Board Meeting of March 10, 1998
Statement by Juan L. Cariaga

Uzbekistan - Country Assistance Strategy

Overview

We would like to start by commending Bank staff for the objective assessment of the developments in Uzbekistan. The CAS presents a comprehensive summary of the main developments since its independence in 1991 and, more importantly, recognizes the fact that, despite the initial progress, much still needs to be done by the Government to deepen the reform process. Although the proposed strategy, which is based on demonstrating the benefits of reforms in the context of selected pilot investment operations, seems appropriate, we remain concerned about some of the potential implications that existing widespread controls throughout the economy, may pose to the proposed strategy. Although we generally endorse this strategy, we would like to offer some comments on this CAS.

Economic Considerations and Risks to the Proposed Strategy

While good progress has been achieved in recent years, much remains to be done in many areas, in particular the liberalization of trade and domestic prices, enterprise governance, as well as developing a consistent poverty reduction strategy. In spite of the reversal to the reform process in late 1996, and existing widespread controls, the economy nevertheless managed to achieve economic growth in the last two years.

However, we are concerned about potential complications (resulting from pending controls and distortions) to the proposed strategy of demonstrating to the authorities that carrying out the necessary reforms would result in sustained economic growth. In this regard, we would appreciate staff views on whether the distortions that will remain in the most likely scenario (the intermediate case) will continue to impair growth considerably and diminish any perceived benefits of the pilot investment program. In particular, when restrictions on trade and access to
foreign exchange, result in a system of multiple exchange rates. Such a system would enhance sharp distortions in relative prices, complicate the allocation of resources, and may significantly hurt the benefits associated with the privatization of small and medium sized enterprises.

There is also a strong risk that the benefits associated with the pilot investment operations may not be perceived as such by the authorities because of the disruptive macroeconomic effects of the existing distortions. Moreover, pilot operations involve such a long time frame in maturing that their impact is often lost, and might not have the desired effects as pursued by this CAS.

The Bank would be willing to commit an amount of about US$300-350 million under the intermediate or most likely scenario, as outlined in the CAS, while in a high case scenario, the commitment would amount to US$800-900 million in FY98-00. We would like to pose the following question: Is the difference in the lending program between both cases sufficient to stimulate the authorities of Uzbekistan to move rapidly and deepen the reform process?

Although we recognize the risks and the difficulties involved in the Bank’s strategy, we still think that the authorities appear to be very cautious in liberalizing the economy. Other countries have had to make deeper reform efforts to achieve lower levels of lending. While we are convinced that deepening structural reforms is necessary and beneficial, we think that in this particular case the level of lending appears to be very generous taking into account the low pace of the reform process. At the same time we would note the Bank is increasingly considering support targeted at sub-national units which seek strong reforms in preference of those that do not.

If anything, the experience tells us that gradualism has not worked in the past. Furthermore, the problem with gradual liberalization is that it creates negative expectations among the economic agents on the future pace of the reform process. In addition, we would note the interesting draft paper recently presented by David Dollar and Jacob Svensson which emphasizes that structural reforms are more likely to be successful with country “pulling” rather than Bank “pushing”.

Therefore, we very much support the Bank’s involvement in sponsoring and in conducting seminars for Governments officials and other stakeholders on the experiences of other countries in liberalizing the economy and proceeding rapidly with structural reforms, as well as a stronger role for EDI. We would support more vigorous Bank initiative in this area in order to add credibility to the lending program and hopefully accelerate the structural reform process.

Finally, we wish the Government success in the implementation of this program and that it will soon start to bring important economic benefits to all the people of Uzbekistan.