and Dong-Hee Kang (2017) |
| Wayrex LLP | Trade agent for polymeric raw materials | £22,802 | £226,530 | Accounts signed by Ali Moulaye (2015, 2016, 2017) and Kang Dong-Hee (2018, 2019). |
| Visitex Universal LP | N/A | N/A | N/A | |
| New Medical Edwards LLP | Trade of raw materials and equipment | £33 | £597 | Georgios Bountakidis, Manager. |

⁵⁷ Katqala-Teks LLC, Company Extract, Reg No.14257, Unified Portal of Interactive Public Services, accessed 1 October 2019; Eurotex Global LLC, Company Extract, Reg No.1518, Unified Portal of Interactive Public Services, accessed 28 September 2019.

⁵⁸ Uztex Tashkent LLC, Company Extract, Reg No.26365, Unified Portal of Interactive Public Services, accessed 18 October 2019.

⁵⁹ Maritex Industrial LLP, *Report of the Members for the Financial Period from 01.02.2018 to 31.01.2019*, Companies House, 17 June 2019, available online: <https://beta.companieshouse.gov.uk/company/OC397544/filing-history> (accessed 24 February 2020); DF Industries LLP, *Report of the Members for the Financial Period from 01.09.2017 to 31.08.2018*, Companies House, 9 January 2019, available online: <https://beta.companieshouse.gov.uk/company/OC387355/filing-history> (24 February 2020); Wayrex LLP, *Report of the Members for the Financial Period from 01.03.2018 to 28.02.2019*, Companies House, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history> (accessed 24 February 2020); New Medical Edwards LLP, *Financial Statement for the Year Ended 31/01/2019*, Companies House, available online: <https://beta.companieshouse.gov.uk/company/OC381453/filing-history> (accessed 24 February 2020)

The UK legal entities employed to hold shares in the group are primarily English Limited Liability Partnerships, and a Scottish Limited Partnership. Both legal forms have been characterised as high risk from an integrity perspective, owing to their opaque characteristics, which has made them an attractive node in money laundering schemes. It cannot be inferred from this that the LLPs or LP used by Uztex are involved in illicit activity. Nevertheless, they do exhibit a number of red flags.

It is worth noting the significant number of accounts filed, which are signed by Ali Moulaye. Investigative journalists Oliver Bullough and Jane Bradley link Moulaye to a network of 127 companies implicated in 'large-scale tax evasion, fraud, or corruption'.⁶⁰ When Moulaye was located by the pair, in order to obtain comment on this network of 127 companies, it was revealed he is now a suburban dentist in Brussels. Moulaye told the reporters 'I have no clue what these companies are, where they are based, and what's their business'.⁶¹

An Estonian newspaper, *Postimees*, attempted to locate another Uztex linked manager, Georgios Bountakidis. This occurred after an entity he administered was implicated in the Russian 'global laundromat' exposé. They report: 'When *Postimees* tried to get Bountakidis on the phone using the company's contact information, we were told it is impossible to reach the Cypriot'.⁶²

Also, of note, is the modest assets, and low profits, declared by Uztex offshore entities in their UK corporate filings. This *prima facie* appears to stand in contrast to their shareholdings in major Uzbekistani industrial combines.

An individual common to all UK entities listed above, is their stated person with significant control (PSC), Mr Jean-Claude Beaujean. Beaujean declares himself to be both a Belgium and French national.

In most instances Beaujean's PSC declaration is premised on his control over the companies, rather than ownership or right to surplus assets.

Therefore, based on the UK registry data it is unclear who the beneficial owners are of these partnerships. Attempts to contact Beaujean through his registered UK address and social media accounts were unsuccessful.

Less information is available on the Singapore based holding entities featured in the Uztex group structure. Singapore laws do not require PSC declarations. The records filed by Uztex holding entities feature what appear to be nominee directors, and nominee shareholders.

⁶⁰ Bradley, J. and Bullough, O. (2018) 'The ghost companies connected to suspected money laundering, corruption, and Paul Manafort', *BuzzFeed*, 23 August, available online: <https://www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort> (accessed 15 May 2019)

⁶¹ Bradley, J. and Bullough, O. (2018) 'The ghost companies connected to suspected money laundering, corruption, and Paul Manafort', *BuzzFeed*, 23 August, available online: <https://www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort> (accessed 15 May 2019)

⁶² Vark, J. and Berendson, R. (2017) 'Bitter moment of truth for Estonian banking', *Postimees*, 22 March, available online: <https://news.postimees.ee/4055253/bitter-moment-of-truth-for-estonian-banking> (accessed 30 September 2019)

Table 6: 2019 Uzbekistani interests of Uztex linked offshore entities, UK⁶³

| Legal Entity | Jean Claude Beaujean, Nature of Control | Uzbekistani Subsidiaries |
|-------------------------|---|---|
| Maritex Industrial LLP | Has significant influence or control | Textile Finance Namangan (100%), Katqal'a Texs (73.44%), Eurotex Global (37.14%) |
| DF Industries LLP | Has significant influence or control | Uchkurgan Textile (83.01%) |
| Wayrex LLP | Has significant influence or control | Alfa Group (99.99%) |
| Visitex Universal LP | Right to surplus assets - 75% or more Ownership of voting rights - 75% or more | Uztex Group (63.05%) [Note: During 2019 the offshore holding structure changed from Visitex Universal LP (63.05%) to Hightex Singapore Pte Ltd (48.72%)] |
| New Medical Edwards LLP | Has significant influence or control | Uztex Shovot (92.5%) |

Table 7: Uztex linked offshore entities, Singapore⁶⁴

| Company | Director/Secretary | Shareholder |
|---------------------------|--|--------------------------------|
| Eastex Systems Pte Ltd | Ruth Ella Neidhart (Switzerland) Koh David (Singapore) Fong Kok Liong Lawrence (Singapore) | Rajamohan Ramachandran (India) |
| Hightex Singapore Pte Ltd | Koh David (Singapore) Daniella Dimitrova (Cyprus) Fong Kok Liong Lawrence (Singapore) | Umrat Hayat (Pakistan) |

⁶³ Katqala-Teks LLC, Company Extract, Reg No.14257, Unified Portal of Interactive Public Services, accessed 1 October 2019; Textile Finance Namangan LLC, Company Extract, Reg No.66, Unified Portal of Interactive Public Services, accessed 28 September 2019; Uchkurgan Textile LLC, Company Extract, Reg No.25330, Unified Portal of Interactive Public Services, accessed 28 September 2019; Uztex Group LLC, Company Extract, Reg No.25, Unified Portal of Interactive Public Services, accessed 15 June 2019; Uztex Group LLC, Company Extract, Reg No.25, Unified Portal of Interactive Public Services, accessed 14 February 2020; Uztex Shovot LLC, Company Extract, Reg No.46, Unified Portal of Interactive Public Services, accessed 15 June 2019.

⁶⁴ Eastex Systems Pte Ltd, Company Extract, Reg No. 201431886M, Singapore Accounting and Corporate Regulatory Authority, accessed on 26 August 2019; Hightex Singapore Pte Ltd, Company Extract, Reg No.201540178E, Singapore Accounting and Corporate Regulatory Authority, accessed on 26 August 2019.

We encounter the same challenges in Switzerland. Like Singapore, Switzerland does not have a PSC register. Companies incorporated in Switzerland as Gesellschaft mit beschränkter Haftung⁶⁵ (GmbH) have a share register which is publicly available through the relevant commercial registry. They do not have to declare beneficial owners. Entities incorporated as Aktiengesellschaft⁶⁶ (AG), do not have to publicly declare their shareholders or beneficial owners. AGs are the most popular legal form in Switzerland.

A better understanding of how the complex offshore structure behind Uztex-InFinBank operates, and some of the problematic practices it is tied to, can be appreciated through a deeper look at two critical spokes, Swiss Capital International Group AG, and Wayrex LLP. Once these two companies have been scrutinised, a close client of Uztex will be introduced, the Swiss multinational, Rieter. A series of leaked documents will then be examined which record highly irregular transactions between Uztex and Rieter that took place through this offshore structure.

Table 8: Uztex linked offshore entities, Switzerland⁶⁷

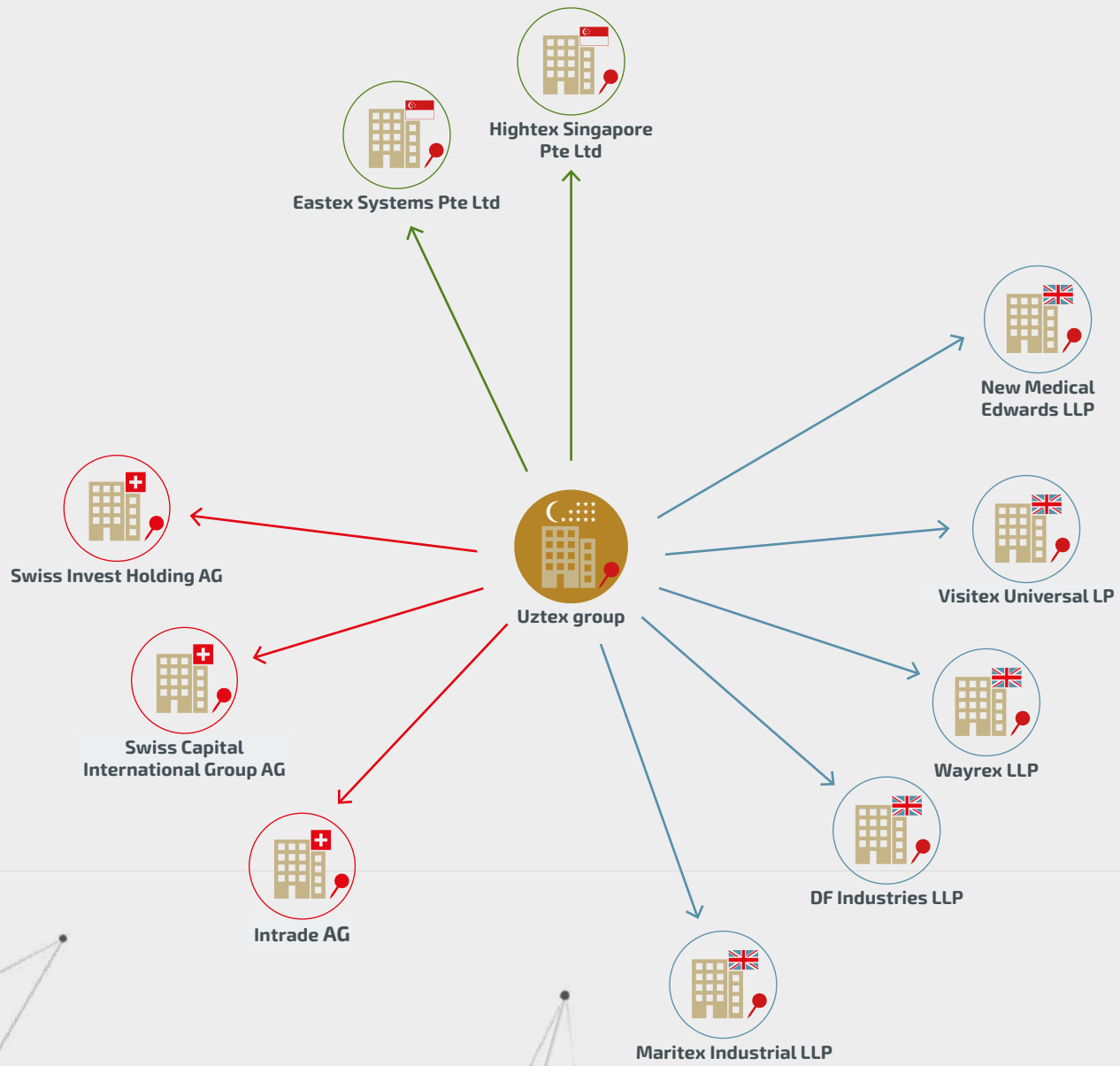
| Company | Board Members | Shareholders |
|--------------------------------------|---|---------------|
| Swiss Capital International Group AG | <p><i>Previous</i></p> <p>Peter Schafflützel Farkhod Fakritdinovich Mamatdjanov Jurg Wieser Jens-Uwe Bockhahn Markus Waldvogel</p> <p><i>Current</i></p> <p>Thomas Huber Aiaz Bakasov</p> | Not available |
| Swiss Invest Holding AG | <p><i>Current</i></p> <p>Thomas Huber Aiaz Bakasov</p> | Not available |
| Intrade AG | <p><i>Previous</i></p> <p>Peter Schafflützel Franz Rupf Thomas Arthur Huber</p> <p><i>Current</i></p> <p>Aiaz Bakasov</p> | Not available |

⁶⁵ Translated as company with limited liability.

⁶⁶ Translated as company limited by shares.

⁶⁷ Swiss Capital International Group, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-116.256.847> (accessed 10 December 2019); Swiss Invest Holding AG, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-341.618.848> (accessed 10 December 2019); Intrade AG, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-137.748.961> (accessed 10 December 2019)

Diagram 3: Uztex group offshore structure

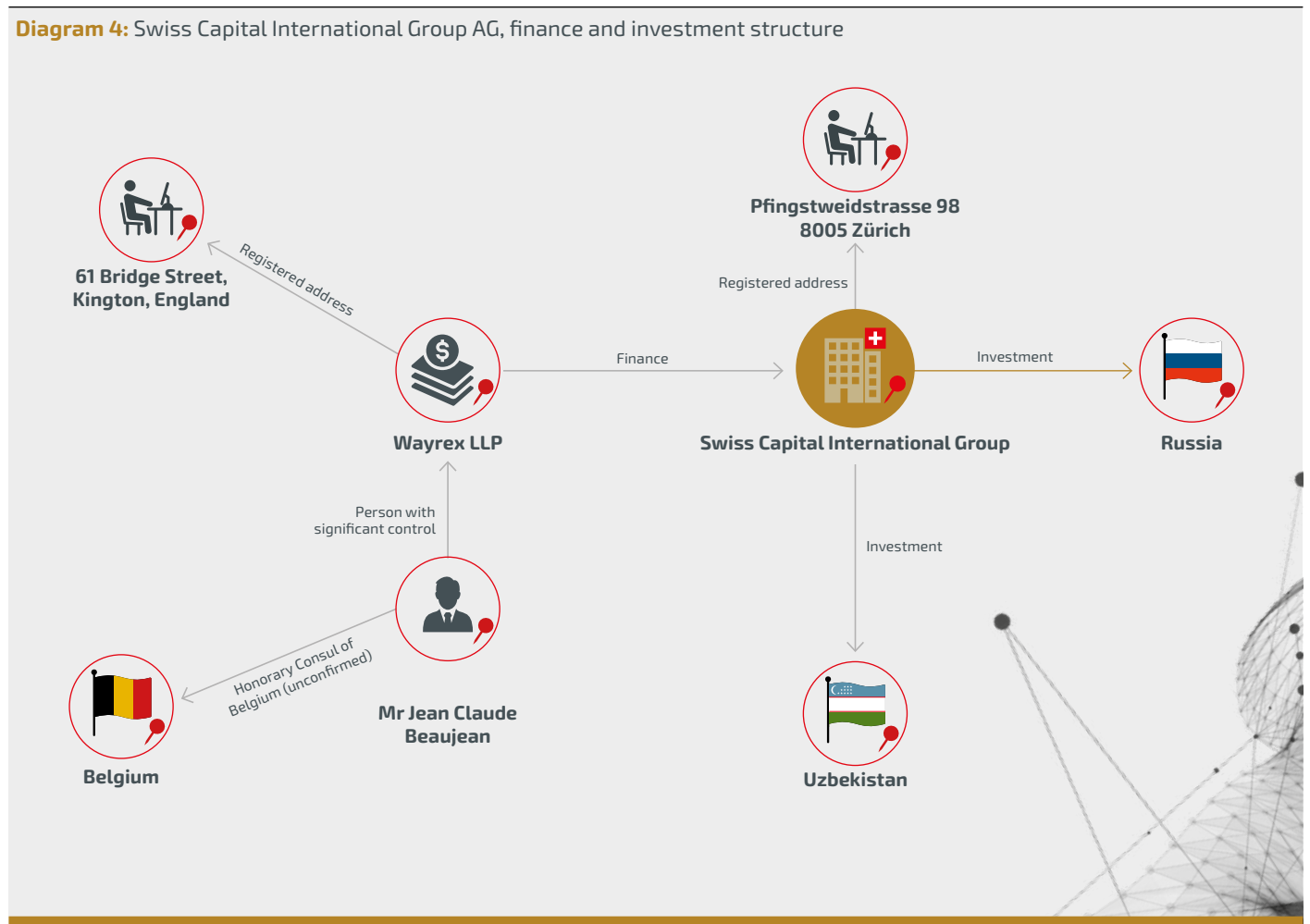


PART III.II

THE SWISS CAPITAL INTERNATIONAL GROUP AG

Swiss Capital International Group AG (Swiss Capital) was incorporated on 26 November 2010. According to annual financial statements for 2015, obtained from the company’s website, its Uzbekistani holdings have included Aysel Invest (98.99%) the then owner of Radisson Blu Tashkent, Uztex Shovot, and Asia Trans Terminal.⁶⁸ We also know from filings in Uzbekistan, that Swiss Capital has held significant stakes in Uztex firm Textile Finance Khorezm LLC, as well as InFinBank.

Diagram 4: Swiss Capital International Group AG, finance and investment structure



⁶⁸ Swiss Capital International Group (2016), *Annual Audited Non-Consolidated Financial Statements for the Period from 01/01/2015-31/12/2015*, available online: www.swisscapitalag.com/upload/2015.pdf (accessed 10 January 2020)

Owing to the limited reporting requirements demanded of AGs in Switzerland, public information is only available on Swiss Capital's board. The current board has two members, Thomas Huber and Aiaz Bakasov.⁶⁹ Farkhod Mamatdjanov is listed as a former member of the board, alongside Swiss national Peter Schafflützel.

