



BANKRUPTCY OF LEGAL ENTITIES: PROCEDURES, LEGAL ISSUES, AND REFORM PROPOSALS

Tleumuratov Mambetbay Bazarbayevich

Berdaq Karakalpak State University

Doctor of Philosophy in Law (PhD)

mttleumuratov@gmail.com

Adilbaeva Zulfiya Axmetovna

Rzambetov Salamat Rustamovich

"Business Law" Specialty Law Faculty 1st-Year Master's Students

Abstract

This article explores the legal framework and procedural aspects of bankruptcy of legal entities in Uzbekistan. It investigates the national legislation, judicial practice, challenges in the enforcement of bankruptcy norms, and comparative experience from foreign jurisdictions. The research emphasizes the importance of transparency, creditor protection, and institutional efficiency in managing insolvency processes. The paper also proposes several reforms aimed at improving the effectiveness of bankruptcy regulation and aligning it with international standards.

Keywords: Bankruptcy, insolvency, legal regulation, Uzbekistan, economic court, liquidation, creditor protection, legal entities.

Introduction

The institution of bankruptcy plays a crucial role in regulating market relations and ensuring economic stability. It functions as a legal mechanism that allows insolvent enterprises to be efficiently withdrawn from the market, while simultaneously protecting the rights of creditors and maintaining public trust in the legal system. In Uzbekistan, with the ongoing economic liberalization and development of private entrepreneurship, the number of legal entities has grown significantly — which, in turn, leads to an increase in bankruptcy cases.



Legal regulation of bankruptcy reflects the maturity of a country's economic and legal system. Effective laws and procedures help prevent abuse, ensure fair distribution of debtor assets, and allow for the possible rehabilitation of businesses in financial difficulty. However, the implementation of such laws in Uzbekistan still faces several challenges that reduce the efficiency of bankruptcy mechanisms and often result in loss of trust from businesses and investors.

This article aims to analyze the legal framework of bankruptcy in Uzbekistan, outline the procedural stages of insolvency, examine the difficulties encountered in practice, and offer suggestions for improvement by drawing on international experience.

2. Legal Framework of Bankruptcy in Uzbekistan

The main legal act governing insolvency in Uzbekistan is the Law “On Bankruptcy”, which establishes the grounds, procedures, and conditions under which a legal entity may be declared bankrupt. This law defines both voluntary and involuntary bankruptcy procedures and sets the responsibilities of all parties involved — debtors, creditors, bankruptcy administrators, and courts.

Additionally, the Civil Code and the Economic Procedural Code of the Republic of Uzbekistan also contain provisions relevant to bankruptcy. Other subordinate acts issued by the Cabinet of Ministers and the Ministry of Justice further specify certain administrative and procedural details.

According to the current legal framework, bankruptcy proceedings may be initiated:

- By the debtor, who acknowledges their inability to fulfill financial obligations;
- By creditors, seeking to recover debts through legal liquidation of the debtor's assets;
- By the tax authorities or other state bodies, if statutory obligations have not been fulfilled.

The objective of the legal system is not only liquidation, but also — where possible — financial recovery of the enterprise. For this reason, the law provides for rehabilitation measures, external management, and settlement agreements.



3. Procedural Aspects and Stages of Bankruptcy

Settlement Agreement

At any point before the court declares full bankruptcy and initiates liquidation, the debtor and creditors may enter into a settlement agreement. This agreement may include:

- Restructuring of debts (partial write-offs, installment payments, deferred deadlines);
- Return of collateral in lieu of payment;
- A combination of financial and legal adjustments to avoid liquidation.

The court must approve the agreement, ensuring that the rights of all involved parties are respected and no creditor is unfairly disadvantaged.

If approved, the bankruptcy process is terminated, and the debtor continues operating under the agreed conditions.

Additional Procedural Elements

- **Creditor Meetings and Committees:** At various stages, creditor meetings are held to vote on key decisions such as approval of rehabilitation plans, choice of administrator, or acceptance of settlement proposals.
- **Administrator Reports:** Both temporary and permanent administrators must provide detailed reports to the court and creditors, documenting all financial activity, asset valuations, and recommendations.
- **Judicial Control:** Throughout the process, the economic court maintains legal oversight, ensuring all procedures comply with the law and that the rights of all parties are upheld.

