

Document of  
The World Bank Group

**FOR OFFICIAL USE ONLY**

**Report No. 99556-TM**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**INTERNATIONAL FINANCE CORPORATION**

**MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**JOINT COUNTRY ENGAGEMENT NOTE (CEN)**

**FOR**

**TURKMENISTAN**

**FOR THE PERIOD FY16-FY17**

**October 7, 2015**

**Central Asia Country Management Unit  
Europe and Central Asia Region**

**The International Finance Corporation  
Europe and Central Asia Region**

**The Multilateral Investment Guarantee Agency**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank Group authorization.

**CURRENCY EQUIVALENTS**  
 CURRENCY UNIT = Turkmen Manat (TMT)  
 US\$ 1 = 3.50  
 TMT 1 = US\$ 0.26  
 (October 7, 2015)

**GOVERNMENT FISCAL YEAR**  
 (January 1 – December 31)

**ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank	IsDB	Islamic Development Bank
CAMP4ASB	Climate Adaptation and Mitigation Program for the Aral Sea Basin	ISN	Interim Strategy Note
CAREC	Central Asia Regional Economic Cooperation	MED	Ministry of Economy and Development
CAWaRIM	Central Asia Water Resources Information Management Program	MICS	Multiple Indicator Cluster Surveys
CBT	Central Bank of Turkmenistan	MIGA	Multilateral Investment Guarantee Agency
CEN	Country Engagement Note	MTEF	Medium Term Expenditure Framework
CIS	Commonwealth of Independent States	NPSD	National Program for Socio-Economic Development
CPF	Country Partnership Framework	PISA	Programme for International Student Assessment
CRS	Credit Reporting System	RAS	Reimbursable Advisory Services
CSOs	Civil Society Organizations	SCS	Turkmenistan's State Committee of Statistics
EBRD	European Bank for Reconstruction and Development	SCSA	Turkmenistan's State Civil Service Academy
GFS	Government Finance Statistics	SNA	UN System of National Accounts
GIZ	German Agency for International Cooperation	TAPI	Turkmenistan-Afghanistan-Pakistan-India pipeline
IBRD	International Bank for Reconstruction and Development	TIKA	Turkish Cooperation and Coordination Agency
ICP	International Comparison Program	UIE	Union of Industrialists and Entrepreneurs
IDA	International Development Association	UNFPA	United Nations Population Fund
IFAS	International Fund for Saving the Aral Sea	UNICEF	United Nations Children's Fund
IFC	International Finance Corporation	UNRCCA	UN Regional Centre for Preventive Diplomacy in Central Asia
IFRS	International Financial Reporting Standards	UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
IMF	International Monetary Fund	USAID	United States Agency for International Development
WHO	World Health Organization	WBG	World Bank Group

	<b>IBRD</b>	<b>IFC</b>	<b>MIGA</b>
<b>Vice President:</b>	Cyril Muller	Dimitris Tsitsiragos	Keiko Honda
<b>Country Director:</b>	Saroj Kumar Jha	Tomasz A. Telma	Ravi Vish
<b>Task Team Leader:</b>	Serdar Jepbarov	Moazzam A. Mekan/ Miguel Angel Rebolledo Dellepiane	Franciscus Johannes Linden

# TURKMENISTAN

## COUNTRY ENGAGEMENT NOTE (CEN), FY16-17 TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY .....	1
II.	COUNTRY CONTEXT .....	2
A.	Economic profile and recent developments .....	2
B.	Social profile and gender .....	7
C.	Political profile and governance .....	9
D.	Regional cooperation .....	10
III.	GOVERNMENT PROGRAM AND MEDIUM TERM STRATEGY .....	11
IV.	FY14-15 INTERIM STRATEGY .....	12
V.	FY16-17 COUNTRY ENGAGEMENT .....	15
	Annex 1: SELECTED DEVELOPMENT AND SOCIAL INDICATORS .....	22
	Annex 2: SELECTED MACROECONOMIC INDICATORS .....	23
	Annex 3: MILLENNIUM DEVELOPMENT GOALS .....	24
	Annex 4: TURKMENISTAN: DEVELOPMENT PARTNER COOPERATION .....	25
	Annex 5: FY16-17 CEN: FOUR AREAS OF ENGAGEMENT .....	28
	Annex 6: CONSULTATIONS .....	35