Leaked internal records provide further insight into the structure standing behind Swiss Capital's limited public face. A copy of the company's share register dated 7 March 2016 records that Swiss Capital's shares are owned by Swiss Invest Holding AG.⁷⁰ A copy of Swiss Invest Holding AG's share register, which is undated, lists one shareholder, Peter Schafflützel, a Swiss national born 2 March 1952.⁷¹ He acquired 200 shares in Swiss Invest Holding AG on 6 March 2015, and a further 1000 shares on 28 September 2015. Internal Swiss Capital documents suggest that Schafflützel is an agent acting on behalf of a third party.

The first clue, in this respect, is a legal document dated 1 February 2016.⁷² It gives Schafflützel power of attorney to purchase and maintain an apartment on behalf of Farkhod

Mamatdjanov at the exclusive Hard Turm Park development in Zurich. Hard Turm Park's street address is Pfingstweidstrasse 98, Zurich. This is the same address used by Swiss Capital since 2017. It appears the apartment was paid for during April 2016. On 28 April, CHF3 million was transferred to Farkhod Mamatdjanov's bank account with the Lichtenstein based VP Bank. The transfer description reads 'Herr Alisher Razakov U/O, Herr Muzaffar Razakov'. Alisher and Muzaffar Razakov are business people tied to at the Swiss multinational, Rieter. Following this credit, CHF946,676 was then paid to Prospera AG, and CHF1,893,344 to Hardturm AG, the companies which own the Hardturm development.⁷³

The authors also received copies of internal emails sent between then Swiss Capital President Peter Schafflützel, and a Swiss Capital manager, Said Tulyaganov. In the exchange Tulyaganov appears to be working on behalf of Farkhod Mamatdjanov. Tulyaganov is listed as Finance Director for the Uztex group in a 2017 company brochure.⁷⁴

The first email, dated 13 June 2016, includes instructions sent to a Ms Devaux by Peter Schafflützel on

behalf of Swiss Capital. It states, 'the matter was resolved upon my return from Uzbekistan. In the meantime you received information from Mr. F. Mamatdjanov / A. Razakov during your visits to Switzerland. Mr. Said Tulyaganov has sent you further documents (conclusion SCIG)'.⁷⁵ The email confirms that Swiss Capital wishes to proceed with a capital increase from CHF 1.2 million to CHF 16 million. This increase, the email chain discloses, will be facilitated through a US dollar loan from Wayrex LLP to Swiss Invest Holding AG, the company holding Swiss Capital shares.

A 'Payment Order' dated 21 December 2016 indicates loans from Wayrex LLP have been a key source of finance for Swiss Capital International Group AG. The payment order is in the amount of US\$7,281,197.60, for the 'return' of loans associated with agreements dated 28/08/2015 (US\$700,000), 29/12/2014 (US\$1,441,197.91), 15/12/2015 (US\$1,800,000), 15/10/2014 (US\$3,060,193.75), 10/04/2014 (US\$145,952.69), 20/7/2015 (US\$19,474.20), 27/12/2013 (US\$28,692.59), and 18/09/2015 (US\$85,686.47).⁷⁶

⁶⁹ Swiss Capital International Group, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-116.256.847> (accessed 10 December 2019)

⁷⁰ Swiss Capital International Group AG, Share Register, Certified by Beat Hammig Deputy Public Notary, 7 March 2016.

⁷¹ Swiss Invest Holding AG, Share Register, no date.

⁷² Power of Attorney with Power of Substitution Agreement, between Farkhod Mamatdjanov and Peter Schafflützel, 1 February 2016.

⁷³ Account Statement, Mamatdjanov Farkhod, 01/04/2016 - 31/12/2016, VP Bank.

⁷⁴ *Uztex Magazine*, No.1 Autumn 2017, available online: <https://www.yumpu.com/en/document/read/59560256/eng-light-uztex-> (accessed 30 December 2019)

⁷⁵ Email from Peter Schafflützel to Said Tulyaganov, 13 June 2016.

⁷⁶ Payment Order 10 from Swiss Capital International Group, to Wayrex LLP, 21 December 2016.

In an email to Tulyaganov, Swiss Capital's President Peter Schafflützel explains 'after SCIG share increase (pt. 13), main shareholder SIH (FM/Wayrex in background) will get the new share certificate with amount of CHF 16 Mio. for the investment'.⁷⁷ FM appears to be shorthand for Farkhod Mamatdjanov, who is referred to by his full name earlier in the email chain.

In reply, Tulyaganov raises concerns over the procedure being used to facilitate this increase in capital: 'Dear Peter, F. not approved to make share increase of SIH. Why you indicated this in step 1? We don't want to pay 1% tax from SIH. Please update your plan or

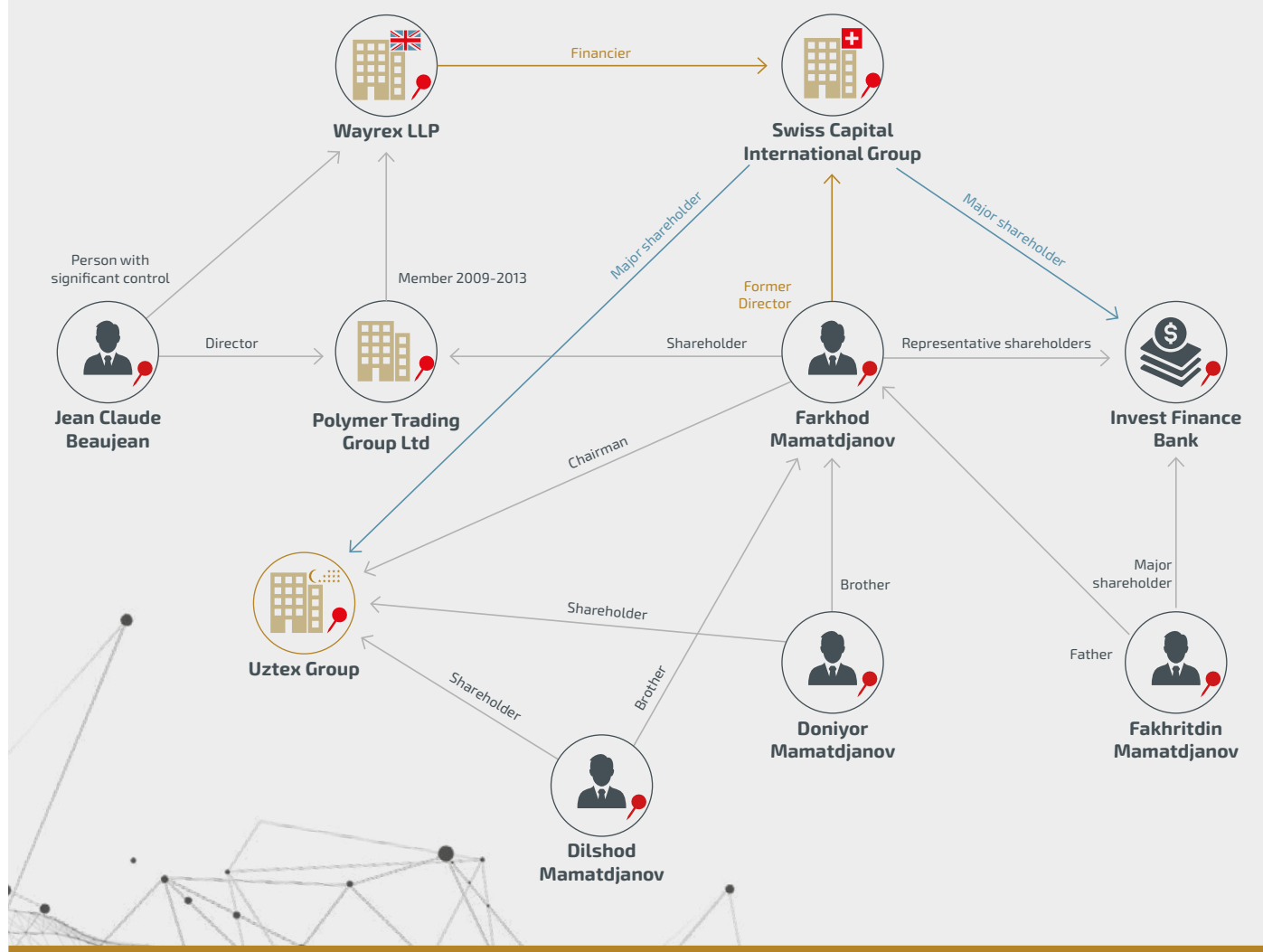
agree new scheme with F'.⁷⁸ F appears to be shorthand for Farkhod Mamatdjanov.

Schafflützel confirms in an email to Said Tulyaganov, Farkhod Mamatdjanov and Alisher Razakov: 'We discussed the matter several times in the past and I always have mentioned that there will be emission tax for SIH [Swiss Invest Holding] (capital contribution is also taxable) and SCIG and it was ok from your side. Also Mr. Rupf has informed FM/AR about this matter when they called him'.⁷⁹

A frustrated Tulyaganov relays his concerns over the exchange to Farkhod Mamatdjanov on the 20 June 2016.

Documents filed with the Zurich commercial register indicate the capital increase went ahead, with Credit Suisse confirming deposited funds of US\$15.655 million.⁸⁰ According to the email exchange between Tulyaganov and Schafflützel, this deposit was to be provided by Wayrex LLP. The Swiss register filings, however, do not record the source of these funds. Wayrex LLP accounts signed by Ali Moulaye on 25 April 2017 indicate that Wayrex LLP had £27,413 in debtors, alongside £154,429 in cash.⁸¹ This does not appear to correlate with commercial activity recorded in Swiss Capital internal documentation.

Diagram 5: The Mamatdjanov family, and key corporate affiliations



⁷⁷ Email from Peter Schafflützel to Said Tulyaganov, 17 June 2016.

⁷⁸ Email from Said Tulyaganov to Peter Schafflützel, 17 June 2016.

⁷⁹ Email from Peter Schafflützel to Said Tulyaganov, 20 June 2016

⁸⁰ Letter from Kerim El Eyadi Amacher, Assistant Vice President Credit Suisse, and Jurg Bissegger, Assistant Vice President Credit Suisse, to The Board of Directors, Swiss Capital International Group, 18 June 2016.

⁸¹ Wayrex LLP, Report of the Members for the Financial Period From 1.03.2016 to 28.02.2017, 25 April 2017, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history> (accessed 12 January 2020).

Further evidence on Swiss Capital's operations and ownership structure has become public following a number of legal cases in Russia during 2018/19. Swiss Capital had acquired, prior to this period a number of Russian assets, including a 50% stake in Pyatigorsk Dairy Plant LLC. According to Swiss Capital's website it 'is one of the largest enterprises of the Stavropol Region on milk processing and the development of dairy products'.⁸² It appears that at some stage during 2016/17, the venture's local partner, and the dairy plant's General Director, were in conflict with Swiss Capital.

This led to allegations by Swiss Capital and Farkhod Mamatdjanov that the dairy plant's General Director, Konstantin Sukharev, had made defamatory remarks damaging their honour, dignity and business reputation.⁸³ The Stavropol Region Arbitration Court rejected this claim. In the judgement it was revealed that Sukharev had sent letters to the Uzbekistani authorities raising concerns over Swiss Capital, and Farkhod Mamatdjanov, in addition to several other individuals connected

to Swiss Capital. Sukharev's letter, which was quoted in the judgement, alleges that Mamatdjanov uses a 'chain of dummies' to conceal his beneficial interest in Swiss Capital. The General Director accuses Mamatdjanov and Swiss Capital of engaging in various illegal activities. He claims that Mamatdjanov boasts of his corrupt ties with employees in the General Prosecutor's office in Uzbekistan. The court concluded that Sukharev was within his rights to raise these concerns with the relevant authorities.

While it is unclear if anything happened as a result of this complaint in Uzbekistan, Sukharev's concerns appear to have attracted the interest of the Russian authorities. We know this from an appeal decision published by the criminal division of the Stavropol Regional Court. The appeal was lodged by the 'suspect' 'Farkhod Mamatdjanov', and it relates to a Pyatigorsk City Court decision to freeze property belonging to 'Swiss XXXX' - the rest of the company's name is redacted.⁸⁴ This freezing order was made in response to a request by the Russian Ministry of Internal Affairs. Investigators claimed it was necessary

as 'this property will continue to be used by members of organized criminal groups as another means of committing a crime'. The Appeal Court upheld the freezing order.

In summary, internal Swiss Capital records appear to support the contention that Farkhod Mamatdjanov is a person who has had significant control over Swiss Capital. This claim has also been made by a senior Russian executive responsible for a firm part-owned by the group. Following this allegation a Russian criminal investigation linked Mamatdjanov to the firm 'Swiss XXXX'. Criminal investigators claim that Mamatdjanov has been using the company to participate in organised criminal activities. A Russian appeals court was persuaded to uphold an asset freezing order related to this case.

Consideration will now turn to the British entity, Wayrex LLP, cited in the email exchange between Tulyaganov and Schafflützel. It appears to be a key vehicle in the Uztex-InFinBank group, and one which documents indicate loaned significant sums to Swiss Capital.

⁸² See <http://swisscapitalag.com/division/dairy-products-division> (accessed 12 January 2020)

⁸³ Stavropol Region Arbitration Court, Case No.A63 - 13475/2018, Decision, 19 December 2018.

⁸⁴ Stavropol Regional Court Criminal, Case No.22-958/2019, Appeal Decision, 26 February 2019.

PART III.III

WAYREX LLP

Wayrex LLP is an English Limited Liability Partnership. It was established on 14 February 2005 with two founding members, Ireland & Overseas Acquisitions LTD a firm incorporated in the British Virgin Islands, and Milltown Corporate Services, also incorporated in the British Virgin Islands.⁸⁵

On 16 January 2009 both members resigned. They were replaced by Eurotex Commercial Ltd, and Polymer Trading Group Ltd.⁸⁶

According to the offshore entities database curated by the International Consortium of Investigative Journalists (ICIJ), Eurotex Commercial Ltd has a single shareholder, Iminov Abdumalik Validjanovich.⁸⁷ Corporate filings submitted by Uzbekistani JSC Alfa Group, indicate Iminov was elected to its board during 2012.⁸⁸ Alfa Group's principal shareholder is Wayrex LLP.

Eurotex Commercial Ltd's Director is recorded as being Markus Waldvogel

in ICIJ's offshore database. Waldvogel would go on to serve as a Director at Swiss Capital International Group AG from 29 April 2013 until 21 August 2014.⁸⁹

With respect to Polymer Trading Group Ltd, the ICIJ database indicates 'Mamatdjanov Farkhod Fakhritdinovich' was sole shareholder.⁹⁰ Jean-Claude Beaujean is listed as the company's Director.

Subsequently the Marshall Islands registered International Business Companies, Kenmark Inc, and Ostberg Ltd, replaced Eurotex and Polymer Trading, as Wayrex LLP members.

Wayrex LLP's website, which is now offline, was accessed using the Wayback Machine archival tool. The website contains no information on managers, directors or shareholders. It describes the LLP's mission as:

Wayrex Holding Company is focused on creating an integrated company. Wayrex Holding Company includes several business divisions. Each business division is managed by a Executive Director of Wayrex Holding Company. To implement even larger-scale investment programs, the holding company would like to cooperate with strategic partners. The goal of the Wayrex Holding Company investment strategy is to ensure sustainable development and high profit margins for the company. The implementation of the strategy will result in the long-term growth of the company's business value.⁹¹

⁸⁵ Wayrex LLP, Application for Incorporation of a Limited Liability Partnership, Companies House, 1 February 2005, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history?page=2> (accessed 17 February 2020)

⁸⁶ See Wayrex LLP filings dated 16 January 2009, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history?page=2> (accessed 17 February 2020)

⁸⁷ Eurotex Commercial Ltd, International Consortium of Investigative Journalists, Offshore Leaks Database, available online: <https://offshoreleaks.icij.org/nodes/197109> (accessed 20 February 2020)

⁸⁸ Alfa Group JSC, Essential Facts 9, 14 June 2012, available online: www.biznes-daily.uz/ru/2010-12-09-08-26-52/7915-alfa-group-sp-oao (accessed 30 December 2019)

⁸⁹ See <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-116.256.847#> (accessed 20 February 2020)

⁹⁰ Polymer Trading Group Ltd, The International Consortium of Investigative Journalists, Offshore Leaks Database, available online: <https://offshoreleaks.icij.org/nodes/197110> (accessed 20 February 2020)

⁹¹ Archived website available online: <https://web.archive.org/web/20181218183323/http://wayrex.com/aboutus> (accessed 20 February 2020)

The first media accounts, from July 2005, refer to Wayrex LLP as a British company investing in Guzor Flour LLC. It was reported that Wayrex LLP had provided 56.3% of the US\$1.77 million investment.⁹² Later reports from 2009 claim Wayrex LLP was preparing to invest a further US\$1 million into two companies it founded, TashBrunnentex, and Bursel Tashkent Textile.⁹³ TashBrunnentex would be rebranded Uztex Tashkent (the majority of Uztex Tashkent's shares are now held through an opaque Singapore offshore entity, Eastex Systems Pte Ltd). In a 2016 UK government media release documenting a diplomatic trip to Uzbekistani-British joint ventures, Uztex Shovot was reported to be owned by Wayrex LLP (at the time of writing, Uztex Shovot shares are now held primarily by New Medical Edwards LLP, its PSC is Jean Claude Beaujean).⁹⁴ Finally, Wayrex LLP through its 99.99% stake in Alfa Group, has held a significant interest in InFinBank.

Following transparency reforms to the UK companies law, on 14 February 2017 Wayrex LLP declared one PSC, Jean Claude Beaujean.⁹⁵ Beaujean claims to have significant influence or control over the entity, rather than a beneficial ownership interest.

