

INTERNATIONAL MONETARY FUND  
WORLD BANK

In consultation with the staffs of the  
Asian Development Bank and the  
European Bank for Reconstruction and Development

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**A NEW INITIATIVE FOR THE CIS 7**

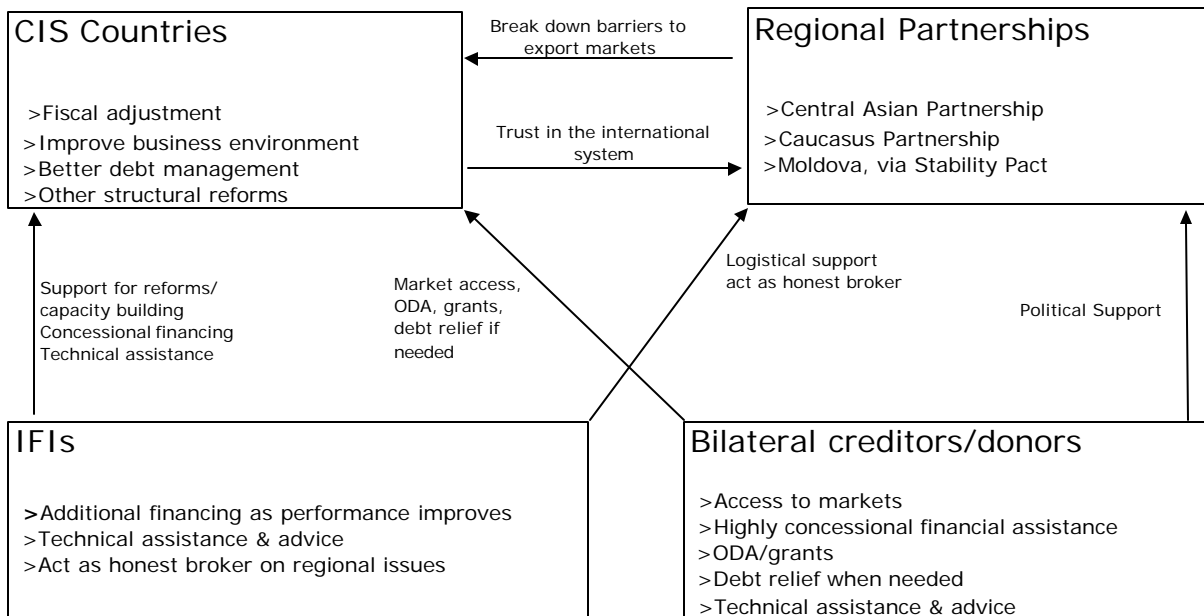
1. The purpose of this initiative is to launch a new collaborative international effort to facilitate economic growth and poverty reduction prospects in the CIS 7. All parties to the initiative—each of the CIS7 countries, bilateral donors, neighboring countries and the IFIs—have a role to play that is consonant with their comparative advantage. The roles of each party are discussed below and summarized in Table 1 and Figure 1, and would need to be integrated with the Poverty Reduction Strategy Paper (PRSP) process in each country.

**Table 1. A New Initiative for the CIS 7**

Stakeholders	Key actions to take
<b>CIS 7 Countries</b>	Demonstrate greater ownership and political commitment to reform by implementing PRSP programs, including: improving governance; reducing corruption; targeting social spending on the poor; and limiting the growth of new external debt.
<b>IFIs</b>	Better coordinate lending programs and policy advice; link financing to policy performance; in some cases—increase the degree of concessionality in lending programs.
<b>Bilateral donors/creditors</b>	More concessional ODA, especially grants; co-finance EBRD loans; provide debt relief when needed, including on Naples terms where necessary.
<b>Regional Partnerships</b>	
Central Asia	Improve cooperation on water/energy; reduce trade barriers.
Caucasus	Reduce trade barriers.

Source: National authorities, IFI staff.

Figure 1. Initiative for Low Income CIS Countries



### A. Role of Each Party Under the Initiative

#### Role of the countries

2. **The CIS 7 countries need to take the lead in improving their prospects for growth and poverty reduction.** In each case, the authorities recognize that policy options are limited, and that they need to do all they can to improve domestic business environments and confront corruption and vested interests. They also need to work to achieve durable macroeconomic stability and external viability. The required reforms vary across the countries, but improved governance and public administration, anti-corruption efforts, energy sector reforms and fiscal expenditure rationalization are common themes in all seven countries.

3. **Reforms are unlikely to be effective without broad-based ownership.** Each country's leadership needs to show commitment to these reforms in a visible manner. This requires transparency and the promotion of a broad-based, public debate of difficult reforms to help build support for them. The PRSP process is the right vehicle for achieving this ownership and transparency. In some cases, technical assistance—either from IFIs or from bilateral providers—can help to build consensus as well.

## **Role of the IFIs**

4. **The multilateral institutions can cooperate more closely to facilitate growth in these countries**, through policy dialogue, as well as technical and financial assistance. Staff teams can and will do more to coordinate lending programs and policy advice.