In summary, the procedural structure of bankruptcy in Uzbekistan is relatively comprehensive, covering both preventive measures and liquidation. However, the practical efficiency of these stages depends heavily on institutional integrity, administrator competence, and judicial oversight. While the law provides for the rehabilitation of businesses, in practice most cases still end in liquidation due to late filing, lack of recovery plans, or absence of external support. Strengthening the procedural stages through digitization, training, and regulatory reform could significantly improve outcomes for both debtors and creditors.



4. Practical Challenges in Implementation

Despite having a detailed legal structure, several systemic problems hinder the effective implementation of bankruptcy law in Uzbekistan. One of the most prominent issues is the length of judicial procedures. Many cases suffer from delays due to overloaded courts, lack of specialization among judges, and limited digital infrastructure.

Another concern is the lack of qualified and independent bankruptcy administrators. These individuals play a key role in managing debtor assets, preparing reports, and representing the process in court. Without proper training and supervision, their work often lacks transparency, leading to distrust among creditors and stakeholders.

There are also increasing cases of fictitious and fraudulent bankruptcies, where companies intentionally create artificial insolvency to evade taxes or escape obligations. This undermines the credibility of the entire system and calls for stricter monitoring and penalties.

In addition, minority creditors often face difficulties in asserting their rights, as the process may favor major creditors or administrative expenses. Asset valuation and sales also lack transparency, leading to possible corruption and undervaluation.

5. Comparative Legal Analysis

In analyzing the effectiveness of bankruptcy procedures in Uzbekistan, it is valuable to examine the experience of other countries, especially those with similar legal traditions or transitioning economies. Comparative legal analysis allows us to identify best practices, structural weaknesses, and successful reforms that may be adaptable to the Uzbek legal context.

Russia's Experience

Russia, like Uzbekistan, operates within the post-Soviet civil law tradition and has developed a relatively sophisticated bankruptcy system over the past two decades. One key feature of the Russian model is the network of self-regulated organizations (SROs), which oversee bankruptcy administrators (arbitrazhnyi upravlyayushchiy). These organizations are responsible for licensing, training, and disciplining administrators, ensuring higher standards of professionalism and ethical behavior.



Another strength of the Russian system is its digital infrastructure. The Unified Federal Register of Bankruptcy Information (Федреспурс) provides open access to information on all insolvency cases, administrator appointments, court decisions, and asset auctions. This transparency helps reduce corruption and improves the trust of creditors and the public.

Russia also introduced specialized arbitration (economic) courts with trained judges who handle only commercial and bankruptcy matters, which enhances the quality and speed of case review.

Kazakhstan's Reforms

Kazakhstan has implemented several reforms to make its insolvency system more efficient and business-friendly. One such measure is the introduction of electronic auctions for the sale of debtor assets, which minimizes manual interference and reduces the potential for fraud. Additionally, Kazakhstan maintains centralized digital databases that contain information about bankrupt individuals and companies, improving access for creditors and regulators.

Importantly, Kazakhstan has created simplified bankruptcy procedures for small and medium-sized enterprises (SMEs), recognizing the need for cost-effective and quick resolutions for businesses with limited assets. This model could be particularly relevant for Uzbekistan, where SMEs form a large part of the private sector.

Germany and the United States: Advanced Systems

Germany's insolvency law emphasizes business rescue and rehabilitation. The "Insolvenzordnung" (Insolvency Code) promotes early intervention and provides for strong debtor-in-possession (DIP) arrangements. The focus is not only on liquidating assets, but also on preserving viable businesses. Courts in Germany work closely with administrators to facilitate restructuring.

In the United States, bankruptcy is governed by federal law, primarily under the U.S. Bankruptcy Code (Title 11 of the U.S. Code). Chapter 11 of the code allows businesses to restructure under court supervision while maintaining operational control. The American system also includes automatic stays on creditor actions once bankruptcy is filed, which protects debtors from aggressive collection tactics.

