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Series: Meeting and event briefing materials

Dates: 06/04/1996 – 06/25/1996

Subfonds: Records of President James D. Wolfensohn

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Washington, D.C.

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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
President Islam Karimov - Photo Op and Video Taping - June 25, 1996

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A. CLASSIFICATION

- ☒ Meeting Material
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- ☐ Speeches

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- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: MEETING: PRESIDENT ISLAM KARIMOV // PHOTO OP / VIDEO TAPING

DATE: 06/25/96

VENUE: E1227 (CONF. RM.)

CONTACT: MR. NARIMAN (GERBER'S OFFICE) @ 87050

IN ATTENDANCE: JDW , GERBER, HUANG, YURUKOGLU (EC3CI),

HOVAGUIMIAN, KOCH-WESER, JOSIE

DELEGATION ATTENDEES: (SUBJECT TO CHANGE)

President Karimov

Mr. Hamidov, Deputy Prime Minister, MOF

Mr. Golishev, State Advisor

Mr. S. Safaev, State Advisor

Mr. Komilov, Minister of Foreign Affairs

Mr. Azimov, Chairman of the National Bank

Mr. Teshabaev, Ambassador to United States

INTERPRETER: MR. SERGIE CHERNOV

EXC: JOSIE

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☒ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ① Interim Adjustment Loan
— better lost were
Now fixed with Fund
- ② Financial Sector - good with
World Central Bank
- ③ Cotton & sugar - Highly unattractive

Interim region -

Minutes of Meeting

When: June 25, 1996

Where: World Bank Offices, Washington, DC

With: Mr. Islam Karimov, President of the Republic of Uzbekistan
Messrs. Hamidov (Deputy PM and Minister of Finance), Safaev (Presidential Advisor), Golishev (Presidential Advisor), Azimov (Chairman, National Bank), Teshabaev (Ambassador to the US).

Also present: Mr. Gerber, Executive Director

Bank Staff: Messrs./Mmes Koch-Weser (EXC), Lindbaek (CEXVP), Huang (EC3DR), Hovaguimian (CME), Yurukoglu (EC3C1), Basinette (EXC)

Main points raised:

Mr. Wolfensohn

- welcomed the President and his delegation, and thanked the President and the delegation for receiving the recent visit of a group of the Bank's Executive Directors.
- noted that he had been briefed by the Directors about the President's concerns about the size and pace of the Bank's program for Uzbekistan.
- noted that he had reviewed progress in the last six months and shared the President's concerns.
- indicated that he wanted to make some proposals for avoiding delays in the future.
- proposed the establishment of a working group, which would include senior government officials and the Bank's Resident Representative, and would meet every two months to discuss and resolve design and implementation issues.
- proposed that Mr. Huang visit Tashkent every three months to meet with the President and review progress.
- said that he would review the reports of the working group personally and hoped that Mr. Karimov would do the same, and proposed to exchange letters with President Karimov reviewing progress in the last three months and establishing benchmarks for the next three months.

President Karimov

- thanked Mr. Wolfensohn for the meeting and said that he valued the special relationship they had and he was glad to see him again as trusted friend.
- accepted Mr. Wolfensohn's proposals, and stated that these steps would help avoid delays in the future.

- emphasized that he did not have any problems with the Bank, and noted that, in the past, Uzbekistan may have been overshadowed by the developments in the FSU, but he was confident that Uzbekistan was now firmly on the Bank's map.
- said that Uzbekistan needed Bank's assistance in three key areas: enterprise reform, financial sector reform and agriculture, and that it was not so much the money that the Bank would provide, but the policy advice that was important.
- indicated his concern with the high cost and relevance of foreign consultants as well the long project preparation time, citing the example of the irrigation sector where the Uzbek experts had wide-ranging experience in other countries in Africa and Asia and have a better understanding of Uzbekistan's situation than the foreign consultants.

Mr. Wolfensohn

- said that the Bank staff would work with the Government on these three areas, that the appraisal mission for the Enterprise Loan would be in Tashkent in early July and that work on the financial sector would follow.
- indicated that the staff were working on proposals to cut the project preparation time by half.
- stated that staff would follow up the issue raised on consultant services and using Uzbek expertise in Bank projects.

Mr. Karimov thanked Mr. Wolfensohn and invited him to visit Uzbekistan again.

Agreed Next Steps:

- formation of working group
For follow-up by: Mr. Huang/Mr. Molineus
- letter to Mr. Hamidov proposing benchmarks for next quarterly review
For follow-up by: Mr. Huang/Ms. Jorgensen

THE WORLD BANK/IFC

done

ROUTING SLIP				DATE: July 5, 1996	
NAME				ROOM NO.	
To: Ms. Atsuko Horiguchi, EXC					
Through: Mr. Caio K. Koch-Weser, EXC					
	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note and Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial
RE: Mr. Wolfensohn's Meeting with President Karimov of Uzbekistan - Minutes of the Meeting					
REMARKS:					
					
