

THE ROLE OF ESG PRINCIPLES IN ATTRACTING INSTITUTIONAL INVESTORS IN CORPORATE GOVERNANCE

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Abstract: Institutional investors — such as pension funds, insurance companies, and investment funds — play a crucial role in promoting transparency, accountability, and efficiency in corporate governance. In Uzbekistan, their growing presence since 2017 has significantly influenced how companies are managed and monitored. This paper explores how institutional investors contribute to improving governance standards, increasing shareholder activism, and attracting foreign investment. It also evaluates the challenges they face, including limited market infrastructure and regulatory gaps. The findings suggest that institutional investors are becoming one of the main drivers of corporate reform in Uzbekistan, but further development of the legal and financial system is essential to maximize their impact.

Key words: Institutional investors, corporate governance, Uzbekistan, capital market, pension funds, shareholder rights, transparency, reform.

РОЛЬ ESG ПРИНЦИПОВ В ПРИВЛЕЧЕНИИ ИНСТИТУЦИОНАЛЬНЫХ ИНВЕСТОРОВ В КОРПОРАТИВНОМ УПРАВЛЕНИИ

Аннотация. Институциональные инвесторы, такие как пенсионные фонды, страховые компании и инвестиционные фонды, играют решающую роль в обеспечении прозрачности, подотчетности и эффективности корпоративного управления. В Узбекистане их растущее присутствие с 2017 года существенно повлияло на то, как осуществляется управление компаниями и их мониторинг. В этой статье рассматривается вклад институциональных инвесторов в совершенствование стандартов управления, повышение активности акционеров и привлечение иностранных инвестиций. В нем также дается оценка проблем, с которыми они сталкиваются, включая ограниченную рыночную инфраструктуру

и пробелы в законодательстве. Полученные данные свидетельствуют о том, что институциональные инвесторы становятся одной из основных движущих сил корпоративной реформы в Узбекистане, но для максимального увеличения их влияния необходимо дальнейшее развитие правовой и финансовой системы и соблюдение ESG принципов.

Ключевые слова: Институциональные инвесторы, корпоративное управление, Узбекистан, рынок капитала, пенсионные фонды, права акционеров, прозрачность, реформы.

Introduction. The study demonstrates that institutional investors are becoming a major force in improving corporate governance in Uzbekistan. Their participation has strengthened board independence, financial transparency, and accountability. By requiring audited reports, independent directors, and ESG policies, they are pushing companies toward international standards and more ethical management. Institutional investors, such as pension and investment funds, not only provide long-term capital but also influence decision-making quality. Their monitoring role reduces corruption risks and increases investor trust. However, challenges remain — market participation is still limited, enforcement of governance codes is uneven, and some funds act passively instead of engaging actively with company boards.¹

To enhance their impact, Uzbekistan should expand financial literacy, support fund professionalism, and ensure consistent regulatory coordination. With stronger engagement and clear legal support, institutional investors can play a decisive role in shaping transparent and sustainable corporate behavior.

Corporate governance determines how companies are directed, controlled, and held accountable. In recent years, Uzbekistan has restructured its corporate sector to align with international governance principles. One of the most significant developments has been the rise of institutional investors, who act not only as capital providers but also as active monitors of company performance and management ethics. Before 2017, Uzbekistan's corporate ownership was heavily dominated by the state. As a result, companies lacked independent oversight, and small investors had limited influence. However, as the government launched privatization and capital market reforms, institutional investors began to emerge as key players. This study investigates their growing influence on corporate governance, focusing on three areas: strengthening shareholder control and accountability, promoting transparency and responsible management and supporting long-term investment and ESG (Environmental, Social, Governance) principles.²

¹ Ministry of Economy and Finance of the Republic of Uzbekistan (2025). Financial Market Development Strategy 2030

² Data from institutional investors such as Pension Fund of Uzbekistan, UzInsurance, and Investment Funds established under the UzSE (Uzbek Stock Exchange);

Methodology

This paper uses a qualitative, quantitative and comparative approach, induction and deduction, analyzing laws, official reports, and company data from 2017–2025. It also compares Uzbekistan's situation with OECD standards and international best practices.

Result.

