Slide show:
Sector Development

by Giovanni Andrea Cornia

Roles of institutional policy

Generate efficient economic structures ensuring:

- equitable access to productive resources
- the good functioning of markets
- an adequate supply of public goods facilitating output and market exchange (law, courts, good governance)

Agriculture reform: key to overall growth

In labour-surplus economies, fast growth requires a rise of agricultural output and land productivity to:

- create a domestic market for industrial output
- reduce the cost of ‘wage goods’ and industrial wages
- provide raw material to the ‘infant industry’

The experience of China (1978-84), India (1970s), Viet Nam, and other countries bears this out:

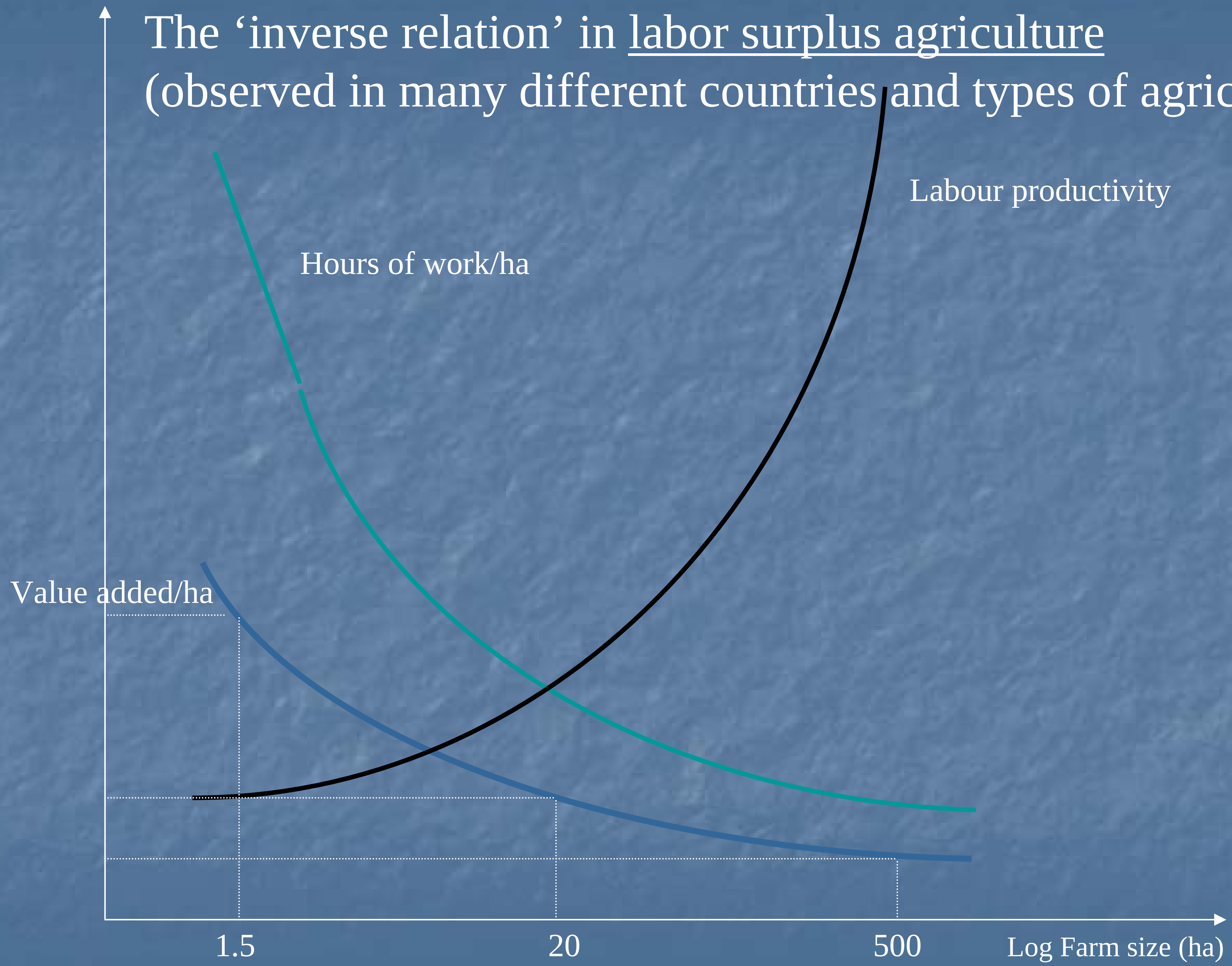
- in 1978-1988 agricultural reforms in China triggered a 6% increase in food output and GDP
- accompanied by fast falling poverty (- 200 m. people)