FROM: Yukon Huang, Acting Vice President, ECA			ROOM NO.: H-3051		EXT.: 35357

OFFICE MEMORANDUM

DATE: June 21, 1996

TO: Mr. James D. Wolfensohn, EXC

THROUGH: Mr. Caio Koch-Weser, EXC

FROM: Yukon Huang, Acting Vice President, ECA 

EXTENSION: 35357

SUBJECT: UZBEKISTAN: Meeting with President Karimov on Tuesday, June 25, 1996

1. You are scheduled to meet with President Karimov at 8:45 a.m. on Tuesday, June 25, 1996. President Karimov will be accompanied by Messrs. Hamidov, Deputy Prime Minister and Minister of Finance, Mr. A. Komilov, Minister for Foreign Affairs, Mr. Azimov, President, National Bank for Foreign Economic Activity, Mr. Golyshev, State Advisor, Mr. A. Yuldashev, Chairman of the Uzbekistan Chamber of Entrepreneurs and Commodity Producers, and Mr. Teshabayev, Ambassador to the United States. Mr. Gerber will also be at the meeting. I will be accompanied at the meeting by Mr. Yurukoglu, COD Chief for Central Asia. Mr. Koch-Weser may also join.

2. President Karimov is on a "private visit" to the United States from June 23-29. However, the U.S. Government is giving great importance to the visit. While in Washington from June 23-25, he is expected to meet with the Secretaries of State, Commerce, Defense and heads of the US Exim Bank and OPIC, as well as Congress. He is also visiting Houston and Denver, where he will be present at functions organized to promote US investment in energy and mining in Uzbekistan and, thereafter, Seattle before returning to Uzbekistan.

3. We had recently forwarded to you a memorandum reviewing the progress made on the various matters agreed with President Karimov during your October 1995 visit, and a letter to President Karimov concerning this six month review for your signature. Copies of both are attached for your convenience. This memorandum sets forth the key messages -- *building a more effective partnership, completing the Enterprise Reform Loan, initiating a Financial Sector Adjustment operation* -- for this meeting. On the implementation of existing projects and on the Aral Sea, there are no outstanding issues.

Building Better Understanding and A More Effective Partnership.

4. President Karimov expressed concern to the Executive Directors when they visited Uzbekistan recently about the lack of progress in the processing of the Enterprise Reform Loan and in strengthening project pipeline. He reportedly stated that the Bank is too slow, has done too little and lacks understanding of Uzbekistan's perspectives. He also reportedly feels that the Bank is politically driven in its support, favoring Kazakhstan and the Kyrgyz Republic relative to Uzbekistan.

5. We could point to a string of failures on the part of the Government to take agreed steps as reasons why the Bank could not go forward. At a deeper level, however, many of our colleagues in the Uzbek Government seem genuinely perplexed that we take such deviations from agreements and slippages so seriously. They view us -- perhaps with some justification -- as unnecessarily and unreasonably inflexible. We are learning that, in addition to gradualism, frequent mid-course corrections/deviations are a prominent feature of Uzbekistan's "step-by-step" approach.

6. We would like you to stress to President Karimov that

- o *We -- the Bank and the Government -- need to work together to find a new modus operandi for reaching deeper, more durable understandings. Only if we can accomplish this will we have a firm foundation on which to build a rapidly growing portfolio of quality operations.*
- o *We support your approach to reform. This is reflected in our willingness to support the innovative approach to privatization you are pursuing, which is somewhat different than the approach we have supported in other countries. Our experience shows that, working together, we can identify approaches that are consistent with your overall philosophy of reform.*
- o *We now need to build a partnership based on trust to implement these approaches more effectively. To do this, we need to understand your Government's intentions far better than we have up to this point.*
- o *Improved communication is the key. I would like to propose two concrete steps that we might take in this regard:*
 - *regular meetings of a high level working group of senior government officials designated by you in Tashkent on which the Bank would be represented by its Resident Representative*
 - *until we are both satisfied that we have the kind of relationship we want, I will, if you think it would be helpful, request Mr. Huang or Mr. Yurukoglu, together with the Resident Representative, to meet with you quarterly, or as otherwise required, to help resolve any specific problems and to give immediate attention to any concerns you may have.*

Update on Privatization Investment Funds (PIF) Regulations, the Enterprise Reform Loan and the Completion of the First Review Under the Stand-by Arrangement with the IMF.

7. The President signed the PIF Regulations on June 17, 1996, and accompanying PIF financing regulations were issued June 19. The way has now been partially cleared for appraisal of the Enterprise Reform Loan. Prior actions agreed with the IMF for completion of the first review under the current stand-by arrangement are expected to be completed in the next day or two.

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Proposal - from the office of
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0 We sincerely appreciate the care and personal attention that you have given to
the PIF regulations. We expect to be in a position to begin the appraisal of
the Enterprise Reform Loan by the end of June.

o We are impressed by the pace and extent of financial sector reform already underway. We are optimistic about reaching agreement on a future program which the Bank could support. As soon as the Enterprise Reform Loan is ready to go to the our Board, we would be prepared to take on the processing of a financial sector adjustment loan on an accelerated basis.

of recommended

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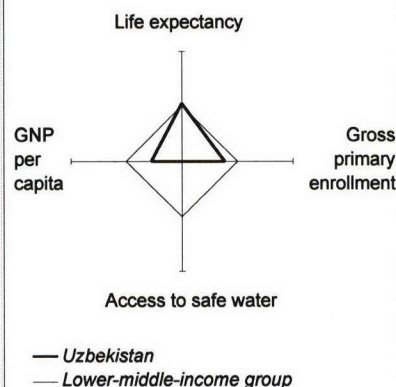
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Document Date June 25, 1996	Document Type Brief			
Correspondents / Participants				
Subject / Title IFC Brief for Mr. James D. Wolfensohn's Meeting with President Karimov of Uzbekistan on June 25, 1996				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date March 13, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date March 13, 2025
Withdrawn by Diego Hernández	Date March 13, 2025			