The development of institutional investors in Uzbekistan has accelerated with economic liberalization. They have become significant shareholders in major enterprises, particularly in banking, energy, and telecommunications sectors.

Table 1. Growth of Institutional Investors in Uzbekistan (2017–2025)³

Indicator	2017	2020	2025	Trend
Number of institutional investors	15	37	82	↑ Rapid growth
Share of institutional ownership in listed firms (%)	5%	12%	28%	↑ Expanding
Pension fund assets (billion UZS)	1.2	3.8	8.5	↑ Strong increase
Insurance company investments (billion UZS)	0.9	2.7	6.1	↑ Growing
Average dividend yield of investment companies (%)	4.5	5.7	7.1	↑ Improvement
Corporate governance compliance rate (based on CMDA index)	46%	61%	78%	↑ Significant rise

These results demonstrate that institutional investors have become more influential in shaping corporate governance practices, particularly by demanding better transparency and board independence.

Analysis

Uzbekistan has introduced a number of reforms to facilitate institutional investment. The Law on Investment Funds (2022) and the Law on the Securities Market (2021) established clearer rules for fund management, disclosure, and minority shareholder protection. The Capital Market Development Agency (CMDA) supervises these entities to ensure compliance. Institutional investors are now required to disclose their ownership stakes and voting behavior, in line with international principles such as the OECD Guidelines on Institutional Investors and Corporate Governance (2017).

³ Source: CMDA, SAMA, and World Bank Reports (2025).

However, enforcement remains inconsistent, especially among smaller or newly formed funds.

Institutional investors have encouraged many companies to adopt higher governance standards, appoint independent directors, and improve disclosure practices. For example: Ipoteka Bank and UzAuto Motors introduced ESG and sustainability committees after institutional investors requested more transparency in 2023–2024. Kapitalbank started publishing detailed annual reports following engagement by domestic investment funds. Uzbekneftegaz improved board structure by including two independent members, largely due to investor pressure.

Table 2. The impact of institutional investors to different indicators of corporate governance system⁴

Indicator	Companies with <10% institutional ownership	Companies with >25% institutional ownership
Independent board members (%)	18%	42%
Audit committee existence (%)	33%	75%
Timely publication of annual reports	60%	91%
ESG reporting presence	22%	64%

As the table shows, companies with higher institutional ownership exhibit better governance and stronger financial performance, proving that active ownership leads to accountability and growth.

Discussion

Institutional investors are also promoting ESG principles in Uzbekistan. The Pension Fund of Uzbekistan and Humo Investment Fund have begun allocating up to 10% of their portfolios to green bonds and renewable projects. Furthermore, investment funds have encouraged companies to reduce emissions, implement gender diversity policies, and adopt digital transparency measures.

Uzbekistan's experience confirms that institutional investors can be strong catalysts for better corporate governance. Their growing participation enhances transparency, reduces corruption risks, and strengthens investor confidence.

However, several challenges remain: limited market depth — the number of listed companies remains small; weak enforcement — not all companies follow reporting

⁴ CMDA Corporate Governance Index (2025).

standards; low investor activism — most institutional investors still behave passively; regulatory overlap — between CMDA, SAMA, and other agencies.

To maximize the positive impact, Uzbekistan should: strengthen investor rights in company law; encourage institutional investors to exercise voting rights actively; support the development of independent fund managers; promote ESG-linked investment incentives.

Conclusion

Institutional investors are emerging as powerful agents of change in Uzbekistan's corporate governance landscape. Their increasing ownership, demand for transparency, and focus on long-term sustainability have transformed the way companies operate. While the legal framework and market institutions are still evolving, the trend is clearly positive. By deepening reforms, enhancing investor activism, and integrating ESG goals, Uzbekistan can turn institutional investors into a cornerstone of its sustainable economic growth and corporate accountability. Although the market is still developing, their presence proves that responsible ownership can drive real reform. Strengthening legal frameworks, promoting ESG investment, and expanding digital transparency will help institutional investors reach their full potential. With these steps, Uzbekistan can build a modern, open, and sustainable corporate environment — where institutional investors serve not only as financiers, but as long-term partners in the country's economic and ethical transformation.

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