### List of Tables:

Table 1: FY16-17 CEN: Program Summary

Table 2: Systematic Operational Risk-Rating Tool

### List of Boxes

Box 1: Climate change facts

Box 2: FY14-15 ISN: RAS TA Results Achieved



## I. EXECUTIVE SUMMARY

1. **The rationale for this Country Engagement Note (CEN), one of the first to be prepared under the World Bank Group’s (WBG) July 1, 2014 directive for country engagement, is as follows.** *First*, it reflects the process underway since 2012 of renewed, albeit modest, WBG engagement in Turkmenistan—a country where its involvement hitherto has been limited and where prospects for a more comprehensive medium-term program remain uncertain. *Second*, the knowledge-based program outlined in this CEN represents the government’s preferred vehicle for extending — and gradually expanding and intensifying — its dialogue and relationship with the WBG. *Third*, this CEN ensures that the WBG’s continued engagement in Turkmenistan, despite its still limited, short-term focus, is publicly accessible and transparent to all stakeholders concerned.

2. **With growth averaging 11 percent annually since 2007, according to official data, Turkmenistan remains one of the fastest growing economies in the world.** Abundant hydrocarbon resources and high international commodity prices helped Turkmenistan achieve upper middle income status in 2011.<sup>1</sup> While other sectors’ contributions to GDP are gradually increasing, growth is still driven largely by hydrocarbons, including related gas processing and oil refining, and indirectly by high public investment. The state plays a leading role in most aspects of the economy—mainly through its financing of extractive industries, which account for over 35 percent of GDP and 80 percent of public investment, but only 14 percent of employment.

3. **Implementation of structural reforms has been slow but steady.** However, additional measures are required, in particular, those needed to improve the business climate, modernize the financial sector and reform state-owned enterprises (SOEs), strengthen public and private sector institutions, reform the labor market, and improve access to and enhance the quality of basic social services. Moreover, further progress in data access and quality, as well as in key elements of governance—accountability, transparency, and voice—are also necessary to facilitate more informed decision-making, advance economic reforms, and enable international comparisons.

4. **Recent developments at the global and regional levels have created a more difficult external environment for Turkmenistan’s economy and provide a window of opportunity for the authorities to accelerate the pace of reforms.** The decline in oil prices since mid-2014, changes in regional demand for Turkmenistan’s natural gas, and uncertainties in the overall geopolitical environment together pose challenges for Turkmenistan’s economy, especially its rate of growth and the fiscal balance. Continued low prices for hydrocarbons and a less favorable external environment may encourage the authorities to accelerate implementation of reforms, especially those required to enhance the economy’s competitiveness, encourage its further diversification, and manage the country’s natural resources more efficiently. These developments may also offer an opportunity for both the government and the WBG to broaden and deepen their relationship.

5. **Against this background, the knowledge-based program outlined in this CEN continues support for Turkmenistan’s growing integration into the international economy**

---

<sup>1</sup> Turkmenistan’s natural gas reserves are the fourth largest in the world, after Russia, Iran and Qatar, and its natural wealth *per capita* is the highest in the Commonwealth of Independent States (CIS) (BP Statistical Review of World Energy, June 2015).

**and its gradual transition to a more market-based economy.** It would *deepen* the WBG's ongoing involvement in the two focus areas of the FY14-15 Interim Strategy Note (ISN) (macroeconomic statistics and financial sector development) and *broaden* it into two new areas critical to increased competitiveness. Program activities would be organized into four broad areas as follows: (a) improving data for policy making and governance; (b) financial sector modernization; (c) enhancing competitiveness; and (d) managing natural resources efficiently. The proposed program under the CEN is consistent with the government's strategic priorities and aligned broadly with the WBG's strategic goals. The program would be funded primarily by the government through reimbursable advisory services (RAS), supplemented by WBG advisory and analytical services, as well as development partner and trust fund support—the latter to be confirmed during implementation.