As noted above, Beaujean has acted as a Director of Polymer Trading Group Ltd, a Wayrex LLP member owned by Farkhod Mamatdjanov (according to the ICIJ database), and in addition served on the board of Alfa Group.⁹⁶ Alongside these business roles, Beaujean was reportedly appointed Honorary Consul of Belgium in 1998 by the King of Belgium.⁹⁷ As late as December 2019, Beaujean continues to be cited in Uzbekistani media releases by this title.⁹⁸ Karl Lagatie, head of press at the Belgian Ministry of Foreign Affairs, did not respond to multiple requests for confirmation of Beaujean's appointment. Beaujean also served as a board member at the American

Chamber of Commerce in Uzbekistan from 1999 to 2015.⁹⁹

While data from Uzbekistan and Switzerland indicates Wayrex LLP has held significant a major industrial-finance interests, accounts filed with the UK's Company House consistently depict Wayrex LLP as a small firm 'active as a trade agent for polymeric raw materials'.¹⁰⁰ Its annual commissions for trade agency work have been under £50,000 per annum since 2009, while its assets, primarily constituted by cash, has slowly accumulated to £226,530.¹⁰¹

⁹² 'New joint venture opens in Uzbekistan', Business Press, 20 July 2005, available online: www.businesspress.ru/newspaper/article_mld_21960_ald_347174.html (accessed 20 February 2020)

⁹³ 'Uzbekiyengilsanoat signs agreements on attraction of investments to Navoi FIEZ', Uz Daily, 2 November 2009, available online: uzdaily.com/en/post/7785 (accessed 30 December 2019)

⁹⁴ 'Deputy Ambassador visits regions in Uzbekistan', Government of the United Kingdom, British Embassy Tashkent, 22 February 2016, available online: <https://www.gov.uk/government/news/deputy-ambassador-visits-regions-in-uzbekistan> (accessed 30 December 2019)

⁹⁵ Wayrex LLP, Persons with Significant Control Notification, Companies House, 14 February 2017, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history> (accessed 30 January 2019)

⁹⁶ Alfa Group JSC, Annual Report 2016, Openinfo.uz, available online: <https://openinfo.uz/ru/reports/4983/> (accessed 20/1/2020)

⁹⁷ 'Profile - AmCham Director Jean Claude Beaujean', Business Connections, 2006/4, available online: www.silkpress.com/discovery-bc/archive/2006.4/10_8.php (accessed 20 January 2020)

⁹⁸ 'Celebratory concert in the framework of the project "Days of European Languages" at UMED', University of World Economy and Diplomacy, 16 December 2019, available online: www.uwed.uz/ru/news/fulltext/1048 (accessed 8 January 2020)

⁹⁹ Jean Claude Beaujean, Facebook Profile, available online: <https://www.facebook.com/jeanclaude.beaujean.10/about?lst=560523192%3A1522430714%3A1579683563> (accessed 20 January 2020)

¹⁰⁰ See, for example, Wayrex LLP, Report of the Members for the Financial Period 1.03.2018 to 28.02.2019, Companies House, 16 May 2019, available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history> (accessed 21 February 2020)

¹⁰¹ See financial filings available online: <https://beta.companieshouse.gov.uk/company/OC311533/filing-history> (accessed 21 February 2020)



A similar pattern of corporate disclosure may be observed with other British entities, where Beaujean is a declared PSC. Maritex Industrial LLP, DF Industries LLP, and New Medical Edwards LLP all majority own significant companies in the Uztex group.¹⁰² In UK filings they claim to be trade agents, earning minor revenues from commissions, with modest assets constituted primarily by cash in the bank. All three have declared Beaujean a PSC on the basis that he exercises significant control over the firm, rather than due to a beneficial interest.

Despite the negligible sums appearing on Wayrex LLP's financial filings, internal Swiss Capital records indicate that it has provided them with over CHF7 million in loans. While more widely speaking Wayrex LLP has been a key offshore vehicle used to hold shares in Uztex companies at various stages over the previous decade, and in InFinBank (via Alfa Group).

Attention will now turn to the Rieter group. Rieter is not part of Uztex. It is, however, an industrial supplier

to Uztex, and is cited in a series of leaked documents involving irregular transactions.

¹⁰² Corporate register filings for Maritex Industrial LLP, DF Industries, LLP, and New Medical Edwards LLP, can be accessed online: <https://beta.companieshouse.gov.uk/> (accessed 21 February 2020)

PART III.IV

RIETER GROUP

Rieter is a Swiss multinational headquartered in Winterthur. It supplies textile machinery globally, with over US\$1 billion in revenues. It has subsidiaries in Belgium, Brazil, China, Czech Republic, France, Germany, India, Italy, Liechtenstein, Netherlands, Spain, Taiwan, Turkey, USA and Uzbekistan. In Rieter's 2018 Annual Report the company claims:

'Rieter is the world's leading supplier of systems for short-staple fiber spinning. Based in Winterthur (Switzerland), the company develops and manufactures machinery, systems and components used to convert natural and manmade fibers and their blends into yarns. Rieter is the only supplier worldwide to cover spinning preparation processes as well as all four end spinning processes currently established on the market. Furthermore, Rieter is a leader in the field of precision winding machines. With 16 manufacturing locations in ten countries, the company employs a global workforce of some 5,150, about 20% of whom are based in Switzerland'.¹⁰³

Uzbekistan is a significant regional portfolio for Rieter. The 2018 Annual Report states that in Asia 'Rieter increased sales in the reporting year by 36% to CHF433.9 million, of which Uzbekistan made a significant contribution of CHF144.1 million'.¹⁰⁴ This reflected the fact that sales in Uzbekistan increased by 70% in 2018. By contrast 'in 2018, sales in China fell by 19% to CHF148.6 million'.¹⁰⁵

Given that Uztex is arguably the largest textile firm in Uzbekistan, it is not unusual that they are an important Rieter client. However, evidence indicates that this relationship goes beyond customer and supplier. For example, Rieter Machine Works Ltd has a stake (3.52%) in Uztex Tashkent, a company previously known as Tashbrunnentex.¹⁰⁶ The other shareholders include Dilshod Mamatdjanov, the brother of Farkhod, and Eastex Systems Pte Ltd, an opaque Singapore holding vehicle.

¹⁰³ Rieter (2019) Annual Report 2018, 12 March, p.4, available online: https://www.rieter.com/fileadmin/user_upload/investor-relations/documents/reports/2018/rieter-annual-report-2018-en.pdf (accessed 10 January 2020)

¹⁰⁴ Rieter (2019) Annual Report 2018, 12 March, p.7, available online: https://www.rieter.com/fileadmin/user_upload/investor-relations/documents/reports/2018/rieter-annual-report-2018-en.pdf (accessed 10 January 2020)

¹⁰⁵ Ibid.

¹⁰⁶ Uztex Tashkent LLC, Company Extract, Reg No.26365, Unified Portal of Interactive Public Services, accessed 18 October 2019.

Rieter group's General Counsel, Thomas Anwander, in correspondence dated 18 October 2019, initially stated that Rieter did not own shares in the Uztex group: 'This information is not correct. Neither Rieter Machine Works Ltd nor any other company of the Rieter Group is a shareholder in Uzteks Tashkent or in any other company in Uzbekistan except than Rieter Uzbekistan'.¹⁰⁷

A copy of Uztex Tashkent's shareholder information, obtained from Uzbekistan's unified register of legal entities, was supplied to Rieter. In response Rieter General Counsel clarified the previous representation, stating that in fact the company does have an interest in Uztex:

Rieter Machine Works Ltd received some shares in a company called Tashbrunnentex in the context of a financial restructuring about 10 years ago. We thought these shares have been divested in the meantime. Based on the information received we realised that this has not been the case.¹⁰⁸

This response references the approximate period when Tashbrunnentex was founded by Wayrex LLP and another Swiss firm, Chastex AG (which was later liquidated).¹⁰⁹ Chastex AG's sole director was Markus Waldvogel who is tied both to Wayrex LLP, and Swiss Capital International Group AG, where he has acted in an executive capacity.¹¹⁰

Uztex and Rieter are also tied by shared personnel. Jurg Wieser, for example, served as a director at Swiss Capital International Group from 7 September 2015 until 18 July 2017.¹¹¹ At the same time Wieser was on the Board at the Joh. Jacob Rieter-Stiftung Foundation, which is Rieter's Swiss charitable arm.¹¹² He also served previously as a head of human resources at Rieter.¹¹³ Another Rieter executive, Jens-Uwe Bockhahn, served as a Swiss Capital director from 1 November 2011 until 29 November 2011.¹¹⁴ In a 2010 Rieter company magazine Bockhahn is listed as Rieter group's Central Asia sales manager.¹¹⁵

Next is the example of Alisher Razakov. Razakov's LinkedIn profile states he is head of Central Asia for Rieter Machine Works AG (a media reports claims he is Rieter's Uzbekistan agent).¹¹⁶ While Dr Muzaffar Razakov is listed as CEO of Rieter Uzbekistan.¹¹⁷

In the previous section on Swiss Capital International Group AG, Alisher Razakov was characterised as a business partner of Farkhod Mamatdjanov in email correspondence. This framing is further supported by a 2016 VP Bank annual account statement, cited above, for Farkhod Mamatdjanov. It features a number of noteworthy transactions. First, is a CHF3 million payment to Mamatdjanov on 28 April 2016. The following transaction description appears on the statement: 'Herr Alisher Razakov U/O, Herr Muzaffar Razakov'.¹¹⁸ This money appears to have been used to purchase a property at the Hard Turm Park development in Zurich, during the same time-period when Swiss Capital International Group moved its headquarters to the development.

¹⁰⁷ Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 18 October 2019.

¹⁰⁸ Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 20 December 2019.

¹⁰⁹ On the Investment Program of the Republic of Uzbekistan for 2008, Decree President of the Republic of Uzbekistan, 9 October 2007, No.PP-704, available online: <https://www.lex.uz/acts/1257293> (accessed 30 December 2019)

¹¹⁰ Chastex AG, Commercial Register of Schwyz Canton, available online: https://www.shabex.ch/co/exc/chastex_ag_in_liquidation_CH-400.3.019.921-0.htm (accessed 30 December 2019)

¹¹¹ Swiss Capital International Group, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-116.256.847> (accessed 10 December 2019)

¹¹² Joh. Jacob Rieter-Stiftung, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-102.038.534#> (accessed 30 December 2019)

¹¹³ Rieter, Annual Report 2003, 23 March 2004, available online: https://www.rieter.com/fileadmin/user_upload/investor-relations/documents/reports/2003/rieter-annual-report-2003-en.pdf (accessed 30 December 2019); 'Winterthur meets the Thurgau', Tagblatt, 14 May 2012, available online: <https://www.tagblatt.ch/ostschweiz/frauenfeld-munchwilen/winterthur-trifft-den-thurgau-ld.910988> (accessed 30 December 2019)

¹¹⁴ Swiss Capital International Group, Commercial Register of Zurich Canton, available online: <https://zh.chregister.ch/cr-portal/auszug/auszug.xhtml?uid=CHE-116.256.847> (accessed 2 February 2020)

¹¹⁵ Rieter (2010) Link, Vol.22 No.54, p.9, January, available online: <https://www.yumpu.com/en/document/read/4909176/link-1-2010-04-trends-markets-belarus-textile-market-on-rieter> (accessed 2 February 2020)

¹¹⁶ Alisher Razakov, LinkedIn Profile, available online: <https://www.linkedin.com/in/alisher-razakov-53320a2/> (accessed 10 December 2019)

¹¹⁷ Dr. Muzaffar Razakov, LinkedIn Profile, available online: <https://www.linkedin.com/in/dr-muzaffar-razakov-5b6a804/> (accessed 10 December 2019)

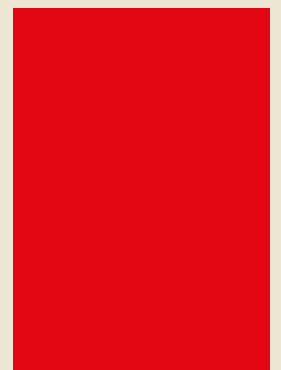
¹¹⁸ Account Statement, Mamatdjanov Farkhod, 01/04/2016 - 31/12/2016, VP Bank.

There are additional VP Bank transactions from 2016 involving Alisher Razakov. For example, on 1 July 2016, CHF800,000 is transferred to Farkhod Mamatdjanov by Nargiza Mamatdjanova in Tashkent. Four days later on 5 July, CHF800,000 is transferred to Alisher Razakov. Then on 9 December 2016, CHF2.2 million is transferred to Farkhod Mamatdjanov, the payment is described as 'pay-out mortgage contract no.826050'. The same day CHF2,200,010 is transferred from Mamatdjanov to Alisher Razakov. In total CHF3 million is paid out to Alisher Razakov, following the earlier credit to Mamatdjanov's account in the same amount, referencing Alisher Razakov and Muzaffar Razakov.

Rieter's General Counsel was alerted to these transactions through correspondence in October 2019. He responded, 'we kindly ask you to provide us with trustful copies of the respective bank statements so we can follow up on this matter also in terms of compliance with our Code of Conduct'.¹¹⁹ A copy of the statement was provided. Rieter's General Counsel advised: 'The copies you provided us show transactions between Mr Mamatdjanov and Mr Razakoffs private bank account. Obviously these transactions do not relate to any business matters, so we are [sic] in the position to comment on them'.¹²⁰

Other links exist between the Razakovs and Mamatdjanov. For example, in PSC filings submitted to Companies House in the UK for Bellmax Management Ltd, Alisher Razakov lists his correspondence address as 98 Pfingstweid Street, Zurich, 8005.¹²¹ This is the location of the Head Office for Swiss Capital International Group AG.

In light of the above evidence it can be concluded that, in addition to being an important supplier of industrial equipment to Uztex, Rieter has a number of additional ties with the group. They have a shareholding in Uztex through Uztex Tashkent. Uztex and Rieter also have had shared senior personnel. One individual appears to be both a senior representative for Rieter in Central Asia, and a key interlocutor with Mamatdjanov and the Swiss Capital International Group. These factors will assume greater significance in the next section, which focuses on a series of commercial transactions between Uztex and Rieter.



¹¹⁹ Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 18 October 2019.

¹²⁰ Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 20 December 2019.

¹²¹ Bellmax Management Ltd, Persons with Significant Control Notification, Companies House, 1 March 2017, available online: <https://beta.companieshouse.gov.uk/company/07971316/filing-history> (accessed 21 February 2020)

PART III.V

A 'BOOMERANG' SALES CONTRACT BETWEEN UZTEX AND RIETER

During 2017 Uztex and Rieter entered negotiations over the supply of US\$84 million in equipment for two of Uztex's operations, Textile Finance Namangan LLC and Textile Finance Khorezm LLC. Textile Finance Namangan has been awarded a 9,836 hectare cluster in Uchkurgan district, while Textile Finance Khorezm has been awarded a 9,630 cluster in the Shavatsky district.¹²² Both clusters are serviced by InFinBank.

When company extracts were checked during 2019, Textile Finance Namangan's shares were 100% owned by Maritex Industrial LLP.¹²³ Maritex is a British limited liability partnership.¹²⁴ Its PSC is Jean Claude Beaujean. In its financial filings Maritex Industrial claims to be a trade agent, with minimal assets and revenue. The 2019 extracts check revealed that the Uztex holding entity for Textile Finance Khorezm was Swiss Capital International Group, which had a 96.59% stake in the company.¹²⁵

The industrial deal being brokered between Rieter and these two Uztex companies, was facilitated initially through two sales contracts. The first contract is dated 10 May 2017. It is between Textile Finance Khorezm and Rieter Machine Works.¹²⁶ The contract is for Rieter equipment, and it is in an amount of US\$55,186,400. The second contract is dated 27 September 2017. It is between Textile Finance Namangan LLC and Rieter Machine Works. The contract is for Rieter equipment, and is in the amount of US\$28,401,000.¹²⁷

However, it appears a second set of contracts were subsequently drafted.¹²⁸ In this second set of contracts, the supply of industrial equipment is outsourced by Rieter to a third party, Wayrex LLP, with the agreement of Uztex. According to these contracts the third party will, in turn, source the industrial equipment, and then facilitate the machinery's installation. Rieter will then be billed for the costs with relevant documentation. A US dollar transfer to Wayrex LLP will be made, the contracts note, after Rieter has received payment from Uztex for the initial contract. Under the contracts Rieter will retain a handling fee of US\$150,000.

When questioned about this arrangement, Rieter's General Counsel explained:

'It is a common practice in our industry that a machine manufactures like Rieter are trusted with the coordination of different suppliers.'¹²⁹

¹²² *On Measures to Introduce Modern Forms of Organizing Cotton-Textile Production*, Cabinet of Ministers of the Republic of Uzbekistan, 25 January 2018, available online: www.lex.uz/ru/docs/3527483 (accessed 11 October 2019)

¹²³ Textile Finance Namangan LLC, Company Extract, Reg No.66, Unified Portal of Interactive Public Services, accessed 28 September 2019.

¹²⁴ Maritex Industrial LLP's UK filings are available online: <https://beta.companieshouse.gov.uk/company/OC397544/filing-history> (accessed 21 February 2020)

¹²⁵ Textile Finance Khorezm LLC, Company Extract, Reg No.118, Unified Portal of Interactive Public Services, accessed 28 September 2019.

¹²⁶ Contract No.21425014, Textile Finance Khorezm LLC and Rieter Machine Works Ltd, 10 May 2017.

¹²⁷ Contract No.21529101, Textile Finance Namangan LLC and Rieter Machine Works Ltd, 27 September 2017.

¹²⁸ Agreement between Textile Finance Khorezm LLC, Rieter Machine Works Ltd, and Wayrex LLP, 19 October 2017; Agreement between Textile Finance Namangan LLC, Rieter Machine Works Ltd, and Wayrex LLP, 19 October 2017.

¹²⁹ Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 18 October 2019.