Uzbekistan at a glance

POVERTY and SOCIAL

	Uzbekistan	Europe & Central Asia	Lower-middle-income
Population mid-1994 (millions)	22.4	498	1,097
GNP per capita 1994 (US\$)	930	2,430	1,680
Average annual growth, 1990-94			
Population (%)	2.3	0.5	1.4
Labor force (%)	..	..	1.6
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	..	..	..
Urban population (% of total population)	41	64	54
Life expectancy at birth (years)	70	69	67
Infant mortality (per 1,000 live births)	39	19	35
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	..	..	78
Illiteracy (% of population age 15+)	3	..	..
Gross primary enrollment (% of school-age population)	80	97	104
Male	80	97	105
Female	79	97	101

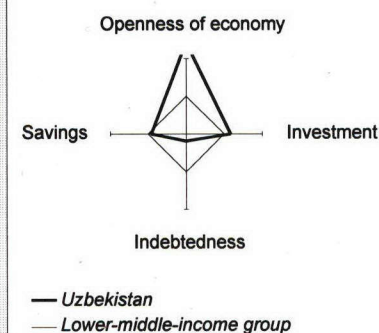
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995
Gross domestic investment/GDP	..	32.4	18.2	29.6
Exports of goods and non-factor services/GDP	..	..	62.8	..
Gross domestic savings/GDP	..	21.1	24.4	21.8
Gross national savings/GDP	..	..	24.5	21.8
Current account balance/GDP	..	..	2.1	-0.5
Interest payments/GDP	..	..	0.4	0.3
Total debt/GDP	..	..	18.2	13.2
Total debt service/exports	..	..	10.5	16.8
Present value of debt/GDP	..	..	5.0	..
Present value of debt/exports	..	..	30.4	..
(average annual growth)				
GDP	..	-0.6	-3.5	-5.2
GNP per capita	..	-2.9	-5.9	-7.5
Exports of goods and nfs	..	..	..	..

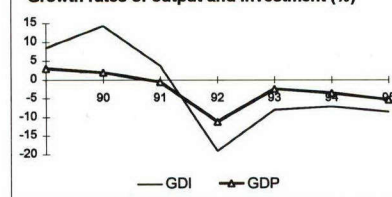
Economic ratios*



STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	28.7	29.4	28.5
Industry	..	39.4	30.5	24.2
Manufacturing	..	29.2	16.7	16.4
Services	..	31.9	31.3	33.8
Private consumption	..	57.7	..	..
General government consumption	..	21.2	..	..
Imports of goods and non-factor services	..	..	61.8	54.0

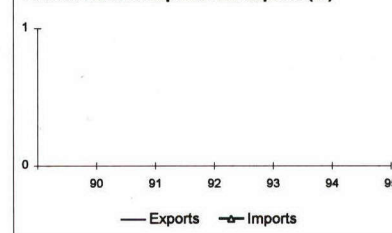
Growth rates of output and investment (%)



(average annual growth)

	1975-84	1985-95	1994	1995
Agriculture	..	1.1	2.7	2.3
Industry	..	-0.5	0.0	0.2
Manufacturing	..	0.8	-8.1	..
Services	..	-2.1	-14.0	..
Private consumption	..	-3.0	2.8	-3.8
General government consumption	..	-1.4	-10.0	-8.0
Gross domestic investment	..	-2.2	-7.1	-8.5
Imports of goods and non-factor services	..	..	..	..
Gross national product	..	-0.6	-3.6	-5.3

Growth rates of exports and imports (%)

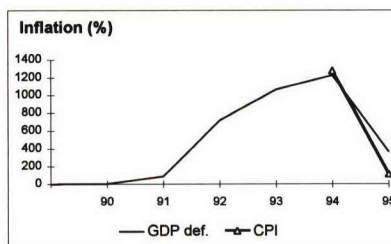


Note: 1995 data are preliminary estimates.

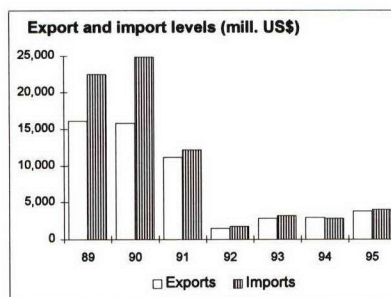
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

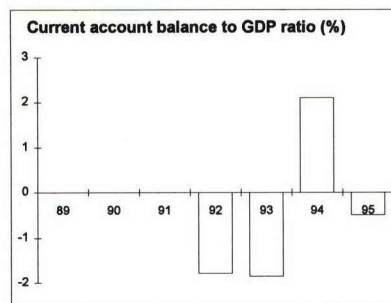
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	1,281.0	117.0
Implicit GDP deflator	..	-7.9	1,229.0	366.0
Government finance				
(% of GDP)				
Current revenue	..	..	32.3	35.1
Current budget balance	..	..	-2.5	3.2
Overall surplus/deficit	..	..	-6.1	-4.1