6. **As was the case for the FY14-15 ISN, the CEN's effectiveness will be assessed using qualitative criteria linked to delivery of the program, rather than the conventional results framework used for a Country Partnership Framework (CPF).** These criteria will be defined and agreed *a priori* for each activity. Multi-disciplinary teams supported by the WBG's country and regional offices in Ashgabat and Almaty will work closely with the ministries and agencies concerned to support program implementation, including multi-sector dialogue and inter-agency coordination. Quarterly review meetings with the government will monitor progress toward achievement of program milestones and, as may be needed, adjust the scope or modality of activities.

7. **Despite its still narrow focus and modest scope, the CEN and related program pose two key risks.** *First*, the two new areas of program activity will be carried out by ministries or agencies with little or no recent experience working with the WBG. *Second*, program implementation could be affected by increasing instability in the external environment if, as a result, the government's policy priorities or direction were to change. Besides these implementation risks, the WBG's continued engagement in Turkmenistan may also be judged to have limited value, absent a broader economic dialogue, and to pose reputational risks, given the country's governance, data availability and other challenges. The CEN addresses these risks which, given the continued modest engagement envisaged, are considered manageable.

## II. COUNTRY CONTEXT

### A. Economic profile and recent developments

8. **Since the mid-2000s, Turkmenistan's economy has experienced double-digit rates of growth, according to official data.**<sup>2</sup> In 2014, GDP expanded by 10.3 percent, despite the global oil price decline and slower growth in China, with non-extractive sector growth (12.7 percent) outpacing that of hydrocarbons. While public investment (8.2 percent) and exports (8.3 percent) increased significantly during the first half, both slowed later in the year, resulting in moderate outcomes of 6 percent and 5 percent respectively for 2014 as a whole. Besides import-substituting industries such as beverages, cereals, dairy products and processed foods, long-established sectors such as textiles and cotton fabrics grew by 18-20 percent and services by over 10 percent.

---

<sup>2</sup> Selected macroeconomic indicators are presented in Annex 2.

9. **Turkmenistan’s progress to a more market-based economy has been carefully paced.** Despite its upper middle-income status, Turkmenistan is still at an early stage of transition. Indeed, its abundant natural resources have arguably masked the need for change, delaying first generation reforms such as price and trade liberalization, privatization, and the creation of institutions for market regulation, which began only after 2007. Thus, the public sector still plays a leading role in the economy and economic policy decision making remains highly centralized. According to the European Bank for Reconstruction and Development’s (EBRD’s) transition indicators, there has been some progress in terms of price liberalization, but only partial advances in privatizing small enterprises and in the areas of markets and trade. Action towards privatizing large enterprises, as well as improvements in governance (including accountability, transparency, and voice), enterprise restructuring, and competition policy have been negligible.

10. **Despite gradual changes in the sectoral composition of GDP, growth remains highly dependent on hydrocarbons and related sectors.** After the successful diversification of natural gas export routes in 2009, China became the largest export market for Turkmenistan. Medium term plans envisage further increase in natural gas exports to China and other destinations in East and South Asia, with exports to Russia, already substantially lower in 2015, expected to phase out. Exports of natural gas to Iran declined by 6 percent in 2013, but recovered in 2014 following agreement on the amortization of outstanding debt. In this context, a planned third pipeline to China and the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, if both materialize, would more than double gas export capacity. Despite the ongoing and planned diversification of markets, Turkmenistan’s exports, increasingly dependent on a single large market, China, continue to be dominated by a single product --gas--making the economy vulnerable to fluctuations in global prices beyond its control.

11. **Industry is now the largest sector of the economy, accounting for almost half of GDP in 2013, up from 39 percent 10 years ago.** However, it employed only 14 percent of the labor force, unchanged during 2003-2014, owing to the capital intensive nature of the extractive sectors. Agriculture, on the other hand, accounting for 9 percent of GDP, down from 20 percent during the same period, employed 46 percent of the labor force, virtually unchanged since 2003—implying significant excess labor and under-employment. Increasing the competitiveness, diversification, and commercialization of Turkmenistan’s agriculture is a high priority. Turkmenistan’s agriculture is dominated by two crops, cotton and wheat, which, produced based on the state order system, together account for 90 percent of total agricultural output. The share of private agriculture is small but growing, albeit slowly, mostly in high value-added vegetables and fruit. Agricultural exports, with only a limited number of items, are a small share of total exports. Agro-processing accounts for just over 10 percent of agricultural GDP, with little value added.