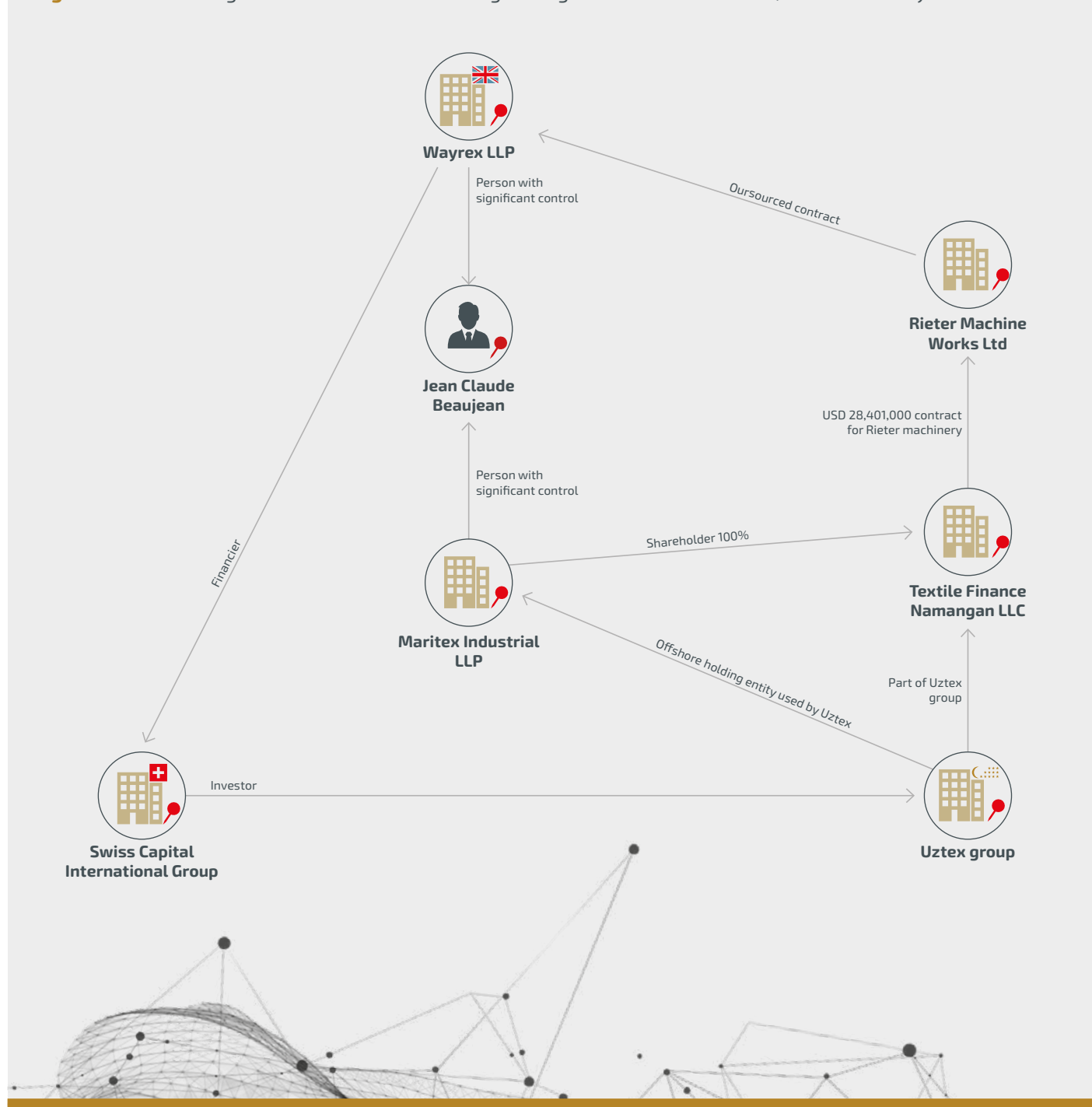
However, there are two features of the second set of contracts, which appear to depart from 'common practice', as set out by Rieter. First, they are not supply agreements with other producers of textile machinery. The third party in these agreements has been contracted to source a supplier of machinery. So, rather than supply the machinery directly, or coordinate the supply of such machinery from third party producers, Rieter has outsourced the outsourcing of the machinery for Uztex. The third party tasked by Rieter with implementing this US\$84 million

deal is Wayrex LLP, a core offshore vehicle used in the Uztex group.

In other words, under the agreements Uztex was contracting Rieter to supply US\$84 million in machinery to Textile Finance Namangan and Textile Finance Khorezm. Rieter then handed this job over to Wayrex LLP, a significant offshore vehicle in the Uztex group. Wayrex LLP, in turn, agreed to source the machinery, and facilitate its installation, billing Rieter for the costs. This money would only be paid, however, after Uztex had

transferred funds to Rieter under the initial contracts. So, in effect, Uztex contracted Rieter to supply machinery, then Rieter sub-contracted Uztex to source suppliers for this machinery; in turn, Uztex agreed to pay Rieter, while Rieter then agreed to pay Uztex, upon evidence Wayrex LLP had sourced and facilitated the equipment's installation, and only after Rieter had received payment from the Uztex companies party to the initial sales contracts.

Diagram 6: Boomerang structure of the contracting arrangement between Uztex, Rieter and Wayrex.



But would this irregular contractual complexion have been apparent to Rieter? If we work on an assumption that Rieter and Uztex were two companies entirely unfamiliar with each other's operations, which is not the case, the arrangement still should have raised concerns.

First, at the time the contracts with Wayrex LLP were drafted in 2017, its corporate filings, signed by Ali Moulaye, claim the limited liability partnership was a 'trade agent for polymeric raw materials', for which it receives commissions. Its total assets were £180,342, constituted mainly by cash at bank or in hand. This information did not indicate that Wayrex LLP had relevant industry experience in sourcing textile machinery, or facilitating its installation.

Publicly accessible corporate filings made in Uzbekistan, alongside media reports, made it apparent that Wayrex LLP was tied to the Uztex group.¹³⁰ The former filings also revealed that Wayrex LLP majority owned Alfa Group, a company with a range of additional interests, including shares in InFinBank.

When the deal was made between Rieter and Wayrex LLP, Wayrex had one declared PSC, Jean Claude Beaujean. He had also been declared PSC for a

number of other entities, including Maritex Industrial LLP and DF Industries LLP. It was apparent at the time based off public filings in Uzbekistan, both entities were again tied to Uztex's operations.¹³¹

However, the above assessment is based on an assumption that Rieter and Uztex are entities with no prior links. We know that during the period in which these contracts were negotiated Uztex and Rieter had various ties.

First, a former senior Rieter executive, Jurg Wieser, was director at Swiss Capital International Group until 18 July 2017, arguably one of the most significant organs in the Uztex-InFinBank group. At the same time Wieser was sitting on the board of Rieter's Swiss charitable arm. Jens-Uwe Bockhahn also served briefly as a Swiss Capital director during 2011. In a 2010 Rieter company brochure, Bockhahn is described as their Central Asia sales manager. Other senior Rieter representatives for the Central Asia region enjoyed close business associations with Farkhod Mamatdjanov, a key Uztex figure, and Swiss Capital. Alisher Razakov is the principal example. Finally, Rieter had obtained shares in a Uztex joint venture, which was founded by Wayrex LLP.

Therefore, it would appear that Rieter was in a good position to know its client Uztex, and the third party contractor, Wayrex LLP, an Uztex offshore entity.

Rieter's General Counsel Thomas Anwander was asked why the contracting parties – Uztex and Rieter – would agree to Rieter outsourcing the identification of a supplier to an Uztex offshore vehicle, that on paper is a trade agent for polymeric raw materials. In response to this query Rieter's General Counsel claims the contract with Textile Finance Khorezm and Wayrex LLP, in the end, did not proceed. He confirmed, however, that the contracts with Textile Finance Namangan and Wayrex LLP did proceed. Anwander then notes:

As explained in our last letter it is a common practice in our industry that machine manufactures like Rieter are trusted with the coordination of different suppliers. Also for the project Textile Finance Namangan Rieter coordinated in cooperation with Wayrex LLP the scope of other suppliers than Rieter like Savio, Uster and Sohler-Neuenhauser.¹³²

¹³⁰ 'Innovative activity in the textile industry', *Biznes Daily*, 19 April 2012, available online: <http://biznes-daily.uz/uz/gazeta-birja/2425-toqimachilik-sanoatida-innovatsion-faoliyat> (accessed 1 January 2020); 'Deputy Ambassador visits regions in Uzbekistan', Government of the United Kingdom, British Embassy Tashkent, 22 February 2016, available online: <https://www.gov.uk/government/news/deputy-ambassador-visits-regions-in-uzbekistan> (accessed 30 December 2019); Tursunova, A. (2016) 'In the regions of Uzbekistan', *Biznes Daily*, 26 February, available online: www.biznes-daily.uz/ru/mening-mulkim/36380-v-rgionax-uzbkistana (accessed 1 January 2020).

¹³¹ Aysel-Invest JSC, Material Fact Disclosure No.6, 9 December 2016, available online: <https://openinfo.uz/ru/facts/7471/> (accessed 20 February 2020) Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 20 December 2019.

¹³² Letter from Thomas Anwander, General Counsel, Rieter Management AG, to Professor Kristian Lasslett, Ulster University, 20 December 2019.

This response, however, does not explain why Rieter would be charged with finding suppliers by Uztex, only then to outsource this task back to an Uztex offshore company.

Farkhod Mamatdjanov and the Uztex group did not respond to requests for comment.¹³³

In isolation these series of contracts between Uztex and Rieter would be a matter of concern when assessing the integrity of Uztex, a company which is among the most important in Uzbekistan's cotton cluster system. However, in the previous subsections additional red flags were pointed to. Cumulatively this evidence indicates that Uztex fails to exhibit traits which would qualify it as a 'responsible investor'. That Uztex was appointed to operate clusters under opaque conditions, without open competition or transparency, is an additional matter of concern.

However, as the next section of this report demonstrates, Uztex is not an isolated example of major cluster operators exhibiting evidence of multiple bad practices.

Postscript: In a report published on 20 February 2020, a group of farmers have raised concerns to *Radio Ozodlik* over the cluster operations of Uztex company, Shovot Tekstil.¹³⁴ According to farmers the district hokimiyat and cluster operator have forced them to sign a cotton cultivation agreement based on the 'interests of the cluster only'. They complained of 'unfair insurance conditions, inflated prices for fertilizer and diesel and a monopoly of the cluster in the district which leaves farmers no right to choose which cluster to work with'.

One farmer, who asked not to be named, told *Ozodlik* that due to overpriced products, and despite fulfilling the cotton target, he was left in debt to the cluster. Another farmer said the cluster had established its own insurance company and retained UZS30 million (approximately \$3,000 US) from farmers last year. It is alleged that farmers who were unable to fulfil the plan because of circumstances outside their control, received no compensation from the insurance policy.

It is also claimed that the contract obliges farmers to pay the salaries of the cluster's agronomist, business manager and other employees.

¹³³ Both written and email correspondence was sent by the authors.

¹³⁴ Ashur, S. (2020) 'In Khorezm, farmers are forced to sign contracts that only take into account the interests of the cluster', *Radio Ozodlik*, 20 February, available online: <https://www.ozodlik.org/a/klaster-shovot-fermer/30445664.html> (accessed 16 April 2020)

PART IV

RUSSIA'S STARBANK SCANDAL AND UZBEKISTAN'S CLUSTER SYSTEM

On 19 September 2018, a Cabinet of Ministers decree was passed. It announced a rapid expansion of the cotton cluster system. At the start of the year thirteen clusters had been introduced covering 132,808 acres.¹³⁵ By September a further 44 clusters were established, covering 300,713 acres.¹³⁶

Included in the September 2018 decree is the 7,000 hectare Amudarya District cluster (Republic of Karakalpakstan). It is operated by a joint-venture, Amudaryotex LLC. Subsequently, this cluster has been expanded to 8,104 hectares.¹³⁷ The September 2018 decree also notes a 6,400 hectare cotton cluster in Tashkent's Chinaz district. It is operated by the Textile Technologies Group. Subsequently, the group has been awarded clusters in the Mirzachul district (11,500 hectares), Arnasay district (8,400 hectares), and Bekabad district (12,000 hectares).¹³⁸

On 18 March 2019, a Cabinet of Ministers resolution expanded the cluster system further. One of the new cluster operators is Beshariq Tekstil. It has been awarded an 8,000 hectare cluster in Ferghana's Beshariq district.¹³⁹

All three of these cluster operators are linked by a set of interconnected business people. A documentary trail evidences that two of the corporate operators cited above (Beshariq Tekstil JSC and Amudaryotex LLC) are directly tied to a financial scandal that left Russia's Starbank bankrupt.

¹³⁵ *On Measures to Introduce Modern Forms of Organizing Cotton-Textile Production*, Cabinet of Ministers of the Republic of Uzbekistan, 25 January 2018, available online: www.lex.uz/ru/docs/3527483 (accessed 11 October 2019)

¹³⁶ *On Additional Measures for the Further Development of Cotton and Textile Industries, Decree*, Cabinet of Ministers of the Republic of Uzbekistan, No.744, 19 September 2018, available online: <https://www.lex.uz/docs/3906242> (accessed 2 February 2020)

¹³⁷ *On Measures to Further Expand the Volumes of Cotton and Textile Production in the Regions of the Republic*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.914, 18 November 2019, available online: <https://lex.uz/ru/docs/4599864> (accessed 1 January 2020)

¹³⁸ *On Measures to Further Expand the Volumes of Cotton and Textile Production in the Regions of the Republic*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.914, 18 November 2019, available online: <https://lex.uz/ru/docs/4599864> (accessed 1 January 2020)

¹³⁹ *On Measures for the Further Development of Cotton and Textile Industries, Decree*, Cabinet of Ministers of the Republic of Uzbekistan, No.230, available online: <https://www.lex.uz/ru/docs/4245407> (accessed 21 January 2020)

| Table 9: Cluster ownership profiles¹⁴⁰ | | | | |
|--|--------------------------------|------------------------------|--|--|
| Cluster | Operator | Charter Capital (USD) | Shareholders | PSC |
| Amudarya | Amudaryotex LLC | \$6,082,047 | Welroy Technology Ltd (100%) → Textile Technologies Group* (100%) * Shares transfer 2019 | Mirakbar Yakubzhanov (Welroy Technology) Murat Yakubov (also known as Murat Yakubzhanov) (Textile Technologies) |
| Chinaz Mirzachul Arnasay Bekabad | Textile Technologies Group LLC | \$74,608,683 | Textile Technologies Group Limited (100%) | Murat Yakubov (also known as Murat Yakubzhanov) |
| Beshariq | Beshariq Tekstil JSC | \$3,981,489 | Vertical Alliance LLP (94.17%) Genmark Furniture MCHJ (minority shareholding) | Agadzhan Avanesov (Vertical Alliance) Vakhid Artykov (Vertical Alliance) Mirakbar Yakubzhanov (Genmark Furniture) Murat Yakubov (also known as Murat Yakubzhanov) (Genmark Furniture) |

¹⁴⁰ Amudaryotex LLC, Company Extract, Reg No.94, Unified Portal of Interactive Public Services, accessed 8 January 2019; Amudaryotex LLC, Company Extract, Reg No.94, Unified Portal of Interactive Public Services, accessed 8 July 2019; Welroy Technology Ltd, Notice of Individual Person with Significant Control, 13 November 2017, available online: <https://beta.companieshouse.gov.uk/company/06857165/filing-history> (accessed 24 February 2020); Beshariq Tekstil JSC, Company Extract, Reg No.35/2, Unified Portal of Interactive Public Services, accessed 22 December 2019; Vertical Alliance LLP, Notification of a Person with Significant Control of a Limited Liability Partnership, Companies House, 2 April 2019, available online: <https://beta.companieshouse.gov.uk/company/OC321610/filing-history> (accessed 24 February 2020); Genmark Furniture LLC, Company Extract, Reg No.19866, Unified Portal of Interactive Public Services, accessed 22 December 2019; Metal Engineering Group LLC, Company Extract, Reg No.19866, Unified Portal of Interactive Public Services, accessed 22 December 2019; Emerging Markets Forum, 2019 Eurasia Meeting, Participants' Profiles, January 27-29, Gerzensee, Switzerland, available online: www.emergingmarketsforum.org/wp-content/uploads/2019/01/Participants-Profiles.pdf (accessed 24 February 2020); Textile Technologies Group LLC, Company Extract, Reg No.180, Unified Portal Of Interactive Public Services, accessed 14 January 2019.

According to news reports from 2013 Amudaryotex was founded by the British company Welroy Technology Limited, with an investment of US\$29 million.¹⁴¹ Welroy Technology Limited exhibits a number of red flags.

It was incorporated in England on 24 March 2009, by Corporate Management and Secretaries Limited. Initially, New Zealand citizen Rachel Amy Erickson was the company's sole director and shareholder.¹⁴² According to the Organised Crime and Corruption Reporting Project (OCCRP), 'Erickson is former girlfriend of Ian Taylor. Taylor is co-founder of GT Group, a business registration firm based in Auckland, New Zealand, that specialized in setting up untraceable offshore companies, fronted by proxies. Many of the firm's businesses have been used by organized crime including the Sinaloa Drug cartel, Russian officials who stole \$230 million in tax money, the North Korean government and others'.¹⁴³

Erickson informed OCCRP that a large number of companies were being established at the address, 8 Shepherd Market, with her forged credentials.

This is the same street address initially used by Welroy Technology. In an email reported on in a UK High Court case Erickson claims she was the victim of identity theft.¹⁴⁴

When Welroy Technology was awarded the Amudarya District cluster through its Uzbekistani subsidiary, Erickson no longer appeared on company filings as a director/shareholder. She had been replaced by King Howard Cordero Enriquez, a Filipino national. He has been described in a UK High Court judgement as a professional nominee.¹⁴⁵ Enriquez was also one of four nominee directors appointed to companies reportedly involved in a Ukrainian fraud case, the other three were Ian Taylor, Rachel Amy Erickson and Angelique Elizabeth Lilley.¹⁴⁶

While media reports place the foreign investment channelled to Uzbekistan for Amudaryotex at US\$29 million, in filings submitted to the UK registrar of companies, Welroy Technology claims it is a dormant company with £1000 in assets, being totally made up of share capital.¹⁴⁷ This would appear well short of the asset levels required to make, or secure, the type of investment reported

on in the Uzbekistani media.¹⁴⁸ The dormant nature of the company also appears to be in question, given its Uzbekistani operations.

On 6 April 2016, Welroy Technology Ltd declared a person with significant control (PSC). According to their filing Mirakbar Yakubzhanov, a resident of Kyrgyzstan, owns over 75% of the company. This is a spelling variation of Yakubzhanov, which is used in Uzbekistani filings. The 73 year old citizen of Kyrgyzstan is also the major registered shareholder in another Uzbekistani company, Metal Engineering Group LLC.