TRADE

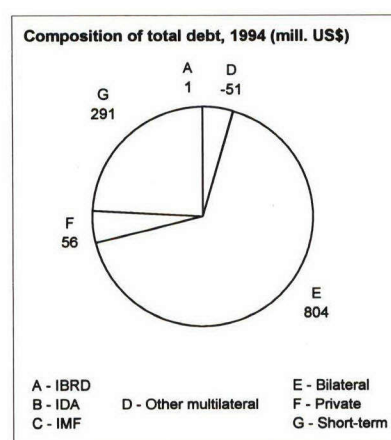
	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	..	2,940	3,805
Cotton	..	..	1,508	1,798
Fuel	..	..	240	258
Manufactures	..	..	1,656	1,757
Total imports (cif)	..	..	2,727	3,598
Food	..	..	861	688
Fuel and energy	..	..	674	60
Capital goods	..	..	..	..
Export price index (1987=100)	..	..	..	..
Import price index (1987=100)	..	..	..	..
Terms of trade (1987=100)	..	..	..	..


BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	..	..	2,940	3,805
Imports of goods and non-factor services	..	..	2,812	3,849
Resource balance	..	..	128	-44
Net factor income	..	..	-23	-26
Net current transfers	..	..	13	17
Current account balance, before official transfers	..	..	117	-53
Financing items (net)	..	..	181	484
Changes in net reserves	..	..	-298	-431
Memo:				
Reserves including gold (mill. US\$)	..	..	1,330	1,868
Conversion rate (local/US\$)	..	..	2.6	27.8


EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1993	1994
(millions US\$)				
Total debt outstanding and disbursed	..	..	981	1,101
IBRD	..	..	..	1
IDA	..	..	..	..
Total debt service	..	..	28	310
IBRD	..	..	..	..
IDA	..	..	..	..
Composition of net resource flows				
Official grants	..	..	2	13
Official creditors	..	..	506	-27
Private creditors	..	..	54	2
Foreign direct investment	..	..	45	73
Portfolio equity	..	..	0	0
World Bank program				
Commitments	..	..	21	..
Disbursements	..	..	..	1
Principal repayments	..	..	..	..
Net flows	..	..	..	1
Interest payments	..	..	..	..
Net transfers	..	..	..	1



Status of Bank Group Operations in Uzbekistan

IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US\$ millions			Undisbursed	Difference between expected and actual disbursements ^a	Last ARPP Supervision Rating ^b	
					IBRD	IDA	Cancellations			Development Objectives	Implementation Progress
Number of Closed Loans/Credits: 1											
Active Loans											
UZ-PA-9122	L38940	1995	REP.OF UZBEKISTAN	COTTON SUB-SEC IMPRV	66.00			65.02	0.18	S	S
UZ-PA-9123	L36500	1994	REPUBLIC OF UZBEKISTAN	INSTIT BLDG/TA	21.00			16.13	14.03	S	S
TOTAL					87.00	0.00	0.00	81.15	14.21		
					Active Loans			Closed Loans	Total		
Total disbursed (IBRD and IDA)					5.85			160.00	165.85		
Of which repaid					0.00			0.00	0.00		
Total now held by IBRD and IDA					87.00			160.00	247.00		
Amount sold					0.00			0.00	0.00		
Of which repaid					0.00			0.00	0.00		
Total undisbursed					81.15			0.00	81.15		

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Following the FY94 Annual Review of Portfolio Performance (ARPP), a letter-based system was introduced (HS=highly satisfactory, S=satisfactory, U=unsatisfactory, HU=highly unsatisfactory);

see *Proposed Improvements in Project and Portfolio Performance Rating Methodology*(SecM94-901), August 23, 1994.

Note:



Record Removal Notice



File Title President Wolfensohn - Briefing Book for President's Meetings - Meeting Material - President Islam Karimov - Photo Op and Video Taping - June 25, 1996		Barcode No. 30485501		
Document Date June 21, 1996	Document Type Chart / Table / Diagram			
Correspondents / Participants				
Subject / Title Uzbekistan - Statement of IFC Investments				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date March 13, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date March 13, 2025
Withdrawn by Diego Hernández	Date March 13, 2025			

Uzbekistan - Selected Indicators of Bank Portfolio Performance and Management

<i>Indicator</i>	FY93	FY94	FY95	FY96
<i>Portfolio Performance</i>				
Number of projects under implementation	0.00	1.00	3.00	3.00
Average implementation period (years) ^a	0.00	0.74	0.70	1.72
Percent of problem projects rated U or HU ^b (for past years, rated 3 or 4)				
Development objectives ^c	0.00	0.00	0.00	0.00
Implementation progress (or overall status for past years) ^d	0.00	100.00	0.00	33.33
Canceled during FY in US\$m	0.00	0.00	0.00	0.00
Disbursement ratio (%) ^e	0.00	0.00	7.12	3.99
Disbursement lag (%) ^f	0.00	80.00	28.36	-387.76
Memorandum item: % completed projects rated unsatisfactory by OED ^g	0.00	0.00	0.00	0.00
<i>Portfolio Management</i>				
Supervision resources (total US\$ thousands)	0.00	183.42	166.21	484.09
Average supervision (US\$ thousands/project)	0.00	183.42	55.40	161.36
Supervision resources by location (in %)				
Percent headquarters	0.00	77.16	91.95	87.14
Percent resident mission	0.00	22.84	8.05	12.86
Supervision resources by rating category (US\$ thousands/project)				
Projects rated HS or S	0.00	0.00	55.40	139.75
Projects rated U or HU	0.00	183.42	0.00	204.59
Memorandum item: date of last/next CPPR	0.00			