Lessons for Uzbekistan

From these examples, Uzbekistan can draw several important lessons:

- Transparency and digitalization are crucial for trust and efficiency;

- Professionalization and regulation of administrators improves integrity;
- Specialized courts and trained judges increase the quality of rulings;
- Simplified procedures for SMEs can reduce backlog and encourage legal compliance;
- Rehabilitation-centered models better support economic growth than liquidation-dominated approaches.

Incorporating these elements into Uzbekistan's bankruptcy system would help improve legal certainty, encourage responsible entrepreneurship, and attract investment by strengthening the rule of law.

6. Recommendations and Conclusion

The effective functioning of a country's bankruptcy system is vital for economic stability, investment security, and the development of market relations.

Based on the current analysis of Uzbekistan's legal and procedural framework for insolvency, as well as international comparative insights, several key recommendations can be made to improve the system.

1. Professionalization of Bankruptcy Administrators

One of the most pressing needs is the creation of a professional corps of administrators. Uzbekistan should establish a licensing and training system for administrators, ensuring they possess legal, financial, and management expertise. A potential solution is the formation of self-regulated organizations that monitor administrator conduct and provide continuing education.

Moreover, administrators should be legally bound to submit transparent reports, maintain open communication with creditors, and avoid conflicts of interest. Establishing a public registry of administrators, with ratings or track records, would improve accountability and help courts and creditors select qualified professionals.

2. Digital Transformation of Bankruptcy Processes

Digitalization is a transformative tool in public administration and should be actively implemented in the bankruptcy field. The following digital measures are recommended:

- Unified online platform for bankruptcy case tracking, including case status, court documents, and creditor meetings;
- Electronic asset auctions, with real-time bidding and public access;



- Online creditor registration and voting, to streamline coordination and transparency.

These tools will reduce paperwork, prevent delays, and ensure equitable treatment of all participants.

3. Judicial Specialization and Capacity Building

The complexity of bankruptcy cases requires judges with specialized knowledge in insolvency law and corporate finance. Uzbekistan should establish special chambers or assign bankruptcy-specialized judges in economic courts. Regular training programs and international legal exchanges would help improve the quality of judicial decisions.

Additionally, procedural rules should be reviewed to prevent abuse of rights (e.g., unnecessary delays, fake creditor claims) and promote fast-track resolution of simple cases.

4. Introducing Simplified Procedures for SMEs

Given the dominance of small businesses in Uzbekistan's economy, a simplified bankruptcy regime should be introduced for entities with small turnover, limited assets, and few creditors. These procedures should be fast, low-cost, and possibly conducted entirely online, helping SMEs resolve insolvency issues without entering the shadow economy.

5. Promoting Rehabilitation over Liquidation

Uzbek law currently emphasizes liquidation over rehabilitation, which may discourage entrepreneurs from seeking legal solutions. The system should be reoriented toward business restructuring and debt renegotiation, especially in sectors with growth potential.

Legal reforms should:

- Encourage the use of settlement agreements and recovery plans;
- Allow temporary debt moratoriums under court control;
- Promote creditor-debtor cooperation rather than confrontation.

6. Strengthening Legal and Financial Literacy

Finally, a long-term recommendation is to increase awareness among entrepreneurs about their legal obligations, the risks of insolvency, and their options within the formal legal framework. Public seminars, online guides, and integration of basic financial literacy into business registration processes can prevent many cases of avoidable bankruptcy.



Conclusion

In conclusion, Uzbekistan’s legal system provides a structured foundation for regulating the bankruptcy of legal entities, but practical inefficiencies, lack of specialization, and insufficient institutional support hinder its effectiveness. By drawing on international models and implementing targeted reforms, Uzbekistan can transform its insolvency system into a modern, transparent, and efficient mechanism that protects creditors, rehabilitates businesses, and ensures legal order. Bankruptcy should not be seen as the end, but as a tool for economic correction and a new beginning — both for businesses and the broader financial ecosystem.

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