When checked in December 2019, Metal Engineering Group LLC's file on Uzbekistan's unified register of legal entities reveals it is owned by:

Textile Technologies Group (9.4%)

Salubris Vita (9%)

Kalorama (68.1%)

Mirakbar Yakubzhanov (13.51%)¹⁴⁹

¹⁴¹ 'By the end of the year in Karakalpakstan will launch the production of denim', *Podrobno.Uz*, 13 August 2013, available online: <https://podrobno.uz/cat/economic/v-karakalpakii-zapustyat-proizvodstvo-djinsovoi-tkanni/> (accessed 28 December 2019)

¹⁴² Welroy Technology Ltd, Certificate of Incorporation of a Private Limited Company, Companies House, 24 March 2009, available online: <https://beta.companieshouse.gov.uk/company/06857165/filing-history?page=2> (accessed 24 February 2020)

¹⁴³ 'Owners battle for TV station', *Organized Crime and Corruption Reporting Project*, 24 May 2013, available online: <https://www.occrp.org/en/component/content/article?id=1960:owners-battle-for-tv-station-ru> (accessed 19 September 2019)

¹⁴⁴ *Kagalovsky & Anor v Balmore Invest Ltd & Ors* (Rev 1) [2013] EWHC 3876 (QB) (09 December 2013)

¹⁴⁵ *Hniazdzilau v Vajgel & Ors* [2016] EWHC 15 (Ch) (18 January 2016)

¹⁴⁶ *Kagalovsky & Anor v Balmore Invest Ltd & Ors* (Rev 1) [2013] EWHC 3876 (QB) (09 December 2013)

¹⁴⁷ Welroy Technology Ltd, Dormant Accounts, Companies House, 31 March 2019, available online: <https://beta.companieshouse.gov.uk/company/06857165/filing-history> (accessed 24 February 2020)

¹⁴⁸ It is conceivable that the investment could have been financed through a loan guaranteed by an affiliated company or individual with an adequate asset base.

¹⁴⁹ Metal Engineering Group LLC, Company Extract, Reg No.19866, Unified Portal of Interactive Public Services, accessed 22 December 2019.

Kalorama's shares are owned by Mirakbar Yakubzhanov.¹⁵⁰ Shares in Salubris Vita¹⁵¹ are 99.94% owned by Probiotic Technology LLP,¹⁵² a 'dormant' limited liability partnership registered in the UK.¹⁵³ Its owner is Mirakbar Yakubzhanov (spelt in the filings Mirakbar Yakubzhanov). Yakubzhanov is also owner of two other UK legal entities. Both declare themselves to be dormant.

The 9.4% shareholder in Metal Engineering Group is Textile Technologies Group. During 2019 shares in Amudaryotex were transferred from Welroy Technology Ltd, to Textile Technologies Group. For a period during 2018-2019 Welroy Technology Ltd had been dissolved via compulsory strike-off in the UK.¹⁵⁴

Like Welroy Technology Ltd, Textile Technologies Group is described as a foreign investor. A Ministry of Economy and Industry announcement dated 2016 states that the Textile Technologies Group

is South Korean.¹⁵⁵ A company extract exists for a Textile Technologies Group Limited incorporated in Hong Kong, with a shareholder Janggon Jung registered to an apartment address in Seoul, South Korea.¹⁵⁶ No additional information could be found on this individual.

However, a CV provided by Murat Yakubov for the Participant's Profile at the 2019 Emerging Markets Forum convened in Switzerland, states that he has been the owner of both Textile Technologies Group and Metal Engineering Group since 2011.¹⁵⁷ Prior to that Yakubov was a Deputy Governor at the Central Bank of Uzbekistan (2000-2003), before becoming the adviser to the Central Bank Chairman (2003-2011) at the age of 30. Currently, Yakubov is reportedly a partner at the international accountancy firm Grant Thornton and sits on the Board of the state owned Uzpromstroybank.¹⁵⁸ Government records indicate Yakubov is a former citizen of Kyrgyzstan, of Uzbek ethnicity.¹⁵⁹

Further examination of Uzpromstroybank's public filings reveal that Yakubov's full name is Murat Mirakbarovich Yakubzhanov.¹⁶⁰ Under Uzbek naming traditions this indicates he is the son of Mirakbar Yakubzhanov. A former business associate of the Yakubzhanov family, confirms Murat Yakubzhanov is the son of Mirakbar Yakubzhanov.¹⁶¹

¹⁵⁰ Kalorama, Company Extract, Reg No.000193-04, Unified Portal of Interactive Public Services, accessed 22 December 2019.

¹⁵¹ Salubris Vita LLC, Company Extract, Reg No.21049, Unified Portal of Interactive Public Services, accessed 22 December 2019.

¹⁵² It was reported in 2012 that Salubris Vita was overseeing a US\$21 million investment in drugs for intestinal problems, see Ashurmatov, D. 'The "incurable" pharmaceutical industry in Uzbekistan', *The Times of Central Asia*, 15 August 2014, available online: <https://www.timesca.com/index.php/news/14217-the-incurable-pharmaceutical-industry-in-uzbekistan> (accessed 22 December 2019)

¹⁵³ Probiotic Technology LLP, Notification of a Person with Significant Control of a Limited Liability Partnership, Companies House, 13 November 2017, available online: <https://beta.companieshouse.gov.uk/company/OC347593/filing-history> (accessed 24 February 2020)

¹⁵⁴ The strike-off filings are available online: <https://beta.companieshouse.gov.uk/company/06857165/filing-history> (accessed 24 February 2020)

¹⁵⁵ Ministry of Economics and Industry of the Republic of Uzbekistan, 'Investment projects implemented with foreign direct investment and loans in 2016', 26 January 2016, available online: mineconomy.uz/ru/node/1091 (accessed 24 February 2020)

¹⁵⁶ Textile Technologies Group Limited, Annual Return, Company Number 1384214, Hong Kong Companies Registry, 3 December 2018.

¹⁵⁷ Emerging Markets Forum, 2019 Eurasia Meeting, Participants' Profiles, January 27-29, Gerzensee, Switzerland, available online: www.emergingmarketsforum.org/wp-content/uploads/2019/01/Participants-Profiles.pdf (accessed 24 February 2020)

¹⁵⁸ 'Information about the members of the Board of JSCB Uzpromstroybank', Uzpromstroybank, no date, available online: <https://uzpsb.uz/general-information/soviet-banka/> (accessed 26 February 2020)

¹⁵⁹ *On Renunciation of Citizenship of the Kyrgyz Republic*, Decree, President of the Kyrgyz Republic, No.143, 26 July 2014, available online: http://www.president.kg/files/docs/143_ukaz.pdf (accessed 24 February 2020)

¹⁶⁰ Uzpromstroybank JSCB, Material Fact Disclosure No.8, Tashkent Republican Stock Exchange, 2 August 2019, available online: https://uzse.uz/reports/6281/material_fact (accessed 24 February 2020)

¹⁶¹ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 4 March 2020.

Textile Technologies Group's General Manager is Dilshid Tajibaev. According to the most recent Annual Report for Joint Stock Company, Mebel, Tajibaev sits on its Supervisory Board.¹⁶² The two largest shareholders are Kalorama and Metal Engineering Group.¹⁶³ Mebel has acted as a guarantor for loans received by the Textile Technologies Group.¹⁶⁴ This provides further evidence that the claim of ownership made by Murat Yakubzhanov is accurate, Textile Technologies Group appears to be part of a wider circle of interests held by the Yakubzhanov family.

The formal bridge between the Yakubzhanov family and a Russian businessman at the centre of the Starbank scandal, Agadzhan Avanesov, is Beshariq Tekstil JSC. The minority shareholder is Genmark Furniture LLC, a subsidiary of the Metal Engineering Group.¹⁶⁵

The majority owner is Vertical Alliance LLP (94.17%). Records from 2013 suggest that for a period Vertical Alliance LLP also owned a 44.07% interest in Mebel JSC, alongside Kalorama. This indicates Vertical Alliance LLP and the Yakubzhanov family held a number of common business interests.¹⁶⁶

Vertical Alliance LLP is an English limited liability partnership, which began life under the name Genmark LLP. For a period between 2010 and 2014, Vertical Alliance LLP and Welroy Technology Ltd shared a registered address, 8 Shepherd Market London.¹⁶⁷ Rachel Erickson claims this is the location from which a large range of companies were being fraudulently incorporated in her name, without permission¹⁶⁸. Erickson's name does not appear in Vertical Alliance LLP's filings.

The first PSC declared by Vertical Alliance LLP on 6 April 2016 is Russian national Ripsime Ambartsumyan. She was replaced in 2019 by her husband Russian national, Agadzhan Avanesov and his alleged assistant Vakhid Artykov.¹⁶⁹ Avanesov previously served as Chairman of the Board at Russia's Starbank. Russian Central Bank records indicate he also held a 19.7% interest in Starbank.¹⁷⁰

¹⁶² Mebel JSC, *Annual Report 2018*, Unified Corporate Information Portal, 7 October 2019, available online: <http://openinfo.uz/ru/reports/10662/> (accessed 8 January 2020)

¹⁶³ Mebel JSC, *Annual Report 2018*, Unified Corporate Information Portal, 7 October 2019, available online: <http://openinfo.uz/ru/reports/10662/> (accessed 8 January 2020)

¹⁶⁴ Mebel JSC, *Material Fact Disclosure No.6*, Unified Corporate Information Portal, 10 July 2019, available online: www.openinfo.uz/ru/facts/28452/ (accessed 25 February 2020)

¹⁶⁵ Beshariq Tekstil JSC, *Company Extract*, Reg No.35/2, Unified Portal of Interactive Public Services, accessed 22 December 2019; Genmark Furniture LLC, *Company Extract*, Reg No.19866, Unified Portal of Interactive Public Services, accessed 22 December 2019.

¹⁶⁶ Mebel JSC, *Annual Report 2012*, 29 May 2013, available online: biznes-daily.uz/ru/2010-12-09-08-26-52/12872-mbl-qk-oaj (accessed 24 February 2020)

¹⁶⁷ See Vertical Alliance LLP, *Change of Registered Office Address of a Limited Liability Partnership*, Companies House, 23 June 2010, available online: <https://beta.companieshouse.gov.uk/company/OC321610/filing-history> (accessed 25 February 2020)

¹⁶⁸ 'Owners battle for TV station', *Organized Crime and Corruption Reporting Project*, 24 May 2013, available online: <https://www.occrp.org/en/component/content/article?id=1960:owners-battle-for-tv-station-ru> (accessed 19 September 2019); *Kagalovsky & Anor v Balmore Invest Ltd & Ors* (Rev 1) [2013] EWHC 3876 (QB) (09 December 2013)

¹⁶⁹ Vertical Alliance LLP, *Persons with Significant Control*, Companies House, available online: <https://beta.companieshouse.gov.uk/company/OC321610/persons-with-significant-control> (accessed 10 January 2020)

¹⁷⁰ Central Bank of Russia, *Entities with Significant Influence or Control over the Credit Institution*, 10 June 2015, available online: <https://www.cbr.ru/credit/coinfo.asp?id=710000007> (accessed 8 January 2020)

Diagram 7: Ownership structure of Starbank documented by the Central Bank of Russia



An investigative report published in the Russian newspaper *Novaya Gazeta*, claims Avanesov and his business partners were responsible for sending the financial institution bankrupt after they began loaning out significant sums of bank money to companies they

owned, or shadow-owned.¹⁷¹ These loans were not paid back. The loss has been estimated at US\$200 million. On 18 March 2016 Starbank's licence was revoked, it was then declared bankrupt on 10 August 2016¹⁷².

¹⁷¹ Zayakin, A. and Murtazin, I. (2018) 'How are bankruptcy of a bank in Moscow and a fish factory in St. Petersburg connected with the serene life of Russians in Geneva', *Novaya Gazeta*, 23 August, available online: <https://novayagazeta.ru/articles/2018/08/24/77590-shveysarskiy-beglets> (accessed 24 January 2020)

¹⁷² Moscow City Arbitration Court, Case No. A40-45399 / 18-25-340, Decision, 23 May 2019

Russia's Deposit Insurance Agency (DIA) now acts as the trustee for Starbank. It reports:

During the bankruptcy proceedings it was established that the persons controlling the Bank took steps to form knowingly bad debts of technical legal entities (not conducting business activities comparable to the extent of lending, and not having their own property and income that allowed them to service loan debt), as well as the acquisition of overpriced property. In addition ... the Bank's managers did not take measures to prevent its bankruptcy.¹⁷³

Eight executives were named in this DIA statement, including Avanesov. The DIA has initiated legal action to hold the named Starbank executives personally liable for the bank's debts. A recent court report confirms the DIA has successfully seized Russian property belonging to Avanesov as part of this effort.¹⁷⁴

Media reports also indicate Avanesov is wanted by Russian authorities for his alleged criminal actions.¹⁷⁵ Currently, Avanesov domiciles in Switzerland, where he is reported to own significant real-estate and runs a range of companies.¹⁷⁶

In addition to holding senior Starbank officials personally liable, the DIA has initiated legal proceedings against debtor companies in a bid to seize assets used as collateral for Starbank loans. Amudaryotex and Beshariq Tekstil are two companies targeted in DIA litigation. As noted already, the latter is currently part-owned by Avanesov through Vertical Alliance LLP, while Amudaryotex LLC appears to be primarily owned by Avanesov business affiliates, the Yakubzhanov family.

In a decision delivered by the Moscow City Arbitration Court on 8 May 2018, it was noted that a credit line had been agreed between Starbank and Russian incorporated company, Amudaryatex LLC, in the amount of 5,778,474.80 euro on 31 July 2013.¹⁷⁷ According to the courts Russian company, Amudaryatex LLC, was established on 5 July 2013, shortly before the loan agreement was concluded. Movable property belonging to Uzbekistani affiliate company, Amudaryotex LLC, was used as collateral to secure the loan. The credit line was drawn down on in March 2016, but Amudaryatex LLC failed to make repayments. Starbank's license was revoked by the Russian Central Bank in the same month. The DIA in its statement of claim argued for the original loan amount, interest of

1,500,083.01 euros, and penalty fees in the amount of 902,686.47 euros. In total this amounts to US\$9 million under current currency conversion rates. The court granted the DIA's claims. There was an appeal. However, the original decision was ultimately upheld.

With respect to the loan involving Beshariq Tekstil JSC, the DIA again litigated. A decision was handed down by the Moscow City Arbitration Court on 23 May 2019.¹⁷⁸ The case centred on a series of loan agreements reached with the Russian firm Beshariq Tekstil LLC, dated 20 March 2013 (7,749,043.79 euros), 10 April 2015 (64,467,145.04 roubles), and the 19 October 2015 (401,058,346.20 roubles). In total this amounts to US\$15.5 million, under current conversion rates. The first loan agreement was secured through collateral provided by Uzbekistani company Beshariq Tekstil JSC, and Russian firm, Vector LLC. The second loan agreement was guaranteed by Uzbekistani company Beshariq Tekstil JSC only. While the third loan agreement was guaranteed by the Uzbekistani firms Beshariq Tekstil JSC and WBM Textile LLC. The latter is a subsidiary of Beshariq Tekstil JSC.¹⁷⁹

¹⁷³ Deposit Insurance Agency, 'On filing an application on bringing subsidiary liability of controlling Starbank JSC', 18 March 2019, available online: <https://www.asv.org.ru/liquidation/news/570136/> (accessed 25 February 2020); see also 'On results of inspection of financial standing of JSC Starbank by provisional administration', Central Bank of Russia, 14 September 2016, available online: https://www.cbr.ru/eng/press/PR/?file=15092016_180429eng2016-09-15T18_03_01.htm (accessed 25 February 2020)

¹⁷⁴ 'Court of Appeal dismisses complaints of ex-StarBank executives about property seizure', *RAPSI*, 10 February 2020, available online: rapsinews.ru/judicial_news/20200210/305445825.html (accessed 27 February 2020)

¹⁷⁵ 'In St. Petersburg, a wanted co-owner of Starbank was spotted. The investigation believed that he lives in Switzerland', *Fontanka*, 7 July 2019, available online: <https://www.fontanka.ru/2019/07/07/015/> (accessed 27 February 2020)

¹⁷⁶ Zayakin, A. and Murtazin, I. (2018) 'How are bankruptcy of a bank in Moscow and a fish factory in St. Petersburg connected with the serene life of Russians in Geneva', *Novaya Gazeta*, 23 August 2018, available online: <https://novayagazeta.ru/articles/2018/08/24/77590-shveysarskiy-beglets> (accessed 24 January 2020)

¹⁷⁷ Moscow City Arbitration Court, Case No A40-228454 / 17-25-1453, Decision, 8 May 2018.

¹⁷⁸ Moscow City Arbitration Court, Case No. A40-45399 / 18-25-340, Decision, 23 May 2019.

¹⁷⁹ WBM Textile LLC, Company Extract, Reg No.002010-06, Unified Portal of Interactive Public Services, accessed 25 December 2019.

Beshariq Tekstil LLC stopped making repayments in March 2016, shortly before Starbank's license was revoked. The Russian courts upheld the DIA's claim. It ordered the public auction of Beshariq Tekstil's assets offered up as collateral for the loans. It is unclear whether the DIA has been successful at enforcing the Russian court orders in Uzbekistan.

It appears then that around US\$21 million in loans were made by Starbank to Russian concerns, which were guaranteed by Uzbekistani companies that are currently owned in part or full by Starbank's Chairman and alleged shareholder, Agadzhan Avanesov (while previously, Avanesov's wife was declared the ultimate PSC for Vertical Alliance LLP), or business affiliates from the Yakubzhanov family. These loans were not paid back. The Russian press argues this type of arrangement was a systemic part of Starbank's business, which led to its bankruptcy and criminal investigations into Avanesov.

Media reports from 2019 state that Avanesov remains on a Federal wanted list in Russia. It appears that Avanesov continues to control his Uzbekistani interests from Geneva using a holding entity set up and maintained in the UK. A Tashkent Stock Exchange announcement dated 16 October 2018, claims Beshariq Tekstil JSC has been delisted.¹⁸⁰

Mirakbar Yakubzhanov remains registered as PSC for a range of notionally 'dormant' UK legal entities, and is the principal shareholder in a number of

Uzbekistani firms (see above). Murat Yakubzhanov claims to be the ultimate owner of Textile Technologies Limited, and Metal Engineering Group. At the time of writing, the former Central Banker continues to sit on the Board of the state owned Uzpromstroybank, and is reportedly a partner at Grant Thornton Uzbekistan.