- a. Average age of projects in the Bank's country portfolio.
- b. Rating scale: "HS" denotes "Highly Satisfactory", "S" denotes "Satisfactory", "U" denotes "Unsatisfactory", and "HU" denotes "Highly Unsatisfactory".
- c. Extent to which the project will meet its development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*).
- d. Assessment of overall performance of the project based on the ratings given to individual aspects of project implementation (e.g., management, availability of funds, compliance with legal covenants) and to development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*). The overall status is not given a better rating than that given to project development objectives.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.
- f. For all projects comprising the Bank's country portfolio, the percentage difference between actual cumulative disbursement and the cumulative disbursement estimates as given in the "Original SAR/PR Forecast" or, if the loan amounts have been modified, in the "Revised Forecast." The country portfolio disbursement lag is effectively the weighted average of disbursement lags for projects comprising the Bank's country portfolio, where the weights used are the respective project shares in the total cumulative disbursement estimates.
- g. OED data, available in the statistical appendix to the most recent ARPP reports.

Note:

Disbursement data is updated at the end of the first week of the month.

OFFICE MEMORANDUM

DATE: June 14, 1996

TO: Mr. James D. Wolfensohn

THROUGH: Mr. Caio Koch-Weser, Managing Director *CKW*FROM: Johannes F. Linn, Vice President, ECAVP *JFL*

EXTENSION: 80602

SUBJECT: UZBEKISTAN: Status of Bank Group Program

① Person gave me
a copy of my
note

② Thank Johannes very
much indeed
+ tell him I will call
him on return - first
to him that he
needs a version of this
with the ECAVP's

1. We understand that President Karimov expressed concerns on the pace and scope of the Bank Group's activities in Uzbekistan to the group of Executive Directors who visited Central Asia two weeks ago. In response to your query, this note supplements our earlier brief on the status of the Uzbekistan program -- ranging from the implementation of the current portfolio, lending pipeline and Aral Sea Initiative (including the Immediate Impact Program and what has happened in the particular village you visited - Uchsay). These were all issues flagged in your December letter to President Karimov setting out a six month program for review at about this time. A letter to President Karimov for your signature, that will take stock of the developments in the last six months and sets out benchmarks for the remainder of the calendar year, is attached.

2. In your December letter to President Karimov, three key areas were identified. First, the pace of implementation of the three ongoing projects: Rehabilitation Loan, Institutional Building TA loan, and the Cotton Restructuring operation. The Rehabilitation and TA loans were doing reasonably well at that time, but the Cotton project was performing poorly. We set out monitoring targets for all three projects, but the major concern was with cotton. Second, with respect to the Aral Sea Program, the major point was to highlight the Immediate Impact Project as a new initiative. Third, with regard to new lending, we indicated our willingness to move quickly with the Enterprise Adjustment operation as soon as the regulations covering the Privatization Investment Funds (PIFs) were signed and the Fund program was firmed up. We also highlighted our willingness to move quickly on sector work which could provide the basis for a Financial Sector Adjustment Loan -- which would follow the Enterprise Loan. Several other projects were mentioned, including a proposed Health project and a broader Aral Sea initiative related to a Water Supply Loan.

3. Implementation: We have concentrated our energies on the policy commitments under the Rehabilitation Loan and project specific implementation problems being encountered under the Cotton Project. On the Rehabilitation Loan, we had a major problem with the Government backtracking on the pace of eliminating state orders and price adjustments for cotton and grain. Your February letter to President Karimov led to a restoration of our agreements only a month ago. Otherwise the Rehabilitation Loan is broadly on track in the policy sense -- the final disbursement took place in December. The

Cotton project has had serious difficulties and has required intensive (and costly) supervision. In the aftermath of March and May supervision missions it now appears that the project is back on track. PIUs are now fully staffed and agreement has been reached on the content of the national seed policy and two associated credit components. The national seed policy is expected to be signed shortly and the draft laws are expected to be considered by the Parliament in September. To deal with the procurement delays being experienced, we are sending a procurement specialist (financed from trust funds) to work out of the Resident Mission for a year. The TA loan is broadly on track. In sum, we have been supervising the portfolio closely. Although we did not put in place a monthly monitoring system because the portfolio has only two projects under implementation, we have used frequent supervision missions to monitor progress closely.

4. Aral Sea: Following your visit, we initiated work on the Immediate Impact Project (IIP) to address urgent human needs in the "disaster zone". After an initial internal delay on the reallocation of SGP funds for the IIP (due to narrow SGP eligibility criteria), we have committed about \$950,000 for water trucks, ambulances, irrigation pipes and fishing equipment. The goods should be arriving within two months. The recent visit by a group of Executive Directors, of course, took place before actual delivery. We are expecting another \$1 million to be approved under the SGP program so that we can carry out village based participatory programs in order to design interventions that will generate more employment. We hope that these interventions will be implemented through NGOs. On the Aral Sea Program, more generally, a joint UN/WB team is currently in Tashkent to carry out a review of the Program with the intention of refocusing attention to higher payoff activities. This exercise needs to be done carefully to make sure the other major donors are on board. In addition, a proposal for an umbrella-type Aral Sea Pilot Project which would permit speedy start-up of pilot projects to be processed/approved under exceptionally simplified procedures has been sent to the Managing Directors and the OC for review. After the return of the review mission, we will prepare a more formal brief for you and the Executive Directors highlighting the IIP, the Pilot Project and the refocused Aral Sea program. As for the Uchsay village that you visited in November, this village is one of six benefiting from special piloting efforts from bilateral grant funds mobilized for preparing the Water Supply Project. In addition, it will benefit directly from the IIP.

