Uzbekistan: Country Assistance Strategy

We support the proposed joint IBRD/IFC Country Assistance Strategy for the Republic of Uzbekistan. I commend the Staff for the high quality and frankness of the CAS document.

In my comments I would like to touch upon three topics: (i) the pace and sequencing of reform implementation in Uzbekistan; (ii) main features of the proposed CAS; (iii) the World Bank Group's Private Sector Strategy.

Reform performance

Over the recent years Uzbekistan has made good progress in many respects, including macroeconomic stabilization, reestablishment of GDP growth, productive investment, institution building and social protection. While recognizing these achievements, the report portrays Government reform performance in the areas of economic liberalization, privatization and improving the legal and regulatory environment as cautious, slow and often inconsistent. The Bank's overall concern with the progress in Uzbekistan under the previous CAS seems to be related to a major disagreement with the Government on the pace and sequencing of reform implementation.

The new CAS paper characterizes the most likely Slow Liberalization scenario as very uncomfortable and argues that a much better chance for the country's successful transition to a market economy is associated with a more radical approach. Nevertheless, one can keep questioning why "feeling the stones to cross the river" is not in the eyes of the Bank a viable option for Uzbekistan.

In any case, however, consistency and determination of reform implementation are of crucial importance for a successful transition. Therefore, I consider "a sharp disconnect between Government statements and the actual functioning of policies..." as the most troubling observation in the paper. I hope very much that this situation is improving and the Bank will be able to engage in a more productive dialogue with the Government.
CAS: Main Features

We can along with the concept of the CAS, which suggests a gradual-pilot-demonstration-replication approach. In our view, it retains a potential for sizable assistance to Uzbekistan in the near future.

We support the choice of areas of CAS focus, which have been discussed and agreed between the Bank and the Government. Progress in these areas would be particularly beneficial to the low-income and poor families, farmers, SMEs, population of the Aral Sea zone.

We broadly agree with the proposed composition of the World Bank Group’s lending and non-lending assistance. With regard to the latter, I am pleased to note that it provides for high flexibility and quick responsiveness to client needs. These attributes seem to be extremely valuable at the present juncture of Uzbek reforms. Concerning the planned part of the non-lending activities, I would like to emphasize the importance of a Living Standards Assessment (expected in FY99) for developing a coherent poverty reduction strategy. It is very unfortunate that a comprehensive poverty study of Uzbekistan, one of the poorest economies in transition, is still missing.

With respect to the triggers for lending program defined in Table 3, I wonder how flexible the scheme is. For example, what would be the minimal requirements for, say, one adjustment operation? I also hope that the numerical interpretation of the privatization targets does not mean a purely mechanistic approach to this complex issue. Moreover, it seems that some of the triggers envisaged for intermediate case lending (transferring land titles to framers, privatization of 300 enterprises, etc.) are more fit for high-case lending and unnecessarily constrain Bank operations in Uzbekistan. Issues of transfer of property rights appear to be more complex and politically sensitive, and require a mature social consensus. One may argue that basic trade liberalization is more within reach and may have a better supply response and a stronger poverty alleviation impact.

I appreciate that the programs of the IBRD and the IFC are quite well integrated, the fact which makes the proposed CAS a really joint one. This leads me to the last topic of my statement.

Private Sector Strategy

The CAS Attachment on Private Sector Strategy (PSS) contains a very good analysis of prospects for and constraints to private sector development in Uzbekistan. On the one hand, there is an immense potential for private sector participation, as the country is endowed with reach resource base, including land, minerals and human capital. On the other hand, present economic, legal and regulatory environment in Uzbekistan is not yet conducive to rapid and sound private sector growth. For instance, we fully share the notion expressed in the CAS that perhaps the main impediment to private sector development today is the Government’s strict control of trade and payments, including allocation of foreign exchange.
Against the background of substantial difficulties and risks of the World Bank Group’s involvement in private sector development in Uzbekistan, a proactive stance of the presented PSS is very commendable. We are also pleased to note that within its framework serious attention is paid to the coordination and mutual reinforcement of the IFC and the IBRD efforts. These include coordination of the IFC investment plans with the implementation of the IBRD investment projects, parallel involvement of the two institutions in an active policy dialog with the Government, and provision of advisory services through jointly sponsored FIAS.

In particular, I would like to welcome the intention to complement the IBRD efforts under the Enterprise Institution Building Project with the IFC technical assistance, direct investments and credit lines. The success of this joint undertaking in the difficult area of privatization and post-privatization restructuring of big enterprises would have a major positive impact on the prospects of the private sector development in Uzbekistan by demonstrating benefits of policy and institutional reforms.

Even though the Government is not yet ready to meet suggested high case requirements, we encourage the IBRD to continue the preparation of adjustment operations to support privatization and financial sector reforms. We consider this work as an important forward-looking component of the Bank Group’s Private Sector Strategy.