Board Meeting of March 10, 1998
Statement by Matthias Meyer

Uzbekistan: Country Assistance Strategy

1. In the last CAS for Uzbekistan, presented to the Board three years ago, “a highly uncertain environment” was emphasized as the major obstacle to further development. Since that time Uzbekistan has made progress in changing the environment to be much more certain and stable. This is reflected, among other things, in the following achievements:

- Peaceful relations and cooperation with its neighboring countries, as well as a strong presence in major international organizations, have been established and maintained.
- Progress in stabilizing the economy has significantly advanced. Economic growth already started to recover in 1996 at the rate of 1.6 percent and reached 5.2 percent in 1997. Inflation was reduced from 64 percent in 1996 to 27 percent last year. These positive trends are expected to continue in 1998.
- Speedy development of the country’s large oil and gas resources has allowed Uzbekistan to recently become self-sufficient in energy supply. Significant progress has also been achieved in other sectors of the economy, as well as attracting foreign investments encouraged by the size of the domestic market, central location in the region, social stability and internal safety.
- Uzbekistan has become a major exporter of cotton and gold.
- An efficient social safety net was established allowing the achievement of social stability and reduction of transition costs for the poor.

2. The Government is committed to take further steps to stabilize the economy and to use market-oriented measures to better deal with the transition challenges.

3. Substantial progress has been made in the area of structural reforms. A legal and institutional framework has been established for the development of a securities market. A notable role is played by auctions for the sale of stocks of privatized enterprises to privatization investment funds (PIFs). The World Bank has given substantial support to this program. Furthermore, the authorities are actively supporting the development of private small and medium enterprises (SME), which will serve as the strong fundament for a more progressive transition to market-based economy. The IFC is to be commended for its assistance in that process by organizing a credit
line for SME. In the future, the Uzbek Government would like to see a strong increase of IFC’s activities going beyond the level proposed in the intermediate scenario.

4. Reforms in agriculture, declared by the Government as a priority sector for 1998, are currently underway. The newly introduced system of property rights is intended to facilitate the transformation of state-owned farms. Farmers are granted tax exemptions for the first two years. A package of agricultural laws on farms, agricultural cooperatives and peasants’ enterprises is expected to be approved by the Parliament in the first half of 1998 together with a land code.

5. The Government considers farm restructuring as a prerequisite condition for accelerating the transition of the agricultural sector to a market economy. The Government also recognizes that effective farm restructuring would require a package of closely coordinated policy, as well as institutional, legal and investment interventions. For these reasons the Government designed a mid-term Agricultural Enterprise Restructuring Program (AERP).

Agreement was reached with the World Bank on the general outline of this program and on a phased program approach to its implementation. The AERP is viewed by the Government as an “umbrella” program. Within the broad objectives and outline of this program, the Government and the Bank will pursue their dialog to agree on specific and complementary investment operations. That can be done within a reasonable timeframe and with major savings on resources spent on project preparation, appraisal and negotiation. The timing and content of successive operations will depend on progress in implementation and on the confirmation of priorities on the basis of actual experience in the field.

In that spirit the Government would like to see a stronger indication in the CAS of World Bank commitment to the AERP in its totality and a specific mention of the second phase in the lending program. This should be started immediately after good results have been achieved with respect to implementation of the first phase in one of the pilot regions and not necessarily in six regions, as indicated in Table 3, page 15 of the CAS document.

6. The World Bank has taken a flexible approach in developing this CAS. It will undoubtedly be important to demonstrate the benefits of more radical reforms in priority areas, such as agriculture and the corporate sector, through the implementation of pilot projects. We agree with the concluding remarks included in the CAS and hope that the situation in Uzbekistan will quickly develop in this direction.

7. Finally, on behalf of my Uzbek authorities, I would like to thank the Bank for its extensive technical assistance which has contributed to capacity building and strengthening support for structural reforms and improved management of macroeconomic policies. I would also like to take this opportunity to convey their appreciation to the staff of the Country Unit, project managers and the Resident Representative who have been doing their best to assist Uzbekistan with the challenges of transition.