5. **Increased financial support will come with better policy implementation, and—in some cases—the terms of this lending may be more concessional.** IFI lending in recent years has often been delayed because of poor policy implementation by the CIS 7 countries. But with greater domestic ownership and stronger policy performance, IFI resources will flow to these countries more predictably and in greater amounts. In particular, IFC investment and MIGA guarantees, which have a major potential for catalyzing private capital and know-how, would be greatly facilitated. Already, over time, IMF financing has moved from relatively more expensive standby credits to PRGF financing, and IDA credits from the World Bank now predominate in all of these countries except Uzbekistan.<sup>1</sup> The AsDB has accelerated concessional lending since September 11 as well. The EBRD does not have a concessional financing window, but by pairing with bilateral donors in creative ways, it has increased significantly the combined grant element of its projects in some cases.<sup>2</sup>

6. **Beyond financial resources, the IFIs can accelerate technical assistance and policy advice in a range of areas.** In addition to the on-going dialogue on macroeconomic policies, the IMF can provide TA in a number of areas, such as monetary operations, treasury and budget management, and statistical systems. The World Bank and the AsDB can also accelerate technical assistance in some cases (on a lending basis).<sup>3</sup> It will be important for the Bank and the Fund to work together to provide TA for strengthening prudential regulation and other financial sector reforms, including restructuring where necessary.

## **Role of Bilateral Donors and Creditors**

7. **Official bilateral donors can do much to provide political support for reforms that would enhance growth and reduce poverty.** First, they can do more to open their markets to exports from these countries. But they can also support enhanced regional cooperation, both in Central Asia and the Caucasus, and to Moldova via the Stability Pact for South-Eastern Europe.

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<sup>1</sup> Bank and Fund assistance strategies have increasingly emphasized support to ensure an adequate safety net for the unemployed, elderly pensioners and other poor and to protect basic health and education expenditures. For example, all nine of the IDA adjustment credits approved for these countries in FY1999-2001 had an important poverty focus.

<sup>2</sup> PRGF arrangements have strict ceilings on the amount of nonconcessional debt countries can incur.

<sup>3</sup> Bilateral providers may also accelerate technical assistance to these countries.

8. **Bilateral partners can also step up provision of ODA and debt relief in recognition of improved policy ownership and poverty reduction efforts.** Clearly, these countries would be better served by increased flows of grant assistance. Debt relief is likely to be needed in several countries, including in some cases on Naples terms.

### **Role of Regional Partnerships**

9. **Regional partnership associations could be established in the Caucasus and Central Asia to promote cooperation on trade and economic issues.** The IFIs and key bilateral donors can help countries find creative solutions to regional problems, such as water-cum-power difficulties in Central Asia (or other issues in the Caucasus), that are currently not addressed through international fora. The IFIs as well as bilateral donors can also help by financing regional projects, particularly in Central Asia. These regional partnership associations could provide a mechanism for airing and—if possible—resolving longstanding disputes that directly affect economic outcomes. The renewed attention on Central Asia, in particular, offers an opportunity to do more in this area. Moldova's participation in the Stability Pact for South-Eastern Europe also offers possibilities that need to be pursued more actively.

### **B. Next steps**

10. **The brainstorming seminar in the U.K. is expected to be followed by a senior level meeting, perhaps in Washington in April.** This meeting would consider a more concrete program and timetable of actions that would be undertaken by the various parties to the Initiative. Some of these actions would take place at a bilateral level, while others would be conducted in multilateral venues. A follow up meeting similar to the London session could be held in 18 months to assess progress to date. At the present time, the following specific activities are already envisaged.

### **Multilateral events**

11. **A conference devoted to the lessons of the past decade – with independent scholars and NGOs – will be held late in 2002.** Participation will be sought from a wide variety of countries and institutions. The conference will focus on key development challenges for the CIS 7 where there are unresolved technical and/or strategic issues, as well as on reform areas that would especially benefit from a broader dialogue.

12. **Regional partnership events are being developed.** The German Government and the United Nations Development Programme are organizing a donor consultation meeting for Central Asia to be held in Berlin, Germany on March 1, 2002.<sup>4</sup> This meeting will be followed

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<sup>4</sup> The meeting will focus on lessons learned by donors in Central Asia over the past decade, strategies for enhancing aid effectiveness through improved donor coordination, and steps the international community can take to promote cooperation among Central Asian countries on regional issues such as such as water and energy management, trade, security and HIV/AIDS.

by a ministerial conference for the Central Asian countries under the auspices of the AsDB. It is hoped that similar events could be held for the Caucasus and Moldova in the coming months.

### **Bilateral events**

13. **The Paris Club will consider the request of some countries for debt relief.** The Kyrgyz Republic, for instance, will be considered in March, and Moldova and Tajikistan are likely to request assistance during the coming year.

14. **Consultative group meetings will be organized to mobilize support for these countries in the coming months.** Again, the Kyrgyz Republic will be the subject of a CG meeting tentatively expected in the summer.

15. **IFI programs with each country will continue.** Improved policy performance and a demonstration of greater ownership of reforms will facilitate a greater flow of IFI resources to these countries.

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This meeting is a first step towards a discussion with the Central Asian countries on how collectively we might better support initiatives in that region. The next meeting will also include country representatives from Central Asia.