

Private Sector Development

All CAREC countries have adopted privatization and market-oriented reforms. These include liberalizing prices and trade, providing private firms with special tax privileges, simplifying commercial dispute resolution mechanisms, improving access to finance, and streamlining regulatory frameworks. Small-scale privatization of housing, trade, and services has been the main engine for increasing private sector participation. There has been relatively little progress on privatizing large state-owned enterprises. There has also been very little privatization in the agricultural sector. Insecurity of property rights and land tenure adversely affect agriculture investment and labor productivity.

Foreign direct investment and promotion of small- and medium-sized enterprises (SMEs) have been the most important modalities for private sector development. FDI has been promoted by giving foreign investors tax breaks and special guarantees that are generally negotiated on a case-by-case basis. Special tax breaks and direct financial assistance are also provided for SMEs. Many governments are developing microcredit schemes that encourage non-farm enterprises and urban self-employment. Steps are being taken to minimize corruption as it has a strong negative impact on private sector and SME development.

With these ongoing efforts, the private sector's share of GDP has increased dramatically.⁹ However, most of this progress is connected with privatization rather than with private investment. Most significant private sector investments have been in extractive sectors regulated by concessional agreements with few if any links to the rest

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of the economy. The near absence of foreign investor interest outside the natural resource sectors points to fundamental impediments to private sector development in Central Asia.

Some core issues facing the private sector are: (i) policy instability and corruption; (ii) excessive taxes and regulations resulting in high entry barriers and extensive rent-seeking by poorly paid officials; (iii) weak and inconsistent competition and privatization policies; (iv) a poor and in some countries corrupt judicial system accompanied by an incomplete body of commercial laws and poor enforcement of accounting and auditing standards; (v) an inability to access required finance due to weak commercial, legal, and banking systems; (vi) poor quality public infrastructure that raises transaction costs and discourages exports from the region; and (vii) weak or non-existent land ownership rights.

A unified market within Central Asia would be attractive to foreign and major domestic investors and would facilitate private sector development. A unified market would also eliminate the plethora of border controls, tax and financial regimes, and product standards that currently raise transaction costs. An efficient, seamless transport and transit system within the region would greatly facilitate the growth of private enterprise which is a necessary condition for sustained, diversified, and inclusive economic growth.



Women are an important part of the industrial labor force.

Central Asia's abundant water resources are a major shared asset. The region also has significant oil and gas reserves and mineral resources.