12. **Turkmenistan’s external trade remains heavily concentrated in a few commodities.** With an export-GDP ratio of 41 percent, the highest in Central Asia, Turkmenistan’s exports are also the most concentrated, with hydrocarbons accounting for more than 94 percent in 2014. Its trade surplus rose steadily throughout the 2000s but, excluding hydrocarbons, its trade gap exceeded 40 percent of GDP—a structural deficit that has widened by 3-4 percent annually since 2010. Except for natural gas, oil, and minerals, exports have stagnated, with only 10 percent nominal growth during 1997-2006 and annual declines averaging 5 percent from 2007-12. Although imports are less concentrated, the five largest categories accounted for almost 70 percent

in 2013. China, Turkey, and Russia are Turkmenistan's main trading partners, with exports to China exceeding 60 percent of the total by value. Although import markets are relatively less concentrated, the five largest countries— Turkey, Russia, China, Germany, and Ukraine— accounted for almost 70 percent in 2013. Machinery and transport equipment to develop hydrocarbons dominate the country's import profile.

13. **Turkmenistan's 40 percent investment-GDP ratio is one of the highest in the world, with public investment exceeding private investment significantly.** Foreign direct investment (FDI) accounts for almost 20 percent of the total, of which about 80 percent is for industry, mainly hydrocarbons. However, private investment at only 10 percent of the total is much lower than other countries at comparable income levels. Overall, industry is the largest recipient (46 percent of total investment), followed by construction (11 percent), health and education (together less than 10 percent), and agriculture and communications (1.5 percent each). China, Turkey, and Japan are the main sources of FDI, with extractive industries, construction materials and chemicals the main beneficiaries. Further reforms in the investment climate are needed to promote more FDI in non-hydrocarbon industries and thus to exploit the economy's broader potential.

14. **Turkmenistan's banking system remains small and dominated by state-owned banks.** In 2013, total credit to the economy was equivalent to 30 percent of GDP, which is significantly lower than the average of upper middle income countries, with state-owned banks accounting for about 96 percent of total assets and 96 percent of total deposits (July, 2013). While credit to state-owned enterprises (SOEs) comprised about 80 percent of total credit and close to 90 percent of total deposits, credit to the private sector has been increasing gradually in recent years. However, there is at present little incentive for market-based behavior by state-owned banks: the availability of government-directed and subsidized credit discourages them from raising their own financing, including deposit-taking, and pricing their credit risk adequately. Instead, they rely on the spread between government-subsidized credit and fixed margins for directed lending. Required reforms include allowing a greater role for market forces in determining interest rates, strengthened supervision and regulation, and improved corporate governance.

15. **The government recently approved an ambitious State Program for Privatization of Enterprises and Objects of State Property.** It calls for reforms that, if successful, would more than triple the size of the private sector, from 20 to 70 percent by 2020—excluding hydro-carbons, forestry, water resources, and airspace. The first phase—limited to 45 small enterprises in the service/retail sectors and 67 poultry and livestock farms—is substantially completed. During the on-going second phase (2014-2015), 29 medium- and large SOEs in textiles, food-processing, catering, and retail are slated for privatization, as well as some facilities under construction. The third phase will involve privatization of large SOEs in construction, transport, communications, and banking either through their sale to investors or by corporatization in the form of joint stock companies with some government stake. However, although privatization will play a role, the most important driver for private sector development will be competitive markets and the building of a favorable legal and regulatory environment.

16. **Though Turkmenistan withstood the 2008-09 global economic downturn without serious difficulty, its economy may be more sensitive to the recent international oil price decline.** A large hydrocarbons exporter, Turkmenistan now faces a more difficult external environment owing to the significant decline in the international oil prices since mid-2014--which

markets expect to be long term--the downturn in Russia and elsewhere in the region, and lower growth in China. The current baseline growth projection of 7-8 percent annually in the medium-term (2015-16) is sensitive to events in Russia and the CIS, as well as to global oil prices and their influence on those of natural gas. Nonetheless, the impact of on-going external shocks is expected to be less severe for Turkmenistan than for its neighbors in Central Asia, comprising a projected decline in Turkmenistan's annual growth of 3-4 percentage points and an estimated 16 percent decrease in current revenues. The latter is still manageable owing to the large fiscal buffers created by savings of hydrocarbon revenues.