Written requests for comment from Mirakbar and Murat Yakubzhanov were sent respectively to the registered offices of Welroy Technology Ltd and Grant Thornton Uzbekistan. No reply was received. A written request for comment was also sent to the Swiss address of Agadzhan Avanesov. A reply was received on 26 February 2020. Additional clarification was received on 4 March 2020.

Avanesov denies being wanted by Russian authorities. He notes: 'If I was really wanted by the Russian authorities, I had to be arrested when I crossed a state border. An absence of such actions by Russian authorities confirms that said announcement was baseless and fictitious'.¹⁸¹

Avanesov also claims, 'Vertical Alliance LLP never invested in Uzbekistan's new cotton cluster system. Most probably your source of the information is inaccurate'.¹⁸² A copy of the source, Cabinet of Ministers decree No.230 passed in Tashkent on 18 March 2019, was provided to Avanesov. He clarified his initial statement on 4 March 2020 claiming, 'indeed, local authorities (Fergana region's administration)

included Beshariqtekstil (being a textile factory of Beshariq district of Fergana region) in the governmental resolution referred by you. But this cotton cluster has not been realized'.¹⁸³

Avanesov also denies any impropriety alleged against him by the DIA and the *Novaya Gazeta* investigation. Mr Avanesov claims 'I have never been the largest single shareholder of Starbank. I have only been a representative of the one of the minor shareholders of Starbank'.

This conflicts with 2015 filings available from the Central Bank of Russia which identify Mr Avanesov as the joint largest shareholder in Starbank through a Swiss holding vehicle Cage Holding SA.¹⁸⁴ Other major shareholders include Viktor Hambardzumyan (19.7%) and Nargiza Artykova (19.6%).

Avanesov also asserts that 'since 2017 Uzbek textile factory Beshariqtextile has no branches in Russia. Accordingly I cannot comment [on] a decision of Moscow city Arbitration court of 2019 in regards to activity of third party'. Russian court records show, however, that the DIA's Moscow City Arbitration Court action includes Beshariq Tekstil JSC in Uzbekistan. Vertical Alliance LLP remains the majority shareholder in Beshariq Tekstil JSC.

Turning to Starbank, it is claimed by Avanesov, 'no owned by me companies were awarded loans from Starbank. I do not know from where and how Novaya Gazeta got this inaccurate information'.

¹⁸⁰ 'On the exclusion of securities (delisting) of a number of joint-stock companies from the stock quotation list of the RSE "Toshkent"; Tashkent Republic Stock Exchange, 16 October 2018, available online: <https://uzse.uz/boards/609> (accessed 27 February 2020)

¹⁸¹ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 4 March 2020.

¹⁸² Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 26 February 2020.

¹⁸³ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 4 March 2020.

¹⁸⁴ Central Bank of Russia, Entities with Significant Influence or Control over the Credit Institution, 10 June 2015, available online: <https://www.cbr.ru/credit/coinfo.asp?id=710000007> (accessed 8 January 2020)

In the instance of Beshariq Tekstil JSC, when the Starbank loan was defaulted on by its Russian affiliate, the guarantor Uzbekistani JSC was majority owned by Vertical Alliance LLP.¹⁸⁵ Vertical Alliance LLP initially declared one beneficial owner on 6 April 2016, Ripsime Ambartsumyan, the reported wife of Avanesov.¹⁸⁶ This PSC declaration was updated on 11 March 2019. Ms Ambartsumyan was removed from the PSC register, while Mr Vakhid Artykov and Mr Agadzhan Avanesov were both declared beneficial owners of Vertical Alliance LLP.

Avanesov claims no knowledge of subsequent actions taken by Russian authorities following Starbank's bankruptcy: 'After revocation of banking license, Starbank was a subject to investigation of the competent authorities of Russian Federation. Not being a participant of this investigation, I do not know its state and I cannot comment it'.¹⁸⁷ In subsequent correspondence, Avanesov acknowledges recently appealing against a court decision approving the seizure of his Moscow property. The appeal was unsuccessful.¹⁸⁸ Avanesov claims the seizure of his property is a 'provisional measure' and will only become final 'if my guilt for bankruptcy of the bank will be proved'.¹⁸⁹

THE TIES BETWEEN AVANESOV AND THE YAKUBZHANOV FAMILY WERE ACKNOWLEDGED. HOWEVER, AVANESOV INDICATES THIS RELATIONSHIP HAS ENDED ACRIMONIOUSLY:

I know Mr Murat Yakubzhanov, who is currently named Murat Yakubov. I had a court dispute against the father of Mr Murat Yakubzhanov (Yakubov) in Geneva, Switzerland. Mr Murat Yakubzhanov (Yakubov) attended in the court hearings as a witness. In accordance with the decision of the Tribunal of the first instance of Geneva dated 11 September 2018 (case number JTPI/13634/2018), which was confirmed by Swiss Federal Court on 14 November 2019, Mr Murat Yakubzhanov's father was condemned to pay to me, as of today, in total 1 330 000 US\$. Mr Murat Yakubzhanov (Yakubov) and his father completely ignore to pay a judged debt and thus they demonstrate their relation to Swiss justice at all. In addition, in accordance with the Penal ruling (ordonnance) of Public Ministry of Geneva dated 5 July 2019 (case number P/14513/2016), which was confirmed after opposition on 30 January 2019 [sic] by Public Ministry of Geneva, Mr Murat Yakubzhanov (Yakubov)'s father was declared guilty for defamation and calumny against me and Mr Vakhid Artykov. As well as Public Ministry of Geneva suspended the sentence and set the probationary period at 3 years. At present, Public Ministry of Geneva has filed the case to Penal court for pronouncement of the sentence.¹⁹⁰

¹⁸⁵ Beshariq Tekstil, Material Fact Number.36, no date, Tashkent Stock Exchange, available online: https://www.uzse.uz/reports/3728/material_fact?locale=en (accessed 10 March 2020)

¹⁸⁶ Vertical Alliance LLP, Persons with Significant Control, Companies House, available online: <https://beta.companieshouse.gov.uk/company/OC321610/persons-with-significant-control> (accessed 10 March 2020)

¹⁸⁷ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 26 February 2020.

¹⁸⁸ 'Court of Appeal dismisses complaints of ex-StarBank executives about property seizure', RAPSINews, 10 February 2020, available online: www.rapsinews.ru/judicial_news/20200210/305445825.html (accessed 12 March 2020)

¹⁸⁹ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 4 March 2020.

¹⁹⁰ Email from Mr Agadzhan Avanesov to Professor Kristian Lasslett, 26 February 2020.

Redacted court documents and government directives appear to support these claims.¹⁹¹ The US\$1.33 million award relates to a disputed sales and purchase agreement for shares in a British company, name redacted, owned by a citizen of Kyrgyzstan, name redacted. The British company had an Uzbekistani subsidiary. The proposed purchaser of the British company was a Luxembourg entity. The purchase price was US\$14 million.

The sale and purchase agreement was premised on a stipulation, that the Uzbekistani subsidiary finalise government approval to acquire a cotton-yarn factory in the autonomous republic of Karakalpakstan, which was being acquired at zero cost. A US\$1 million deposit was paid for the share purchase. The government approval was not evidently obtained within the contractually stipulated date. As a result, the contract was rescinded. The Swiss court awarded

the return of the initial deposit with interest and costs. The court discounted evidence presented by the defendant relating to 'fraudulent payments' in Russia allegedly made by the plaintiff, concluding it was not relevant to the Swiss case.

In addition it appears from a Swiss Criminal Order dated 5 July 2019, Mirakbar Yakubzhanov was found guilty of defamation and libel. He was ordered to pay a fine and was given a suspended sentence of 3 years.¹⁹²

Despite the Swiss court actions, Mirakbar Yakubzhanov, and allegedly Murat Yakubzhanov, retain a minority shareholding in Beshariq Tekstil JSC.

Given that the information collated in this section is primarily based off publicly available corporate filings, court proceedings and media reporting, several conclusions can be reached with regards to how companies such

as, Amudaryotex, and Beshariq Tekstil, were selected to operate cotton clusters. Either, the Government of Uzbekistan failed to conduct proper due diligence on the corporate operators it has selected, or it conducted due diligence and was prepared to appoint companies that have been directly implicated in a foreign bank scandal.

When the Government of Uzbekistan has been questioned previously about accepting investors exhibiting serious red flags, the First Deputy Minister of Economy and Industry has stated they must be pragmatic.¹⁹³ It would appear then either 'pragmatism', or a failure to conduct due diligence, has enabled two companies directly tied to the Starbank scandal to potentially benefit from the cluster system.

¹⁹¹ Federal Tribunal, Switzerland, First Civil Law Court, Case No.4A_271/2019, 14 November 2019.

¹⁹² Canton of Geneva, Public Prosecutor, Criminal Order, P/145513/2016, 5 July 2019.

¹⁹³ "It doesn't matter when the company is created" - hokim about Tashkent City investors', *Gazeta*, 31 January 2019, available online: <https://www.gazeta.uz/ru/2019/01/31/investors/> (accessed 20 January 2020)



PART V

FURTHER CLUSTERS AND RED FLAGS

The previous two sections evidenced some of the problematic transactions and business practices which stand behind companies exhibiting red flags. Part V presents further instances where cluster operators exhibited a significant number of red flags. It cannot be inferred on the basis of these red flags that the operators are involved in improper or illegal activity. The corporate traits documented here do, however, as a totality elevate the risk of abusive practices occurring at points in the cluster system.



PART V.I

SURKHANDARYA REGION, SHEROBOD DISTRICT AND SURKHANDARYA REGION, KUMKURGAN DISTRICT

Sherobod Textile Invest LLC and Surxon Tekes LLC were appointed on 25 January 2018 to operate a 11,810 hectare cluster.¹⁹⁴ Surxon Tekes' ultimate, majority shareholder is Nortex Corporation LP.¹⁹⁵ Shares in Sherobod Textile Invest are majority owned by the state enterprise, National Bank of Uzbekistan (59.2%).¹⁹⁶ The remaining 40.8% of shares belong to Nortex Style. Nortex Style is a fully owned subsidiary of Nortex Corporation LP.¹⁹⁷ Nortex Style was awarded an additional 8,742 hectare cluster in the Kumkurgan district of the Surkhandarya region on 19 September 2018.¹⁹⁸

The key offshore entity cross-cutting these clusters is Nortex Corporation LP. It is not a 'corporation', as the name implies, it is a Scottish Limited Partnership. Some of the added governance risks associated with this legal form were set out in Part II.

Nortex Corporation LP filings with Companies House in the UK, are signed by Matthew Bradley on behalf of the limited, and general partner.¹⁹⁹ Bradley has been blacklisted by the United Nations Development Programme (UNDP) for fraud, fraud and collusion, and fraud and obstruction.²⁰⁰

At the time of writing Nortex Corporation LP has also failed to take reasonable steps under PSC (persons with significant control) rules to find out whether there is anyone who is a registrable person or a registrable legality entity. Failure to comply with the *Scottish Partnerships (Register of People with Significant Control) Regulation 2017* is an indictable offence, with a maximum sentence of two years prison. However, the UK government has stated compliance, rather than prosecution, is its primary aim.²⁰¹

¹⁹⁴ *On Measures to Introduce Modern Forms of Organizing Cotton-Textile Production*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.53, 25 January 2018, available online: www.lex.uz/ru/docs/3527483 (accessed 11 October 2019)

¹⁹⁵ Surxon Tekes LLC, Company Extract, Reg No.513924, Unified Portal of Interactive Public Services, accessed 31 December 2019.

¹⁹⁶ Sherobod Textile Invest LLC, Company Extract, Reg No.25286, Unified Portal of Interactive Public Services, accessed 31 December 2019.

¹⁹⁷ Nortex Style LLC, Company Extract, Reg No.66, Unified Portal of Interactive Public Services, accessed 31 December 2019.

¹⁹⁸ *On Additional Measures for the Further Development of Cotton and Textile Industries*, Decree, Cabinet of Ministers of the Republic of Uzbekistan, No.744, 19 September 2018, available online: <https://www.lex.uz/docs/3906242?ONDATE=22.09.2018%2000#3915390> (accessed 2 February 2020)

¹⁹⁹ See, <https://beta.companieshouse.gov.uk/company/SL010457/filing-history>

²⁰⁰ 'UNDP entries to the UN ineligibility list', UNDP, available online: <https://www.undp.org/content/undp/en/home/operations/procurement/business/protest-and-sanctions/ineligibility-list/> (accessed 28 January 2020)

²⁰¹ See written question 105316 to the Department of Business, Energy and Industrial Strategy, 14 September 2017, available online: <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-09-14/105316/> (accessed 28 February 2020)

A group by the name of South Development Holding claims both Sherobod Textile Invest and Surxonteks LLC, are a part of its group structure. South Development Holding's website states that it is 'a diversified southeast holding company with significant interests in banking, textile, construction and network of business centers'.²⁰² The group claims to be owned by Abdukodir Norbekov and 'his partners'. No information is provided on the identity of these partners.

Other companies claimed by South Development Holding include Nortex Style, Amudar Textile, Tela Textile, Janub Fayz Teks, Surkhon Shifer, Surkhon Sandwich, and Silver Style. The ownership structure of these companies, in December 2019, are set out in table ten.

Table 10: Share ownership profile of companies reported to be in the South Development Holding group.²⁰³

| | |
|-------------------------|---|
| Janub Fayz Teks | Ergashev Ulug'bek Abdikakhorovich* (100%) * Listed as General Manager of Amudar Textile |
| Amudar Textile | Atlanta Corporation LP (74.88%) Norbekov Abdiqodir Suyunovich (12.25%) |
| Tela Textile | Jumayex Sardor Jo'rayevich (21.53%), Islamov Bakhodir Bukramovich (0.98%), Khalikov Khasan Khudjayarovich (77.49%) |
| Surkhon Shifer | Rustam Sherzod Fayz (72.87%) [Abdullayev Qarshi (100%)], Alikulov Tokhir Allanazarovich (27.13%) |
| Surkhon Sandwich | Raupov Bakhrom Qayumovich (49%), Norbekov Abduqodir Suyunovich (51%) |
| Sherobod Textile Invest | Nortex Style (40.8%) and NBU Invest Group (59.20%) |
| Nortex Style | Nortex Corporation LP |
| Silver Style | Unknown |
| Surxon Teks | Umarov Maxmud Fayzullayevich (10.21%), Nortex Style (78.9%) |

²⁰² 'About', South Development Holding, available online: sdh.uz/en/o-holdinge/ (accessed 28 February 2020)

²⁰³ Janub Fayz Teks LLC, Company Extract, Reg No.2070, Unified Portal of Interactive Public Services, accessed 25 October 2019; Amudar Textile LLC, Company Extract, Reg No.1559, Unified Portal of Interactive Public Services, accessed 31 December 2019; Tela Textile LLC, Company Extract, Reg No.7553, Unified Portal of Interactive Public Services, accessed 25 October 2019; Surkhon Shifer LLC, Company Extract, Reg No.89, Unified Portal of Interactive Public Services, accessed 31 December 2019; Surkhon Sandwich LLC, Company Extract, Reg No.3000, Unified Portal of Interactive Public Services, accessed 31 December 2019; Sherobod Textile Invest LLC, Company Extract, Reg No.25286, Unified Portal of Interactive Public Services, accessed 31 December 2019; Nortex Style LLC, Company Extract, Reg No.66, Unified Portal of Interactive Public Services, accessed 31 December 2019; Surxon Teks LLC, Company Extract, Reg No.513924, Unified Portal of Interactive Public Services, accessed 31 December 2019.

UK filings with Companies House for Atlanta Corporation LP, majority owner of Amudar Textile, are also signed by Matthew Bradley, on behalf of the limited and general partner.²⁰⁴ Atlanta Corporation has declared one PSC on 30 December 2019, Abdukodir Norbekov.²⁰⁵ This declaration is based on beneficial ownership. Abdukodir Norbekov is also listed as a PSC of Shipmark LLP for 1 day in 2016.²⁰⁶ Norbekov is then replaced by Ivan Pak on the basis of significant control. Pak is listed on Uzbekistani corporate filings as a manager for Nortex Style and Tela Textile.

Unlike Scottish LPs, English LLPs must submit annual accounts to Companies House. Shipmark LLP filings are signed by Ali Moulaye and Dong-Hee Kang (see Part III). The company's principal listed activity is trade agent for which it has received commissions of £7000 (2014), £2741 (2015), £25,025 (2016), and £7,650 (2017).²⁰⁷ The company was then dissolved on 26 March 2019 by compulsory strike off.

On 4 April 2017, South Development Holding claims it acquired Hi-Tech Bank.²⁰⁸ Hi-Tech Bank has been appointed by the Government of Uzbekistan to service the Sherobod district cotton cluster.

Audit reports indicate that companies associated with the South Development Holding group have held a significant stake in the bank.²⁰⁹ Furthermore, filings from the period suggest the bank board consisted primarily of representatives from group companies, with the exception of Ilhomjon Omonov, a General Manager at Genmark Furniture, a firm referenced in Part IV.²¹⁰ Filings from July 2019 indicate the board has changed composition. South Developing Holding company managers no longer appear on the board. They have been replaced by representatives from companies outside the group.²¹¹

There is no record of a South Development Holding on Uzbekistan's VAT register. An additional search of Open Corporates returned no results.

A request for information sent to South Development Holding was not responded to.

In a Cabinet of Ministers decree dated 18 March 2019, Sherobod Textile Invest, Surxon Teks and Nortex Style clusters were cancelled (no substantive explanation for the government's decision could be located on the public record).²¹² This is during the same period in which representatives from the company were removed from the board at Hi-Tech Bank. There are no announcements on the company's website since September 2018. The last social media posting on Facebook is dated 21 April 2017.

The use of an anonymous offshore company, the apparent failure to observe PSC regulations, and the involvement of a manager in Nortex Corporation LP dealings implicated in fraud, all constitute red flags. The lack of clarity around beneficial ownership, and Sherobod Textile Invest LLC and Surxon Teks LLC apparent inclusion in the corporate structure of South Development Holdings, raises additional concerns, as does the sudden cessation of the company's involvement in the cluster system.