5. New Lending: For the Enterprise Adjustment Loan, one key prior action -- signing of the regulations covering the Privatization Investment Funds (PIFs) -- still has not been done, even though you were told in November that it would be done shortly after your departure. To compound the problem, in January/February, the Government backtracked on a key policy condition under the Rehabilitation Loan and the IMF's Stand-By Arrangement leading to protests by both the Bank and IMF (para. 3 above). This was only resolved last month. Finally, the Government fell out of compliance on a number of conditions under the IMF's SBA and only recently it has taken the necessary steps to warrant release of the much delayed tranche under the SBA -- now scheduled for end-June if the regulations governing PIFs have been signed by then. We have sent the Initiating Memorandum for this operation to the Operations Committee. Following the review by the OC, we plan to field the appraisal mission in Tashkent, provided that PIF regulations are signed. Our work in the financial sector has been slow because of disagreements over

several major policy issues, which led to strong protests from the Central Bank about our recommendations. Nevertheless a mission is in field to discuss the sector report. Work on other operations has been moving forward -- albeit slowly because of a combination of bureaucratic indecision within the Government and differences over policy changes. For example, the Government wanted the proposed Health Project to focus on production of pharmaceuticals rather than strengthening primary health services. After a delay of six months, we have finally reached an agreement that the Bank project would focus on sector policies and strengthening primary health care while the Government would explore foreign direct investment financing for pharmaceutical production.

6. Some EDs may have expressed concern about the modest size of our program compared to Kazakhstan and Kyrgyz Republic (with their portfolios of around ten projects including June operations) compared with only three in Uzbekistan. The lack of progress in Uzbekistan is not because of neglect. We have had up to now three HQ staff in the Tashkent Resident Mission and only one each in the Resident Missions in Almaty and Bishkek. Receptivity for the kind of operations that we have been able to move forward rapidly with in the other Central Asian republics has been tepid in Tashkent. IFC's experience has been similar. The highly centralized decision making process in Uzbekistan has also been one of the key factors for slow progress. Almost every decision, no matter how unimportant, has to be taken by the President, with the result that there are significant delays at every turn. As a result, our costs for project preparation in Uzbekistan are two to three times higher than in other Central Asian republics.

7. With respect to the substance of our projects, we have learned that preparing investment projects in Uzbekistan is much more difficult than elsewhere in the region. This is because of distorted price and incentive structures that are a result of the slow pace of policy reform. The reluctance of the Government to relax Soviet-style controls on the economy affect the economic and financial viability of the projects that we would likely finance. Following a number of abortive attempts to do investment projects in the past, our strategy has been to support the Government to move further on the policy reforms so that an environment can be created where investment projects, whether financed by the Bank Group or others, would make sense. We feel that the proposed Enterprise Reform Loan would go a long way towards this objective.

8. Nevertheless, we recognize that Uzbekistan is an important client for the Bank and we must develop more effective approaches to work within "their system". While we continue to encourage the Government to move on the policy front, we are exploring the possibility of introducing small pilot projects in the key sectors, such as agriculture and health, or arrangements for expanding our dialogue with the Government. In the FY97 program, we are working on a Pilot Farm Restructuring Project and we expect to finance a number of other pilot projects in Water Supply and Irrigation sectors under the proposed Aral Sea Umbrella Program. The proposed FY98 Health project is now much smaller in size to test the hypothesis that a sharply focussed project may be processed faster than a larger and broader project. In addition, we propose in your letter to President Karimov the establishment of a Government/Bank working group to meet bi-weekly to deal with issues both on substance and process, which affect the implementation and preparation of projects.

9. On balance, I would like to reiterate that we are fully committed to expanding our program in Uzbekistan, but we also recognize that the working environment is complicated and will continue to be very intensive in terms of staff time. We hope to convey the attached letter to President Karimov before his visit to Washington later this month. If you meet him during his visit, the letter could be the basis for your discussion. An updated brief will also be prepared should a meeting be scheduled.

cc: Messrs./Mme. Huang (EC3DR); Yurukoglu, Anderson [o/r], Rajagopalan,
Jorgensen [o/r] (EC3C1); Molineus (EC3TA)
EC3C1 Division Files
ECA/MNA Files

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YHuang/KTYurukoglu:

**Key Actions to be Undertaken to Strengthen Implementation and
Project Processing during the Period July 1996 – December 1996**