17. **The devaluation of the Turkmen *manat* (TMT) earlier this year—whose exchange rate, pegged to the US dollar, had remained unchanged since 2009—exemplifies the authorities' concern about Turkmenistan's export competitiveness.** Changes in relative prices internally and vis-à-vis its trading partners led to real exchange rate appreciation, which intensified during the second half of 2014. Against this background and the weaker Russian *ruble* and Kazakh *tenge*, the authorities devalued the *manat* by 18 percent in January 2015. Further devaluation of the *tenge* in August 2015 poses additional pressure on the exchange rate. Nevertheless, Turkmenistan's international reserves—equivalent to about 22 months of imports—remain substantial.

18. **Despite price increases for gasoline and utilities, inflation remained in mid-single digits.** Reacting to adverse changes in the external environment and the *manat*'s devaluation, the authorities recently increased administered gasoline and energy prices towards cost recovery levels which will reduce reliance of these sectors on budget subsidies. However, the overall consumer price index increased only by 4.7 percent during the first six months of 2015, slightly above the 4.4 percent recorded in 2014, while social expenditure remained ring-fenced. Public sector wages, pensions and financing of certain social programs were increased by 10 percent which, together with declining prices of food imports, have helped mitigate the negative social impact of increased utility and gasoline tariffs.

19. **In 2014, the overall fiscal position remained buoyant.** In 2014, revenues—which remain dominated by hydrocarbon export proceeds—exceeded the approved budget estimate by more than 21 percent, whereas expenditures were contained at about 96 percent. The overall fiscal surplus, equivalent to 5 percent of GDP, and strong fiscal buffers permitted a 12 percent increase in public spending compared to 2013, including a 30 percent increase in social infrastructure investments. However, the large non-hydrocarbon primary deficit remained unchanged at 46 percent of non-resource GDP.

20. **The current account deficit narrowed to less than 6 percent of GDP from 7.3 percent in 2013.** While the price of gas started to decline in the third quarter of 2014, total gas exports still posted a modest 5 percent increase for 2014 as a whole. Overall sustainability is not expected to be an issue, given the availability of stable financing sources, the country's substantial international reserves (equivalent to 65 percent of GDP or 22 months of imports), and its low level of external debt.

21. **While growth in the first quarter of 2015 was 10 percent year-on-year, external shocks led to a slower rate commencing the second quarter.** Growth drivers switched from tradable to

-non-tradable sectors of the economy. Because of continued low prices for hydrocarbons, total exports contracted by more than 31 percent compared to the first half of 2014. However, this was offset by a robust rate of investment growth and further expansion of import-substituting industries. The composition of total investment has evolved with the largest contribution to growth coming from FDI. The 10 percent increase in FDI during the first half of 2015 was enough to offset the almost stagnant rate of public investment, one of the main growth drivers since 2009. To stimulate domestic consumption, the government increased public sector wages by 10 percent.

**22. The external balance is expected to deteriorate in 2015 if current export trends continues.** Deteriorating terms of trade so far during 2015 have led to a 31 percent decline in the value exports, which may reduce foreign exchange proceeds significantly, if sustained for the whole year. Moreover, Turkmenistan's natural gas exports have declined not only in value but also in volume. Gazprom's decision to reduce natural gas imports from Turkmenistan by at least 60 percent commencing 2015 is expected to widen further the country's current account deficit to 11 percent of GDP.

**23. Declining export proceeds in 2015 led to fiscal pressures and necessitated fiscal adjustment.** In February 2015, the authorities tightened the fiscal stance slightly by reducing the public investment program and by eschewing new large investments until completion of on-going projects. A planned 27 percent reduction in public investment programs is expected to be partially counterbalanced by SOE investments, which grew by 3 percent during the first half of 2015. The actual fiscal balance turned negative because of the government's decision to consolidate and manage public spending within the current fiscal envelope. This will help lower the non-hydrocarbon deficit by about 5 percentage points of GDP, albeit at the expense of reducing the fiscal surplus. Continued low prices for hydrocarbons are unlikely to have major fiscal impact during 2015 because the state budget is balanced based on conservative price assumptions. However, if prices do not recover in the medium-term, there will need to be major adjustments to the economy as the current pace of structural reforms appears insufficient to ensure its timely diversification and transformation.