Land tenure regimes and poverty

In land-scarce, labour-abundant economies, rural institutions can be ranked in ascending order of efficiency-equity:

- Latifundia
- State farms
- Cooperatives
- Large capitalist farms
- Sharecropping
- Land leases
- Smallholders agriculture with all/most property rights

The ‘inverse relation’ in labor surplus agriculture
(observed in many different countries and types of agriculture)



SMEs and poverty

- In developing countries, SMEs absorb most of the labor supply in urban/peri-urban areas with high incidence of poverty.
- SMEs have large growth/employment potential in sectors with no ‘economies of scale’ as they have:
  - Low capital cost per worker, high productivity per $ of capital
  - Low labor productivity, but high total factor productivity
  - Ample evidence of efficiency of such firms, especially where there is ‘social capital’

Financial markets and poverty

‘Repressed financial markets’:

- Low M2/GDP (low deposits, financial intermediation)
- Lending is directed admin. to privileged firms
- At artificially low interest rates (often negative)
- Few banks and limited competition
- Many firms and most SME unable to borrow – or have to borrow from ‘informal fin markets’ at high rates and for short periods

Labour markets and poverty

Labour markets affect poverty unfavorably whenever:

- Wage distribution scarcely reflects the productivity of different groups of workers
- Market is segmented (by caste, region, sex, sector)
- ‘Minimum/low wages’ are absent/not enforced
- Labour market policies (training, public works) facilitating labor reallocation are weak

Proposed inputs to Uzbek PRS

Assign ‘growth role’ to agriculture

Consider agriculture as a <u>second ‘engine of growth’:</u>

- It is essential to design efficient, rural, anti-poverty policies since 70% of the poor are in rural areas
- How to do so: improve the terms of trade of agriculture
- Allocate more credit, public investment (infrastructure) and expenditure (rural public works), while reducing urban prestige investment (e.g. tennis stadium)

Speed up land reform

Enhance access to the land by the poor:

- Redistribute shirkat land to about 1.5 ha. per dekhan
- Introduce supporting measures (cadastral system and local markets for both inputs and outputs)
- Revert the policy of privatisation of shirkats into medium-sized farms of 20-50 ha. (for equity/efficiency reasons)
- Transform the shirkats into independent commercial providers of services (inputs, tractor services)

Exploit growth potential of SMEs

Make the labour-intensive SME sector a ‘third engine of growth’. In many advanced countries, the ‘small firms’ co-exist and cooperate with ‘big firms’).

To do so, introduce general changes:

- Improve business climate
- Enhance regulatory norms concerning the sector
- Provide incentives to ‘emerge’ (including cuts in payroll taxes)

More support measures

Expand on the initial reforms introduced by the government since 2000:

- simplify and speed up registration of SMEs
- improve their access to credit, forex, raw materials
- introduce a simplified tax system
- provide incentives to ‘formalize’
- further reduction in licensing-regulatory procedures

Financial sector reforms

Reduce inability of banking system to allocate funds:

- ‘financial restraints’ (positive but low real interest rates e.g. 4-8 %),
- mobilise household savings to increase bank lending to enterprises with high profitability but limited assets
- end subsidized directed credits to State enterprises
- eliminate ‘financial repression’ (limits on cash withdrawals, etc.)

Banking reforms

- Liberalise banking sector gradually, and in the presence of a strong objective regulatory framework
- Prohibit short-term portfolio flows in and out
- Expected benefits: increase in M2/GDP, savings account and lending; lower borrowing costs and financial charges for firms

Strengthen labour market policies

- Adjust minimum (or lowest) wages to CPI
- Increase and refocus the Public Works Program on workers resorting to temporary work in “mardikor markets” or affected by seasonal unemployment
- Introduce an ‘employment guarantee scheme’ for people relocating across sectors. (Provide low-wage employment on public works within 5-10 km. from residence of those entering the program.)