Board Meeting of March 10, 1998
Statement by Juanita D. Amatong

UZBEKISTAN - Country Assistance Strategy

1. We welcome this CAS discussion and would like to commend staff for its clear analysis of the pace and prospects of development reform in Uzbekistan. We very much appreciate the frank recognition that the last CAS strategy "has not worked well" having been patterned heavily after the approach for fast reformers in the region. Once again, this emphasizes the need to be careful about adopting a "cookie-cutter", "one-size-fits-all" approach in the design of the Bank's strategy. We would underscore this as one of the important lessons learned in the previous CAS.

2. As the document's review of the recent economic developments indicate, the Uzbek authorities remain steadfast in their gradual, "step-by-step" approach to economic transformation. It is quite clear that, although partial progress has been achieved in economic reform, much remains to be done in implementing deep structural reforms needed to make the full transition to a market-oriented economy. Table 1 of the document shows the early results of the government's efforts toward achieving macroeconomic stability. We note, however, that inflation rates, while having been reduced, continue to remain high. What measures are being planned to further bring down inflation rates?

3. We support the Bank's strategy "to create incentives for deeper structural reforms in Uzbekistan through carefully selected investment operations, in parallel with a continuing policy dialogue". The staff's forthright assessment of the divergence of views between the Bank and the Government (paras 30-32) was most useful in providing a clear understanding of the rationale for the CAS strategy and, more importantly, in defining commonly agreed areas for Bank assistance.

4. We find the sectoral interventions appropriate. They are clear-cut, focusing on the Bank's comparative advantage and as such, are complementary to the diverse range of donor activity in the country. We also consider the proposed gradual approach based on pilot-demonstration-replication sensible, given the current state of Bank engagement in Uzbekistan. We urge that close monitoring of piloting results be undertaken as these provide the key inputs for clearly demonstrating the benefits of reform, most critical in achieving desirable results in the continuing policy dialogue.

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5. IFC’s involvement is crucial, especially within the context of the Government’s priority to industrial development, employment and privatization. The private sector strategy provided in the Attachment sets out a very informative critique of the impediments to private sector growth in the country and clearly outlines potential areas for Bank Group involvement. These diagnostic tools should provide the substantive framework for engaging in extensive and productive dialogue with the Uzbek authorities, in particular and the private sector, in general. On the training and capacity building components of the Bank’s program, we are pleased to see the close collaboration between the IFC and EDI and would expect this to continue.

6. On the lending scenarios, we note that one of the triggers under the intermediate case scenario refers to the privatization of 300 enterprises through the PIF program. The document has made it quite clear that the privatization of medium and large scale enterprises is still proceeding at a very slow pace (para 30). We would appreciate further staff explanation on why such a trigger is considered to be appropriate, and not necessarily an over-optimistic target, despite the recognized slow progress of reform in this area. What criteria, other than size of enterprise, are being taken into account in this privatization process?

7. Finally, we note the declining supervision resources (Annex B2). Is this expected to be a continuing trend? Implementation was pointed out as a problem that has had to be dealt with. While we find it encouraging to see that all projects currently under implementation are now rated satisfactory, the sustainability of such a portfolio performance will have to be ensured. We are pleased to see that the Resident Mission will be strengthened to provide more on-site, on-demand supervision services.