**24. Turkmenistan's near-term economic outlook is by and large positive, albeit vulnerable to continued global oil price fluctuations, China's growth rate, and the demand for Turkmen gas as well as economic and geopolitical uncertainties in the region.** Over the short- to medium-term, Turkmenistan may face fiscal difficulties and liquidity pressures if gas exports decline further, and if the country's imports and public spending do not adjust to match a smaller fiscal envelope. The current medium-term (2015-16) baseline growth projection is 7-8 percent, which may however need to be revised downwards if Iran reduces its imports of Turkmen gas and, in particular, if Russia's already announced 60 percent cut in imports of Turkmen gas declines further and is not replaced by higher exports to China. This would reduce net exports, affecting not only trade, but also the economy's growth rate and fiscal revenues. Moreover, Russia's economic difficulties and slower growth in China is increasing the level of uncertainty for the entire Central Asian region, including Turkmenistan. These medium term projections are consistent with the IMF staff statement made at the end of Article IV Consultations mission conducted in January 2015.

25. **Going forward, Turkmenistan needs to manage the risks and vulnerabilities of its reliance on hydrocarbons more proactively.** This means *inter alia* more aggressive investment in soft assets, in particular institutions to manage macroeconomic volatility, deliver public services, and create the conditions for development of private enterprises, as well as improve the skills of its people. Second, with an economy that is among the most carbon intensive and energy dependent in ECA, Turkmenistan needs to modernize its energy, transport, and urban sectors so as to increase energy efficiency and reduce greenhouse gas emissions and other environmental impacts of growth. Third, efforts to modernize agriculture and improve productivity—through more efficient and sustainable farming practices and technologies as well as better water and land management—would also enhance the economy’s resilience especially to climate change (Box 1). All these actions are essential if Turkmenistan is to achieve higher living standards, ensure employment for its rapidly growing population, manage its natural resources more efficiently, and become better integrated with the rest of the world.

#### **Box 1: Climate change facts**

Mean annual temperatures have risen steadily in Turkmenistan—by 1.4°C since the 1950s—a rate of warming much higher than the global average. Climate change is expected to further intensify over the coming decades, with mean annual temperature passing the +2°C mark by 2040 over the entire country and concerns about water provisioning, including a shift in the timing of the peak flow of key rivers towards spring, causing a 25 percent reduction during the critical summer growing season, as well as, in the longer term, a 10-15 percent decrease in the river Amu Darya’s runoff by 2050. This is particularly important because Turkmenistan’s water resources dependency ratio is close to 100 percent, *i.e.* it depends to a very large extent on upstream riparians for water security.

Virtually all of Turkmenistan’s agriculture is irrigated, thus water is essential for agricultural production and food security. Climate change is expected to exacerbate current vulnerabilities in land and water resources (*e.g.*, increased water scarcity, lower pasture productivity, leading to further desertification and salinization and very low water productivity) with the following implications: (a) a +13 percent increase in water demand for irrigated crops by 2020, while overall water availability decreases; (b) a 10-15 percent drop in pasture productivity; and (c) increased desertification, land erosion and salinity. While a warmer climate could benefit winter crops, the water deficit in summer could impact yields of many crops (*e.g.* a single failure in cotton irrigation could reduce yields by 4-6 percent).

## **B. Social profile and gender<sup>3</sup>**

26. **High growth rates since the early 2000s have resulted in positive social outcomes.<sup>4</sup>** During 2007-12, average wages doubled in nominal terms and, given relatively low inflation, resulted in a real increase in the population’s incomes.<sup>5</sup> Besides wages, which account for 84 percent of average incomes, the government provides generous social benefits, estimated at about 13 percent of average incomes. These include both cash transfers from the state budget (including

<sup>3</sup> There is no up-to-date household survey data readily available—a limited household survey was conducted in 2011, but its results were not published—and, in general, social data is very limited, making any analysis difficult. Some social indicators are available in the State Statistics Committee’s Statistical Yearbook.

<sup>4</sup> Trends in living standards are inferred from data on average wages and household income and expenditure.