²⁰⁴ The relevant filings can be accessed here: <https://beta.companieshouse.gov.uk/company/SL007493/filing-history>

²⁰⁵ Atlanta Corporation LP, Persons with Significant Control, Companies House, 9 December 2019, available online: <https://beta.companieshouse.gov.uk/company/SL007493/persons-with-significant-control> (accessed 28 February 2020)

²⁰⁶ Shipmark LLP, Persons with Significant Control, Companies House, available online: <https://beta.companieshouse.gov.uk/company/OC388683/persons-with-significant-control> (accessed 28 February 2020)

²⁰⁷ See filing history: <https://beta.companieshouse.gov.uk/company/OC388683/filing-history>

²⁰⁸ South Development Holding, Facebook Post, 4 April 2017, available online: <https://www.facebook.com/pg/southdevelopmentholdinguz/posts/> (accessed 28 February 2020)

²⁰⁹ PKF Mak Alyans Auditorlik (2018) Hi-Tech Bank Financial Statements According to International Standards for Financial Reporting for the Year Ended 31 December 2017, www.openinfo.uz/media/audit_conclusion/Аудиторский_отчет_HI-TECHBANK_за_2017_год.pdf (accessed 28 February 2020)

²¹⁰ Hi-Tech Bank, Material Fact Notification No.8, 16 August 2017, available online: htb.uz/storage/app/public/default/08_16.08.2017.pdf (accessed 1 January 2020)

²¹¹ Hi-Tech Bank, Material Fact No. 8, 2 July 2019, available online: <https://htb.uz/storage/app/public/Facts/36e5876fbf84afab03aac3b5db450971.pdf> (accessed 1 January 2020)

²¹² *On Measures for the Further Development of Cotton and Textile Industries*, Cabinet of Ministers of the Republic of Uzbekistan, Decree, No.230, 18 March 2019, available online: <https://www.lex.uz/ru/docs/4245407> (accessed 28 February 2020)



PART V.II

ANDIJAN REGION, BALIKCHI DISTRICT

The company selected to operate the 10,400 hectare Balikchi district cluster in Andijan is Digital Prime Textile LLC.

Digital Prime Textile LLC shares are fully owned by Vitcom Textile Limited, a UK company incorporated on 17 April 2012.²¹³ According to Uzbekistani government foreign direct investment reporting, Vitcom Textiles Limited is channelling a US\$14.6 million investment from the UK.²¹⁴

During 2019 Vitcom Textiles Limited reported one Director, the Belizean based, Matthew Bradley. This is the same individual acting for Nortex Corporation LP. Bradley has been blacklisted by the UNDP for fraud, fraud and obstruction, and fraud and collusion. He has also acted as the legal owner of Vitcom's shares.²¹⁵ However, under UK company law reforms, where a shareholder is a nominee, beneficial owners must be declared if they have a 25% or greater stake in the company.

Vitcom Textiles Limited has declared one person with significant control, Ulugbek Ergashev, an Uzbekistani citizen whose correspondence address is St. Nicholas Close in Elstree, United Kingdom.²¹⁶ In a LinkedIn profile Ergashev is listed as the founder of the Anteks group, a textile conglomerate in Uzbekistan. The group employs an offshore structure in the UK centring on Vitcom Textile Limited. Corporate filings in Uzbekistan, checked during 2019, indicate Ergashev's full name is Ergashev Ulugbek Oripovich.

²¹³ Digital Prime Textile LLC, Company Extract, Reg No.194, Unified Portal of Interactive Public Services, accessed 22 January 2019.

²¹⁴ 'List of investment projects with FDIs by regions in Uzbekistan (2018)', Consulate General of the Republic of Uzbekistan in Frankfurt, available online: <https://www.gk-usbekistan.de/ru/инвестпроекты-в-узбекистане/> (accessed 28 February 2020)

²¹⁵ Vitcom Textiles Limited, Annual Return 2014, Companies House, 27 April 2015, available online: <https://beta.companieshouse.gov.uk/company/08034432/filing-history> (accessed 28 October 2019)

²¹⁶ Vitcom Textiles Limited, Persons with Significant Control, Companies House, 8 June 2018, available online: <https://beta.companieshouse.gov.uk/company/08034432/persons-with-significant-control> (accessed 30 October 2019)

Table 11: Ownership profile of the Anteks Group during 2019²¹⁷

| Group Member | Shareholders | Ultimate Shareholders and/or PSCs |
|-----------------------|---|--|
| Digital Prime Textile | Vitcom Textile Limited (100%) | Matthew Bradley/Ulugbek Ergashev (100%) |
| Magnus Textile | Vitcom Textile Limited (100%) | Matthew Bradley/Ulugbek Ergashev (100%) |
| Global Orient Textile | Vitcom Textile Limited (100%) | Matthew Bradley/Ulugbek Ergashev (100%) |
| Skorton Textile | Vitcom Textiles (77.69%) and Trust Rest Servis (22.31%) | Matthew Bradley/Ulugbek Ergashev (77.79%), Oripov Umidbek Ulug'bek (12.56%) and Oripova Dilnozaxon Ulug'bek (9.74%) |
| Inter Global Tekstil | Vitcom Textile Limited (100%) | Matthew Bradley/Ulugbek Ergashev (100%) |
| Elite Group Tekstil | Vitcom Textile Limited (77.04%) and Trust Rest Servis (22.96%) | Matthew Bradley/Ulugbek Ergashev (77.04%), Oripov Umidbek Ulug'bek (12.93%) and Oripova Dilnozaxon Ulug'bek (10.03%) |
| Fan Tekstil | Vitcom Tekstil (36.50%) and Skorton Tekstil (63.50%) | Matthew Bradley/Ulugbek Ergashev (85.83%), Oripov Umidbek Ulug'bek (8.21%) and Oripova Dilnozaxon Ulug'bek (6.36%) |
| Anteks Group | Skorton Textile (100%) | Matthew Bradley/Ulugbek Ergashev (77.79%), Oripov Umidbek Ulug'bek (12.56%) and Oripova Dilnozaxon Ulug'bek (9.74%) |
| Trust Rest Servis | Oripov Umidbek Ulug'bek (56.33%) and Oripova Dilnozaxon Ulug'bek (43.67%) | |
| Shaxrixon-Avto Ravon | Vitcom Textiles Limited (20%+) Oripov Umidbek Ulugbek (20%+) | |

²¹⁷ Magnus Tekstil LLC, Company Extract, Reg No.3128, Unified Portal of Interactive Public Services, accessed 18 September 2019; Global Orient Tekstil LLC, Company Extract, Reg No.7404, Unified Portal of Interactive Public Services, accessed 18 September 2019; Skorton Tekstil LLC, Company Extract, Reg No.22, Unified Portal of Interactive Public Services, accessed 18 September 2019; Inter Global Tekstil LLC, Company Extract, Reg No.195, Unified Portal of Interactive Public Services, accessed 18 September 2019; Elite Group Tekstil LLC, Company Extract, Reg No.193, Unified Portal of Interactive Public Services, accessed 18 September 2019; Fan Tekstil LLC, Company Extract, Reg No.3127, Unified Portal of Interactive Public Services, accessed 18 September 2019; Anteks Group LLC, Company Extract, Reg No.2148, Unified Portal of Interactive Public Services, accessed 18 September 2019; Trust Rest Servis LLC, Company Extract, Reg No. 002048-11, Unified Portal of Interactive Public Services, accessed 18 September 2019; Shaxrixon-Avto Ravon JSC, Annual Report 2018, Unified Corporate Information Portal, 25 June 2019, available online: <https://openinfo.uz/ru/reports/10477/> (accessed 28 October 2019).

According to the 2019 annual accounts Vitcom Textile Limited filed with Companies House it had an operating loss of US\$21,337.²¹⁸ As a result the company paid no UK corporations tax.

The 2019 annual accounts list Vitcom Textiles Limited's overseas share holdings. It notes one overseas interest, in the Russian firm Vitcom Textile LLC. On the other hand, Vitcom's 2018 and 2017 annual accounts declare shares held in Magnus Tekstil, a company based in Uzbekistan.²¹⁹ These filings appear to conflict with records kept in Uzbekistan's unified register of legal entities, where Vitcom Textile Limited is the majority owner of seven companies. Were Vitcom Textiles Limited to knowingly or recklessly submit misleading, false or deceptive information to the UK corporate registry, it would be an offence under s.1112 of the *Companies Act 2006*.

There is an additional, notable interest held by Vitcom Textile Limited in Uzbekistan. Joint stock company

records filed with the Tashkent Stock Exchange indicate that the Anteks Group had a significant interest in Andijan car dealership Shaxrixon-Avto Ravon during the 2017-19 period.²²⁰ The Andijan dealership held contracts to distribute General Motor vehicles. This contractual arrangement was publicly cancelled in September 2018. In a media release issued by General Motors it was stated that this decision was a result of corruption, fraud, mismanagement, and a lack of transparency within Shaxrixon-Avto Ravon.²²¹

The Balikchi district cluster has come under criticism from farmers. Thirty farmers claim they did not receive payment for the 2019 cotton harvest. In an interview with *Radio Ozodlik*, farmer Munajat Khamdamova said that a group of farmers travelled to Tashkent in January 2020.²²² They reported to the Ministry of Agriculture that the cluster operator had allegedly failed to make required payments to farmers. The Ministry promised to solve the problem. As of 25 February

2020, there has been no change to the situation. A representative of the cluster informed *Radio Ozodlik* that he does not know when the cluster will be able to make the payments.

Unlike the previous example, Digital Prime Textile is owned by a lower risk offshore legal entity. However, this is counterweighed by a director and shareholder tied by the UNDP to fraud, potential discrepancies in the accounts filed with Companies House by Vitcom Textile Limited, complaints lodged with the Ministry of Agriculture by farmers, and the allegations made by General Motors tying Anteks Group to corruption, fraud and mismanagement. Together these factors constitute a serious set of red flags.

²¹⁸ Vitcom Textiles Limited, Report of the Director and Unaudited Financial Statements for the Year Ended 30th April 2019 for Vitcom Textiles Limited, Companies House, 18 September 2019, available online: <https://beta.companieshouse.gov.uk/company/08034432/filing-history> (accessed 28 October 2019)

²¹⁹ Vitcom Textiles Limited, Report of the Director and Unaudited Financial Statements for the Year Ended 30th April 2018 for Vitcom Textiles Limited, Companies House, 30 October 2018, available online: <https://beta.companieshouse.gov.uk/company/08034432/filing-history> (accessed 28 October 2019); Vitcom Textiles Limited, Report of the Director and Unaudited Financial Statements for the Year Ended 30th April 2017 for Vitcom Textiles Limited, Companies House, 7 July 2017, available online: <https://beta.companieshouse.gov.uk/company/08034432/filing-history> (accessed 28 October 2019)

²²⁰ Shaxrixon-Avto Ravon, Material Fact No.36, Single Portal of Corporate Information, 4 August 2017, available online: <https://openinfo.uz/en/facts/9562/> (accessed 30 October 2019)

²²¹ 'GM Uzbekistan terminates dealership agreement with Shaxrixon-Avto Ravon', GM Uzbekistan, 29 September 2018, available online: https://uzautomotors.com/articles/gmuzbekistan_shahrixon_avto_ravon_bilan_dilerlikni_bekor_qildi (accessed 28 October 2019)

²²² 'At least 30 farms from one district in Andijan region did not receive cotton money from the cluster', *Radio Ozodlik*, 25 February 2020, available online: <https://www.ozodlik.org/a/klaster-paxta-pul-yoq/30453336.html> (accessed 28 February 2020)

PART V.III

BUKHARA REGION, ROMITAN DISTRICT AND TASHKENT REGION, KUYCHIRCHIK DISTRICT

The company selected to operate the Romitan district cluster is Bukhara Cotton Textile Cluster Agrokompleks (BCT cluster). The details of this cluster are set out in a Cabinet of Ministers decree dated 25 January 2019. It appears, however, the cluster was potentially established by a bespoke decree issued on 19 May 2017.²²³ This decree has not been published on Uzbekistan's national database of legislation.

No record could be found for Bukhara Cotton Textile Cluster Agrokompleks in Uzbekistan's VAT register. There is a listing for the company, BCT Cluster Agrokompleks.²²⁴ Its shares, in turn, are held by the company Bukhara Cotton Textile Cluster. There is no VAT record for a company by this name. The closest match is a company Bukhara Cotton Textile.²²⁵ Its major shareholder is Paraglide Limited (85%). An academic article by senior executives involved in the cotton cluster confirm it 'is formed through investment in the amount of 123,1 million US\$ by "Bukhara Cotton Textile" British-Uzbekistan JV, "Paraglide LTD" JV and "Petromaruz" (Russia)'.²²⁶ In other reporting Petromaruz is described as a British investor.²²⁷

The same joint-venture partners have been appointed to operate the Kuychirchik district cluster in Tashkent. This particular cluster was set up through a bespoke Cabinet of Ministers decree passed on 1 December 2018.²²⁸ The decree grants the joint venture partners significant acreage of land, as well as infrastructure at zero cost. It also grants the joint venture custom and other exemptions, in addition to loan capital and credit lines. The state aid solicited through this decree was granted on the basis of a proposal jointly authored by a range of government agencies. No evidence could be identified to suggest this cluster operator was appointed through an open, transparent and competitive selection mechanism.

It is claimed by farmers in the Kuychirchik district that their land has been improperly confiscated by the government to make way for this cluster.²²⁹

In total, across the two clusters, the joint venture partners on paper are marshalling US\$340.7 million.

²²³ Rahmatov, M.A., Rakhimov, F.X., Zaripov, B.Z., Kudratov, T.U., Dusmuxeimov, M.H., Niyazmetov, B. A. and Joroqulov, S. (2018), 'Cotton-textile cluster as a knowledge base for education, science and manufacturing innovational cooperation', *International Journal of Agriculture and Forestry*, 8(3), 124-128, available online: [article.scribd.com/document/38180803.02.html](https://www.scribd.com/document/38180803/02) (accessed 28 February 2020)

²²⁴ BCT Cluster Agrokompleks LLC, Company Extract, Reg No.528900, Unified Portal of Interactive Public Services, accessed 19 September 2019.

²²⁵ Bukhara Cotton Textile LLC, Company Extract, Reg No.16197, Unified Portal of Interactive Public Services, accessed 11 July 2019.

²²⁶ Rahmatov, M.A., Rakhimov, F.X., Zaripov, B.Z., Kudratov, T.U., Dusmuxeimov, M.H., Niyazmetov, B. A. and Joroqulov, S. (2018), 'Cotton-textile cluster as a knowledge base for education, science and manufacturing innovational cooperation', *International Journal of Agriculture and Forestry*, 8(3), 124-128, available online: [article.scribd.com/document/38180803.02.html](https://www.scribd.com/document/38180803/02) (accessed 28 February 2020)

²²⁷ 'British Petromaruz Group of Companies has invested \$15 billion to promote innovation in Uzbekistan', *Xalq so'zi*, 3 July 2019, available online: [xs.uz/uzkr/post/britaniyaning-petromaruz-kompaniyalar-guruhi-ozbekistonda-bazi-sohalarni-rivozhlantirish-uchun-15-mlrd-som-azhratadi](https://www.xalqso'zi.uz/uzkr/post/britaniyaning-petromaruz-kompaniyalar-guruhi-ozbekistonda-bazi-sohalarni-rivozhlantirish-uchun-15-mlrd-som-azhratadi) (accessed 28 February 2020)

²²⁸ On Measures to Create a Modern Agro-Industrial Cluster in the Kuychirchik District of the Tashkent Region, Cabinet of Ministers of the Republic of Uzbekistan, Decree, No.974, 1 December 2018, available online: <https://www.lex.uz/ru/docs/4089949> (accessed 29 February 2020);

²²⁹ 'Farmers' land transferred to privately-owned cluster', *El-Tuz*, 22 May 2019, available online: <https://www.youtube.com/watch?v=ycodClogCmY> (accessed 21 February 2020); 'Cotton clusters and the despair of Uzbek farmers: Land confiscations, blank contracts and failed payments', Uzbek Forum for Human Rights, 2 April 2020, available online: <https://www.uzbekforum.org/cotton-clusters-and-the-despair-of-uzbek-farmers-land-confiscations-blank-contracts-and-failed-payments/> (accessed 4 April 2020)

Diagram 9: Diagram of BCT Cluster management structure published in a paper co-authored by Petromaruz managers²³⁰



²³⁰ Rahmatov, M.A., Rakhimov, F.X., Zaripov, B.Z., Kudratov, T.U., Dusmuxeimedova, M.H, Niyazmetov, B. A. and Joroqulov, S. (2018), 'Cotton-textile cluster as a knowledge base for education, science and manufacturing innovational cooperation', *International Journal of Agriculture and Forestry*, 8(3), 124-128, available online: article.sapub.org/10.5923.j.ijaf.20180803.02.html (accessed 28 February 2020)

The first of the joint venture partners, and the 'primary coordinator' of the BCT cluster project, Paraglide Limited, is a limited liability company incorporated in England on 7 September 2012.²³¹ Its address is 71 Queen Victoria Street, London. It has three Directors, Jerzy Mirosław Gawrysiak, Stephen John Goldsmith, and Muzaffar Rakhmatov. The company has declared no persons with significant control. Its last confirmation statement declares that the sole shareholder is Ilion Nominees Ltd.²³² Its assets include debtors (US\$1,410,894) and \$284 cash.²³³ No other assets are declared. However, it does note subsequent to the financial year being reported on, Paraglide Limited acquired a controlling interest in five trading entities in Uzbekistan for US\$20,150,000

Two of the three Directors – Gawrysiak and Rakhmatov – are on the board of another UK incorporated entity, Company Petromaruz Limited. It shares a registered address with Paraglide Limited. Company Petromaruz Limited declares no person with significant control.²³⁴ The certificate of incorporation lists one shareholder

Aeroton Enterprise Corp, which is registered in the British Virgin Islands.²³⁵ Now shares in Company Petromaruz Limited are held by Ilion Secretaries Ltd. According to the most recent accounts, signed by Jerzy Gawrysiak, Company Petromaruz has net assets of -£931.²³⁶ On the other hand, the unified register of legal entities in Uzbekistan indicates that Company Petromaruz Limited owns a 55% shareholding in the oil producer Jarkurgonneftqaytaishlash, alongside Jarqo'rg'onneft (45%).²³⁷

A third entity at this registered address 71 Queen Victoria Street is Petromaruz Overseas LLP.²³⁸ Its limited and general partner are both incorporated in the British Virgin Islands. Petromaruz Overseas LLP declares having no person with significant control. Its annual accounts state that the limited liability partnership is actively involved in Uzbekistan's petrochemical industry with 510 employees. The website for Petromaruz Overseas contains no information on its management or owners.