<u>ONGOING OPERATIONS</u>			
<u>Project</u>	<u>Status Objective and Key Steps As of June 30, 1996</u>	<u>Progress as of June 30, 1996</u>	<u>Proposed Targets for December 1996</u>
1. IBTA	Commitment of funds and finalize contracts for employment services and program for Legal Framework and Training. Disbursements of \$8 m. during FY96.	Tenders invited for employment services. Program of Legal Training under discussion. Bidding documents for Goskomprognostat under preparation. Disbursements of \$3 m. in FY96.	Award contract for employment services. Finalize Legal Training Program. Invite bids for Goskomprognostat. Evaluate contracts for Goskomprognostat. Disbursements of additional \$5 m. during July-December '96.
2. Rehabilitation Loan	Complete agreed policy actions.	Reduction in state orders for cotton and grain for 1996 crop. Increased procurement prices for cotton and grain.	Review need for isolation of enterprises with large arrears and agree on measures for financial discipline and restructuring. Implement General Investment Funds regulations and specific private funds.
3. Cotton Improvement Project	Loan to be effective by Dec 95. Strengthen Project Implementation Unit and initiate actions for procurement by Feb 96.	Loan became effective in Dec 95. PIU strengthened and procurement actions initiated.	National Seed Policy adopted by Government and Seed and Breeding Achievement Laws passed by Oliy Majlis. Applications for subloans in support of private sector participation in the seed industry processed. Bidding documents for procurement of HVI equipment issued. Disbursement of loan proceeds in conformity with project plan.

<u>FUTURE OPERATIONS</u>			
<u>Project</u>	<u>Status Objective and Key Steps As of June 30, 1996</u>	<u>Progress as of June 30, 1996</u>	<u>Proposed Targets for December 1996</u>
4. Enterprise Reform Loan	Presentation to Board following agreement on Program and Implementation of actions prior to Board presentation (contract with Business Fund, exemption from cotton licensing to commodity exchanges, and making private traders eligible for export licenses).	Program and actions yet to be agreed due to delay in completion of actions under Rehabilitation Loan.	Loan to be presented to Bank Board (involves timely agreement on program and completion of prior actions).
5. Financial Sector	Agreement in principle on financial sector reform objectives following discussions on key issues.	Discussions on Financial Review completed.	Agreement on financial sector reform objectives and specific actions in support of such reform.
6. Water Supply and Sanitation Project	Substantial readiness for appraisal following completion of feasibility study by consultants and initiation of pilot projects.	Feasibility study under preparation.	Pilot project loan to be approved in the summer, and negotiations for full-scale project to be completed.
7. Pilot Farm Restructuring Project	Completion of data collection for project preparation, following appointment of Government project team.	Government working group appointed, consultants appointed, and project preparation underway.	Project preparation for pilot project to be substantially completed to facilitate preappraisal and accelerate work on a full-scale basis for restructuring project.
8. Health Project	Substantial completion of preparation studies, following appointment of Government working group and contract with consultants.	Government working group appointed, and project scope agreed. Action initiated to recruit consultants.	Project preparation report to be substantially ready to facilitate preappraisal.

As for development of new investment projects, I understand that the preparation activities for the Farm Restructuring Project are underway and making good progress. As for the proposed Health project, significant steps have also been taken to initiate the recruitment of consultants following the appointment of the Steering Committee and Working Group, and I hope that project will be ready for preappraisal around November of this year. For both projects, our intention is to develop simpler, smaller operations which hopefully could be prepared faster and implemented successfully.

Following my visit to the Aral Sea region and our joint concerns for an early impact on the affected population, a grant program, known as the Immediate Impact Project, was developed to address urgent human needs in the area adjacent to the Aral Sea. The Bank has approved the reallocation of \$950,000 in grant funds. These funds have been allocated by the ICAS among the countries. I expect that we would allocate an additional \$1 million in grant funds during the next few weeks. Uchsay village, which I visited, will soon receive fishing nets and two ambulances to be stationed in the nearby rural hospital. Further, grants have been mobilized from Japan supporting two community-based sanitation, health and hygiene pilot projects in Karkalpakstan and Khorezm oblasts, and from KfW Germany for pilot water supply projects including in Uchsay village. In addition, we plan to present to the Board this summer the Uzbekistan Pilot Water Supply Project, pending the presentation early in 1997 of the Uzbekistan Water Project, which will eventually provide potable water and sanitation to a much larger segment of the population.

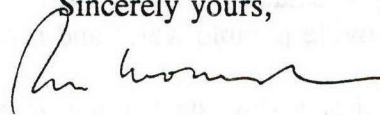
After a slow start, good progress has been made in IFC activities in Uzbekistan. A major gold mining project was approved, providing for about \$60 million in direct and indirect IFC's support. A new joint venture bank project, in association with the National Bank for Foreign Economic Activity, has also been approved and signed and which, together with the Leasing Company established jointly with EBRD, should provide increasing support for private sector development.

If your schedule permits, I am looking forward to meeting you during your visit to Washington. I am also requesting Mr. Johannes Linn, our Vice President for Europe and Central Asia Region, and Mr. Yukon Huang to pursue with Mr. Hamidov and his colleagues as to the steps both the Bank and the Government can take to strengthen our cooperation and to realize our mutual objectives. Towards this end, I would like to suggest that a joint Government/Bank working group be created, comprising of key officials in Uzbekistan and the Resident Representative of the Bank to discuss economic, sectoral and project policies and issues on a regular basis. This group could consist of representatives of the Ministry of Finance, Central Bank, GKI, Cabinet of Ministers and presidential advisors dealing with Bank issues both on substance and process, and the Bank's Resident Representative. This group could meet regularly every two weeks or so to discuss problems and the steps needed to resolve outstanding issues, and advise the Ministers and the Bank as to the issues needing resolution.

