

STRATEGY FOR UZBEKISTAN 1994-95

SUMMARY

SYNOPSIS

The EBRD's principal operational objectives in Uzbekistan are as follows:

- **Financial sector and private sector SME development.** Provide finance and technical assistance to export-oriented private SME investments through the local banking system. A line of credit to the National Bank for Foreign Economic Activity of Uzbekistan (NBU) will be supported by a comprehensive technical cooperation programme to help this bank become an effective financial intermediary to assist private entrepreneurs. A banking training centre in Tashkent will serve the training needs of the banking sector in three countries.
- **Euro-Asian Trade Facilitation Project.** Initiate a major project to identify and invest in the improvement of transportation and communication, within the framework of a long-term and regional strategy for the facilitation of inter-regional and international trade connecting the TransCaucasus and Central Asia to Europe and Asia.
- **Cotton processing and other industry.** Focus on funding export-oriented private sector projects in manufacturing. In cotton processing, proactively identify and provide finance to investment projects with foreign partners.
- **Mining and natural resources.** Focus on projects in the oil and gas sector that have a high impact on the country's external balance, and on joint venture projects with foreign partners in the mining sector.
- **Telecommunications.** Consider a project that would in a short time offer the business community in the main cities world-standard communications services.
- **Energy.** Concentrate on investments for energy efficiency improvements and institutional reforms.
- **Tourism.** Support the development of tourism in Uzbekistan through expert advice and by funding hotel projects.

This document is based on the EBRD's Strategy for Uzbekistan, approved on 24 March 1994, which is for official use only.

STRATEGY

1 PROMOTION OF THE PRIVATE SECTOR / SUPPORT OF THE FINANCIAL SECTOR

1.1 Financial sector / private sector SME development

The EBRD's strategy is to provide finance to viable private sector projects and assist in overcoming the bottlenecks, notably in the financial sector, that hinder private sector development. The Bank has initiated a number of operations aimed at institution building in the banking sector and, more importantly, supporting via the banking system the development of a private SME sector.

In September 1993, the Bank approved an USD 60 million credit line to the National Bank for Foreign Economic Activity of Uzbekistan (NBU) to support SMEs in the private sector that are to be engaged in export-oriented investment projects. The project will provide start-up equity, a source of stable finance for long-term lending, assistance in business plan preparation, and training. The Bank also approved a comprehensive technical cooperation programme to help the NBU establish a sound business plan, strengthen its credit and project evaluation capability, and provide consultancy assistance to Uzbek SMEs. The NBU will play an important role as an effective financial intermediary to assist private entrepreneurs.

The Bank's priority in 1994 will be the successful implementation of the approved line of credit to the NBU to support the urgently needed financing for the emerging export-oriented private sector investments, as well as the upgrading of the institutional capabilities of the NBU.

To assist the training needs of the banking sector in Uzbekistan, Kyrgyzstan and Tajikistan for the medium and long term, the EBRD, together with the EC, the Government of Turkey and the Turkish Bankers' Association, initiated a technical cooperation project for a Regional Bank Training Centre (RBTC) located in Tashkent. This was formally established in February 1994. The Western sponsors will contribute ECU 4.5 million to provide technical support over two years, in an institution-building effort including the training of banking staff, management and trainers, management advisers and some equipment. Further training, equipment and refurbishment of RBTC premises will be provided by the other co-sponsors. The Centre will also be funded by 30 banks in the region. RBTC will provide practical training in banking operations, especially in those areas where efficiency can be improved, thereby increasing the individual bank's performance. It will also provide training to support local financial institutions to become suitable recipients of loans from international financial institutions. The intention is to train about 800 people a year.

1.2 Euro-Asian Trade Facilitation Project

During 1993 the EBRD contributed to an important conference (known as TRACECA) organised by the EC. As a result of this conference, an ECU 33 million regional TRACECA programme of technical cooperation was approved by the EC.

In line with the TRACECA conference and the agreements of its member countries, the EBRD will emphasise projects that will contribute to the development of foreign-

exchange-related trade and transport with particular reference to the promotion of commercial operations and the private sector, either by way of creating new entities or transforming existing ones that are involved in operations, equipment or facilities in international and inter-regional transport and trade. In this context, a number of EBRD initiatives are under way which will contribute to these objectives. In Uzbekistan, these include the development of credit facilities for SMEs, proposals for the rehabilitation of Tashkent airport and planned telecommunications and air navigation projects.

In dealing with the needs of its member countries within the context of this project, the Bank is working closely with the EC and other international organisations.