²³¹ Paraglide Limited's corporate profile and filings are available online: <https://beta.companieshouse.gov.uk/company/08205603>

²³² Paraglide Limited, Confirmation Statement, Companies House, 23 October 2019, available online: <https://beta.companieshouse.gov.uk/company/08205603/filing-history> (accessed 29 February 2020)

²³³ Paraglide Limited, Unaudited Financial Statements for the Year Ended 31 December 2018, Companies House, 25 September 2019, available online: <https://beta.companieshouse.gov.uk/company/08205603/filing-history> (accessed 29 February 2020)

²³⁴ Company Petromaruz Limited, Persons with Significant Control, Companies House, available online: <https://beta.companieshouse.gov.uk/company/11317999/persons-with-significant-control> (accessed 29 February 2020)

²³⁵ Company Petromaruz Limited, Certification of Incorporation of a Private Limited Company, Companies House, 19 April 2018, available online: <https://beta.companieshouse.gov.uk/company/11317999/filing-history> (accessed 29 February 2020)

²³⁶ Company Petromaruz Limited, Micro-Entity Accounts 31 December 2018, Companies House, 27 September 2019, available online: <https://beta.companieshouse.gov.uk/company/11317999/filing-history> (Accessed 29 February 2020)

²³⁷ Jarkurgonneftqaytaishlash LLC, Company Extract, Reg No.1904, Unified Portal of Interactive Public Services, accessed 16 December 2019

²³⁸ Petromaruz Overseas LLP, Financial Statements for the Year ended 31 December 2018, Companies House, 30 September 2019, available online: <https://beta.companieshouse.gov.uk/company/OC380603/filing-history> (accessed 29 February 2020)

There is also a locally registered company in Uzbekistan by the name of Petromaruzgaz. Its largest single shareholder is Mustafo Rakhmatov (30.6%), the next largest shareholder is Mustaqim Rakhmatov (25%).²³⁹ The Chairman of the Petromaruz group has been identified in the media as Murtazo Rakhmatov.²⁴⁰ Murtazo Rakhmatov is a Senator in the Oliy Majlis, and a member of the Liberal Democratic Party of Uzbekistan.²⁴¹ He is also reported to be the head of the Kuychirchik district cluster in Tashkent.²⁴²

BCT cluster has been the subject of a *Radio Ozodlik* investigation. BCT employees claim that they are only being paid half the salary stipulated in their contracts. Workers maintain that they are being forced to work longer hours than agreed to. Safety procedures are reportedly routinely breached. Employees claim BCT's management consists of former security service officials. It is also alleged management abuse and bully staff.²⁴³

The opaque structure of the company, the active use of secrecy havens, the involvement of a politically exposed person, and the direct involvement of the local hokimiyat in a joint management structure, are all red flags warranting closer scrutiny. Media reporting on potential violations of labour rights further exacerbates the risk profile of this cluster operator.

A request for further information was sent to BCT Cluster Agrokompleks' registered email address on 11 December 2019, the email was returned as undeliverable.



²³⁹ Petromaruzgaz LLC, Company Extract, Reg No.145, Unified Portal of Interactive Public Services, accessed 16 December 2019.

²⁴⁰ 'For the first time in Uzbekistan, the private sector has invested in science projects', *Gazeta*, 2 July 2019, <https://www.gazeta.uz/uz/2019/07/02/sarmoya/> (accessed 29 February 2020)

²⁴¹ 'Are agricultural clusters the next monopoly? The senator reacted', *Daryo-Uz*, 4 March 2020, available online: daryo-uz.com/crp/KislokhujaligiklasterlarinavbatdagimonopoliamiSenatormunosabatbildirdi_crp/ (accessed 5 May 2020); 'UzLiDeP activist patronizes over 1000 families', UzLiDeP, 2 May 2020, available online: www.uzlidep.uz/en/news-of-party/6359 (accessed 10 May 2020)

²⁴² 'Are agricultural clusters the next monopoly? The senator reacted', *Daryo-Uz*, 4 March 2020, available online: daryo-uz.com/crp/KislokhujaligiklasterlarinavbatdagimonopoliamiSenatormunosabatbildirdi_crp/ (accessed 5 May 2020)

²⁴³ Sadriden, A. (2019), 'Installers of Bukhara Cotton Textile are unhappy with the fact that their salaries are half-paid', *Radio Ozodlik*, 7 February 2019, available online: <https://www.ozodlik.org/a/29757458.html> (accessed 29 February 2020)

JIZZAKH REGION, PAKHTAKOR DISTRICT

On 9 November 2018 the President established a 2000 hectare cluster in the Pakhtakor district of Jizzakh, by decree.²⁴⁴ The cluster is a joint venture between US financial advisers, Silverleafe International LLC/Silverleafe Capital Partners, and the Uzbekistani conglomerate, BMB Trade Group. According to the decree, this cluster was established after the joint-venture partners offered to invest US\$344 million.

In contrast to other clusters, under this Presidential decree a bespoke Working Commission has been set up to provide the project with 'comprehensive assistance'. It is chaired by the Deputy Prime Minister and is staffed by Ministers and senior civil servants. The decree also grants tax and customs exemptions until 1 January 2022, including corporate tax. The hokimiyat of Jizzakh is charged with selecting farms to work with the cluster, and providing practical assistance to conclude contracts.

The BMB Trade Group describes itself as a young investment and consulting company.²⁴⁵ This corresponds with its date of incorporation in Uzbekistan, 13 April 2017.²⁴⁶ BMB Trade Group claim to be spearheading projects valued at US\$500 million.

The largest current shareholder is Aziz Mamatkulov (40%).²⁴⁷ Chairman of the company is Bekzod Mamatkulov.²⁴⁸ The Advisor to the Chairman of the Board is Tursunali Kuziev. Kuziev was Minister for Cultures and Sports from 2011-2013. According to *Radio Ozodlik* Kuziev was removed from his post for 'financial embezzlement'.²⁴⁹ The media agency reports 'former Minister Tursunali Kuziev escaped a prison sentence with the condition that he cover the material damage caused to the state'.

BMB's CEO is Makhmud Asamov. His resume includes a number of notable political posts. First, Asamov was Chair of the Kamolot youth organisation for the city of Tashkent.²⁵⁰ Associate Professor at George Mason University Eric McGlinchey claims: 'Modelled after the Soviet Komsomol, Kamolot is both

an institution for the ... government to exert centralized control, and a means for assimilating new cadres into the state bureaucracy'.²⁵¹ He adds, 'though registered as a non-governmental organization, it is in actuality one of the most expansive arms of the Uzbek government'. Second, Asamov is a member of the Liberal Democratic Party of Uzbekistan. A photograph posted to Facebook on 7 December 2019 stated that Asamov is a candidate for election to the Jizzakh regional council, registered in the 18-Chulquvar electoral territorial unit. Third, Asamov previously acted as director of the state unitary enterprise known then as the Computerisation Centre. He left this posting in 2018 to become CEO of the BMB Group.

²⁴⁴ About Measures to Create a Modern Agricultural Cluster in Jizzakh Region, President of the Republic of Uzbekistan, Decree, No.PP-4009, 9 November 2018, available online: <https://www.lex.uz/ru/docs/4147543> (accessed 29 February 2020)

²⁴⁵ 'About', BMB Trade Group, available online: www.bmb-tg.uz/site/about (accessed 29 February 2020); 'Investment consulting company BMB Trade Group', BMB Trade Group, no date, available online: www.bmb-tg.uz/uploads/eng%20bmb%20pdf.pdf (accessed 29 February 2020)

²⁴⁶ BMB Trade Group LLC, Company Extract, Reg No.1648, Unified Portal of Interactive Public Services, accessed 16 December 2019.

²⁴⁷ BMB Trade Group LLC, Company Extract, Reg No.1648, Unified Portal of Interactive Public Services, accessed 16 December 2019.

²⁴⁸ 'About', BMB Trade Group, available online: www.bmb-tg.uz/site/about (accessed 29 February 2020)

²⁴⁹ 'Minister of Culture and Sports dismissed in Uzbekistan', *Radio Ozodlik*, 19 October 2014, available online: <https://rus.ozodi.org/a/26644829.html> (accessed 29 February 2020)

²⁵⁰ Makhmud Asamov, Facebook Profile, available online: <https://www.facebook.com/makhmud.asamov.3> (accessed 29 February 2020)

²⁵¹ McGlinchey, E. (2006) 'Regeneration or degeneration? Youth mobilization and the future of Uzbek politics', CDDRL Working Papers, June 2006, available online: https://cddrl.fsi.stanford.edu/publications/regeneration_or_degeneration_youth_mobilization_and_the_future_of_uzbek_politics (accessed 29 February 2020)

Silverleafe has an Uzbekistani website.²⁵² However, it currently contains little substantive information. The website claims Silverleafe International LLC was established to oversee cotton cluster operations in Uzbekistan and declares that it is 'bringing modern practices to Uzbekistan'. The company also notes it is 'opportunistic' and 'focused on commerce', but adds 'we realize the important and strategic diplomatic role Uzbekistan plays within their Central Asian neighbourhood and their importance to the long-term security of the USA in our global fight against terrorism'.²⁵³

Silverleafe International LLC is incorporated in Delaware, a jurisdiction where beneficial ownership information is not available. It appears to be closely linked to Silverleafe Capital Partners LLC, which is also incorporated in Delaware. Uzbekistani government FDI data lists Silverleafe Capital Partners LLC as the formal investor in the cluster operated by Silverleafe International LLC.²⁵⁴ Silverleafe Partners LLC's principal, Dan Patterson, appears prominently on promotional literature for both organisations.

As a registered investment adviser in the US, Silverleafe Capital Partners has to submit annual filings with the Securities and Exchange Commission (SEC). According to the most recent filings

the company has five employees, of which four perform investment advisory functions.²⁵⁵ The company manages assets valued at US\$226,261,918 on behalf of 47 high net worth individuals, and a further \$32,024,479 on behalf of individuals.

A 2019 brochure filed with the SEC states 'Silverleafe Capital Partners, LLC provides portfolio management and investment management to individuals, families and their related entities, trusts and estates, family businesses, charitable organizations, corporations, pension and retirement plans, and non-profit organizations... Silverleafe Capital Partners, LLC's compensation is solely from fees paid directly by clients'.²⁵⁶

According to the brochure 'Silverleafe Capital Partners, LLC does not participate in any other industry business activities'.

SEC filings state that over 75% of Silverleafe Capital Partners is owned by William Daniel Patterson (Dan Patterson), John B Russel owns between 10-24%, while 5-9% is held by James Mason Cousins and Broc Philip Kreitz.²⁵⁷

In addition to being involved with the Pakhtakor cotton cluster, Silverleafe Capital Partners has been linked to the development of potential block-chain projects in Uzbekistan.²⁵⁸

Since Pakhtakor cluster began operations it has been the subject of criticism by stakeholders. Reporting from April 2019 states that farmers in the clusters have been unable to recover agreed costs from the cluster operator.²⁵⁹ Farmers allege that their concerns have been ignored by the company, and hokimiyat.

On paper, this cluster joint-venture arguably exhibits a lower risk profile than others catalogued in this report. However, there are still factors which ought to prompt concern from a risk-perspective. In particular, the political ties of senior managers, the unique levels of state aid provided to the cluster, the involvement of a senior adviser with a reported track record of public malfeasance, concerns expressed by contracting farmers, the professional profile of the foreign joint-venture partner (boutique financial adviser rather than textile industry leader), and the size of the investment (specifically, greater clarity is needed on the origin of the US\$344 million).

A request for further information was submitted both to BMB Trade Group and Silverleafe Capital Partners. No response was received.

²⁵² See <https://www.silverleafe.uz/>

²⁵³ Silverleafe Uzbekistan, 'About', available online: <https://www.silverleafe.uz/english/about> (accessed 20 March 2020)

²⁵⁴ On Measures to Implement the Investment Program of the Republic of Uzbekistan for 2020-2022, President of the Republic of Uzbekistan, Decree, No.PP-4563, 9 January 2020, available online: <https://www.lex.uz/ru/docs/4689644> (accessed 2 March 2020)

²⁵⁵ Silverleafe Capital Partners LLC, Uniform Application for Investment Adviser Registration and Report by Exempt Reporting Advisers, Securities and Exchange Commission, CRD Number 133174, 5 March 2019, available online: <https://reports.adviserinfo.sec.gov/reports/ADV/133174/PDF/133174.pdf> (accessed 2 March 2020)

²⁵⁶ Silverleafe Capital Partners LLC, Information Brochure, Securities and Exchange Commission, 28 February 2019, available online: https://files.adviserinfo.sec.gov/IAPD/Content/Common/crd_iapd_Brochure.aspx?BRCHR_VRSN_ID=549622 (2 March 2020)

²⁵⁷ Silverleafe Capital Partners LLC, Uniform Application for Investment Adviser Registration and Report by Exempt Reporting Advisers, Securities and Exchange Commission, CRD Number 133174, 5 March 2019, available online: <https://reports.adviserinfo.sec.gov/reports/ADV/133174/PDF/133174.pdf> (accessed 2 March 2020)

²⁵⁸ 'ICT Minister receives delegation of Silverleafe Capital Partners', *Uz Daily*, 23 March 2018, available online: <https://www.uzdaily.uz/en/post/43184> (Accessed 2 March 2020)

²⁵⁹ Sharipova, G. 'What is the reason why 34 farmers in Pakhtakor district are indebted of 1 billion 300 million sums', *Kun.Uz*, 27 April 2019, available online: <https://kun.uz/uz/23413410> (accessed 2 April 2020)

PART II

CONCLUSIONS AND RECOMMENDATIONS

The state-organised system of raw cotton production, because of its opaque characteristics, command-control methods, systemic labour abuses, and long-term economic under-performance is now widely recognised to be broken. This judgement is shared by the Government of Uzbekistan.

A rapid pivot to the privatisation of cotton production, through a value-added cluster approach, is now the preferred method to address under performance and abuse. However, the success of this strategy will depend on the governance framework, and the calibre of investors.

This report points to serious shortcomings in both respects, which if not addressed will significantly reduce the cluster system's impact. These shortcomings are symptomatic of wider challenges in the areas of public administration, corporate governance and rule of law, in Uzbekistan. Lack of transparency, weak governance requirements, and lax oversight mechanisms, works to the disadvantage of responsible business, and gives unfair advantage to companies using improper methods.

TO ADDRESS THESE CHALLENGES AT A GENERAL LEVEL, KEY RECOMMENDATIONS INCLUDE:

- Maintain a public register for incorporated legal entities that includes all historical and current filings relating to shareholdings, office holders, corporate governance, and financial returns. Require incorporated entities to declare beneficial owners and persons with significant control.
- Reform the companies law to strengthen reporting requirements, directors duties, and other mechanisms that can assure responsible business conduct.
- Systematically enforce legal requirements to transparently and competitively procure private actors wishing to bid for government business, or to benefit from government administered business opportunities.
- Ensure *all* procurement processes, and their outcomes, are published on a single unified database that is accessible to the public.
- Strengthen due diligence capacity and processes within government to ensure integrity when selecting businesses to benefit from state-aid, state procurement, or state facilitated/initiated projects.
- Enforce legal rights to information.

IN PARTNERSHIP WITH THESE GENERAL REFORMS, RECOMMENDATIONS TO STRENGTHEN THE COTTON CLUSTER SYSTEM INCLUDE:

- Ensure all cluster operators are selected on an open, transparent and competitive basis, with the selection process and outcomes, published online in a form that is accessible to the public.
- Conduct rigorous due diligence during the selection process, to ensure only investors with a proven track record of responsible conduct are considered to operate clusters.
- Maintain rigorous oversight of cluster operators, looking at business performance, corporate integrity, labour relations, and environmental impact. Publish online all reviews of clusters, and the system more widely.
- Publicly monitor regional monopolies enjoyed by cluster operators (to ensure no anti-competitive practices are being used), strengthen tenure rights of farmers, and circumscribe the involvement of regional government and the Prosecutor-General in cluster operations.
- Actively require cluster operators meet international best practice with respect to transparency, corporate governance and social responsibility.

Current government policy for improving the investment and business climate primarily focuses on taxation, ease of doing business, protection of property rights, and infrastructure.²⁶⁰ Improving corporate governance, and enforcing public administration reforms, do not feature significantly in this published strategy. However, responsible domestic and international investors cannot compete in an environment where companies can obtain unfair advantage through abusive practices. While international apparel brands committed to responsible sourcing will also be deterred by a corporate governance environment lacking in basic integrity indicators.

There is currently an acute risk in the cotton cluster system that such factors will defeat the economic and human rights impetus for the reform. Action is needed by government, cluster operators, investors, creditors, and civil society, to address this acute risk and to ensure the cotton-cluster system is able to deliver the policy aims marked out for it.

²⁶⁰ On Approval of the Investment Policy Strategy of the Republic of Uzbekistan until 2025, Cabinet of Ministers of the Republic of Uzbekistan, Draft Decree, No.3394, 10 May 2019, available online: <https://regulation.gov.uz/ru/document/3394> (accessed 2 January 2020)

Published By

UzInvestigations

About

UzInvestigations is a civic initiative administered by Ulster University in partnership with the Uzbek Forum for Human Rights. Drawing on data science, investigative methodologies, and digital analytics, UzInvestigations aims to publish resources and analysis that help to forensically scrutinise corporate and government power in Uzbekistan. Our aim is to promote transparency, good governance, human rights, and civic engagement.

www.uzinvestigations.org

School of Applied Social and Policy Sciences

University of Ulster
Jordanstown Road
Newtownabbey BT37 0QB
Northern Ireland
E kak.lasslett@ulster.ac.uk
T +44 (0) 28 9036 6248