The delays that have occurred during the last six months have been disappointing. But the things that need to be done to move ahead are very clear. With your support, I believe that we will be able to move on many fronts much more quickly and will begin to see some impressive results. With intensified effort and diligence, we might hope to be able to strengthen our portfolio of high quality, effective operations during the next year, and look forward to more rapid quality portfolio growth thereafter. I have asked my staff to outline the key steps which we believe would be necessary during the next six months to put us on this path. I am attaching an updated table summarizing the next key steps as we see them.

I am very keen on seeing the Bank Group supporting Uzbekistan move ahead with its economic reforms and investing physical and social infrastructure. If we do not have the opportunity to meet in the interim, let me suggest that we agree to exchange letters again in January 1997 reviewing the progress we have made.

Sincerely yours,



James D. Wolfensohn

Attachment

cc: Mr. Jean-Daniel Gerber (ED)

Cleared with and cc: Messrs. Huang (EC3DR), Yurukoglu, Konishi (EC3C1)

Cleared with in substance and cc: Messrs.: Anderson (EC3C1), Molineus (EC3TA)

cc: Messrs./Mmes. Linn (ECAVP); Jorgensen [o/r], Rajagopalan (EC3C1);
Gould, Gafsi, Goldberg (EC3AI); Brown, Batstone (EC3IV); Liebenthal,
Klugman (EC3HR); Alahdad, Roider (EC3TA); Whitford (EC3AS);
Hovaguimian (CMEDR); Hamid, de Mond (CMEDI); Fuchs (EMT); Aniba (EXC)
EC3C1 Divisional File
ECA Information Center

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

JAMES D. WOLFENSOHN
President

June 17, 1996

His Excellency
Islam Karimov
President of the Republic of Uzbekistan
Tashkent
UZBEKISTAN

Dear President Karimov,

Let me begin by thanking you for the warm hospitality extended to our Executive Directors who visited Uzbekistan earlier this month. Their recount of their visit rekindled very fond memories of the time Elaine and I spent with you last Fall.

The Executive Directors have also conveyed to me the concerns you raised about the lack of concrete results from our activities in Uzbekistan and the small size of the World Bank portfolio in Uzbekistan relative to some other neighboring countries. I would like to address your concerns in the context of reviewing the progress we have made since we met in October 1995.

As you will recall, we agreed to work together to build a more effective partnership between Uzbekistan and the Bank Group. And with a view to realizing this objective, we agreed to review key impediments to implementation of existing projects and preparation of new projects and take steps to remove such impediments on a systematic basis. As a first step, we had exchanged letters summarizing the key objectives and next steps concerning project implementation and development of new operations which we agreed during our discussions. The progress achieved so far has been mixed, in regard to both the implementation of loans already made and the building up a pipeline of future operations for Bank financing.

Of the three loans made so far, the Rehabilitation Loan has been fully disbursed. However, some of the policy actions agreed under the Loan have been delayed. I appreciate your efforts to resolve the grain and cotton price issue in line with understandings reached with the Bank and the IMF. These were finalized in late April, resulting in a three-month delay. The regulations governing the Privatization Investment Funds, which are to play a

significant role in your ambitious privatization program and which have been a subject of discussion for the last 16 months, are yet to be issued. You will recall that I had raised this issue in my letter of December 19, 1995. I understand these are expected to be issued later this month. Consequently, the ambitious privatization program your Government had envisaged will be considerably delayed.

The Institution Building Technical Assistance Loan is making satisfactory progress. I am pleased that the arrangements for implementation of the Cotton Sub-Sector Improvement have recently been strengthened, and actions for procurement of equipment and technical assistance have been initiated. I hope that the draft seed policy could be signed shortly and the two draft laws (National Seed Law and Breeding Achievement Protection Law) would be presented to Parliament for ratification by September 1996.

You must be as disappointed as I am that the Enterprise Reform Loan is not yet appraised and that it will not be until later of this calendar year, at the earliest, that the Loan will be ready for Board consideration. We have lost six months. This slippage was due to delays in fulfilling agreements reached with the Bank under the Rehabilitation Loan and in meeting the conditions for completion of the first review under the stand-by arrangement with the IMF. The only steps remaining to allow us to proceed with appraisal are the issuance of regulations on the Privatization Investment Funds, and implementation of the remaining prior actions required for completion of the first review by the IMF. Based on our current understanding that these actions will be taken shortly, our hope is that the appraisal mission will be able to complete its work during the summer.

Appraisal, however, is only the first of the final steps needed to bring the ERL to the Board. In this regard, I would draw your attention to some of the key policy areas, which will be discussed further with your officials during appraisal, that would need to be resolved prior to negotiations of the Loan. These include: (a) launching a public education campaign on the Privatization Investment Funds to build public confidence in the scheme; (b) reintroducing cotton on the Republican Commodity Exchange; (c) amending article 28 of the bankruptcy law, and amending the competition law; and (d) eliminating restrictions on sales of trucks. These actions, which we hope will be undertaken prior to inviting the Government for negotiations, would set the ground work for aggressively moving on the privatization program.

Regarding the financial sector reform, the Bank has sent its review of the banking sector to the Government, and discussions with the Government are now in progress in Tashkent. These discussions have been very constructive and encouraging, and I expect we should be able to reach agreement soon on the reform objectives and measures to be taken in support of their realization. We would be ready to prepare an operation to support the reform program, but the timing would need to be worked out subject to how quickly the Government wishes to proceed with actual implementation of the reform measures.