As a result of its previous work and its continuing activities, the Bank is informed on the general state of policy reform and objectives in the transport and related sectors in the member countries. As a first step of the Euro-Asian Trade Facilitation Project, the Bank will undertake in 1994 a project to identify, within the development of an outline long-term strategy for the facilitation of inter-regional and international trade and transport to, within and through the countries of the region, a programme of high priority projects directed at:

- major current bottlenecks
- facility and equipment rehabilitation and modernisation
- inter-modal operations and facilities
- opportunities for privatisation and commercialisation
- research and feasibility studies especially related to important existing or new links in the Euro-Asian corridors, and other strategic initiatives.

The work will focus primarily on surface transport, power transmission and pipelines, but notice will be taken of any high priority aerodrome, air navigation or transport-related telecommunication projects not already being dealt with by the Bank. This project will produce a ranked portfolio of investment and technical cooperation projects in each of the above categories.

1.3 Cotton processing and other light industry

Cotton processing has a clear comparative advantage and the potential to become the leading industrial sector in Uzbekistan. It is also a sector that is ideal for the development of export-oriented, medium-sized private enterprises. The Bank will take a proactive approach to identify foreign partners that would bring capital, technology and marketing know-how to the cotton textiles sector in Uzbekistan. The Bank aims to develop and finance a number of export-oriented integrated cotton processing investments which would serve as pilot projects and attract further foreign investment interest into this sector.

The Bank will also take a proactive approach for identifying joint venture investments with foreign partners in other areas of light industry (e.g. wool, silk, leather) and build up a pipeline of projects for financing.

2 SUPPORT OF CRITICAL INFRASTRUCTURE

Bank lending to finance physical infrastructure projects will be accomplished in coordination with other international financial institutions and will concentrate on the rehabilitation of existing infrastructure and eliminating bottlenecks within a regional framework.

2.1 Telecommunications

An approach that deserves particular consideration is the possibility of an international tender for a Build, Own and Operate (BOO) concession for a new digital overlay network for the major cities. This offers the fastest means to achieve communications services necessary to enhance efficiency and competitiveness of Uzbek enterprises in international and domestic markets. While there is much potential in this model, its prospects for successful implementation require careful consideration by the government.

The Bank will undertake a pre-feasibility to assess the revenue potential, legal structures, and prospective attractiveness of a BOO concession for a digital overlay network to foreign investors. If the results are positive, the Bank will organise a major technical cooperation project to prepare and evaluate a BOO tender.

2.2 Energy

Energy is a priority sector for the Bank, focusing especially on energy efficiency improvements in the existing energy supply facilities. In 1993, the Bank initiated a study to identify priority investments for reducing losses and improving the power supply system. As a result of this study, a project to improve energy supply efficiency at a thermal power plant is now under preparation. The EBRD was the first international financial institution to initiate activities in the energy sector in Uzbekistan and has therefore a good understanding of the issues and constraints facing the sector.

3 OTHER INITIATIVES

3.1 Mining and natural resources

Uzbekistan is well-endowed with natural resources, especially gold, natural gas, and oil and condensates which offer a potential for providing hard currency for economic development. The government has named increasing its oil and gas output and its refinery capacity as its top priority. Uzbekistan is very keen to attract foreign investments for mining and has signed agreements with a number of Western companies. EBRD strategy recognises natural resources as a priority area.

In 1993, the Bank approved a US\$ 105 million loan to the Zarafshan-Newmont Joint Venture to finance the construction of a heap leaching facility to reclaim gold from low grade ore. While the EBRD is the lender of record for the full loan, US\$ 52.5 million is participated to 13 international commercial banks. This transaction represented the first mining project finance for the Bank, the first syndicated financing for the former Soviet Union, and the first limited-recourse private sector loan for Uzbekistan. The Bank will also seek other projects in the mining sector.

3.2 Property and tourism

The Bank has discussed tourism development with the government and has been providing expert advice for the short-term goal of providing urgently needed

accommodation for tourists. The Bank will provide finance and assist finding operating partners to three hotels in Tashkent, Samarkand and Bukhara which are in the advanced stages of construction. Further new hotel projects or upgrading of existing hotels will be considered on a case-by-case basis.

COOPERATION WITH OTHER IFIs

As is the case with the EBRD, other international organisations are quite new to Uzbekistan. In fact, leaving technical and humanitarian assistance and the limited amount of bilateral export credits aside, so far the Bank is the most important provider of project finance to Uzbekistan.

The EBRD is coordinating its activities, especially in the financial sector, with the World Bank. The EBRD will seek co-financing possibilities with the IFC on a case-by-case basis.

Recognising the unique situation where the Central Asian republics are members of both institutions, an understanding was reached between operational departments of the Asian Development Bank and the EBRD regarding cooperation in Central Asia.

In 1993, the EBRD and the EC cooperated successfully on the establishment of the Regional Bank Training Centre in Tashkent and a project preparation unit for agribusiness. The Bank will continue to coordinate its activities with the EC.

The activities of the United Nation Development Programme, in particular technical assistance for private sector development, are complementary to the Bank's operations in Uzbekistan.

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