<sup>5</sup> During 2007-12, the average nominal wage grew by 86 percent; wages for construction and transport almost doubled.

pensions and stipends), as well as monetization of non-cash allowances such as food stamps, privileges for disabled and other special categories of the population, discounts for certain goods and services, income from subsistence farming, and, within certain limits, free access to selected utilities. Wages are the largest source of total income, comprising 75 percent for the poorest quintile and almost 84 percent for the richest quintile; by contrast, social benefits account for about 20 percent of income for the worst-off and about 10 percent for the better-off.

27. **Despite this impressive surge in average incomes, sectoral and regional disparities remain.** In 2013, according to official data, there was a 30 percent disparity between incomes of the most needy and those of the better-off. In agriculture, average wages were only 25 percent of those in the extractive sector, 64 percent of construction, and 58 percent of banking.<sup>6</sup> Moreover, access to potable water continues to be a serious issue: less than 30 percent of rural households are connected to a piped water supply system and the same is true for about 18 percent of the urban population. Income inequalities are correlated with non-income inequalities and access to basic social services, including healthcare services in the public sector. In the long run, inequalities in health outcomes will undermine Turkmenistan's efforts to make long-lasting investments in human capital.

28. **Since 2007, the National Program for Education System Development has been the government's main instrument for improving its quality and ultimately aligning it with international standards.**<sup>7</sup> A revision of the Education Law in 2013 provided for the extension of primary and secondary education to 12 years, the inclusion of children with disabilities in regular schools, and the creation of public education standards designed to monitor improvements to overall quality. Despite these advances, the system continues to face several challenges, including quality concerns relating to teaching and learning methodologies, curriculum content and the availability of textbooks, school infrastructure, and teacher training and professional development. Meanwhile, the lack of data, disaggregated by gender, region, wealth quintile, and other indicators, precludes in-depth analysis and comprehensive education sector planning. Under these circumstances, if the government's goal of a more competitive, diversified economy is to be realized, it will need to continue improving the education system's human and institutional capacity to provide relevant, quality education that responds to the demands of the private sector.

29. **Turkmenistan has begun incorporating gender parity criteria in different areas of the economy.** Legislation is being aligned with international standards and conventions to encourage gender development.<sup>8</sup> The 2015-20 National Action Plan for Gender Equality approved in January 2015 aims to implement recommendations of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). This includes introduction of measures to enhance support to women in education and in the labor market<sup>9</sup> and to heighten awareness of their rights

---

<sup>6</sup> Regionally, average wages in the Ahal region are only 60 percent of those in the Balkan region.

<sup>7</sup> According to official statistics, primary school enrolment was 99.8 percent in 2013.

<sup>8</sup> Turkmenistan ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1997 and the Optional Protocol to the Convention on Violence against Women in 2009. The Family Code of Turkmenistan (2012) pays special attention to the status of women by promoting the principles of equal responsibilities of women and men. In August 2015, Turkmenistan's parliament approved a law guaranteeing equal rights and opportunities for both men and women.

<sup>9</sup> Gender stereotypes in education can be determining factors in limiting women's choice of professions while enrolling at vocational and higher educational institutions. For example, more women are involved in such areas as healthcare, education and

and the means to enforce them, particularly in rural areas. In this latter connection, while there have been many gains in recent years, rural women continue to face challenges: in fact, gender equality in rural organizations and income-generating activities for rural women are key crosscutting issues. Challenges also remain in developing gender-sensitive monitoring instruments and legislation that may serve to identify remaining gender policy gaps.<sup>10</sup>

**30. Meanwhile, the 2015-2020 State Program to implement Youth Policy approved in March 2015 sets out more comprehensive and structured support to young people.** Turkmenistan's last (2003) Millennium Development Goals (MDGs) progress report indicated improvements in 13 of 18 global MDG targets for 2015. A new MDG progress report is being undertaken by UN Agencies, although information is not available to assess progress on all 60 indicators. Meanwhile, in partnership with UNICEF, the government launched a Multiple Indicator Cluster Survey<sup>11</sup> (MICS 5) in September 2014 to collect and analyze internationally comparable data on the situation of children and women. MICS 5 data will be used to evaluate progress towards national development goals and international commitments aimed at promoting the welfare of children.

**31. Going forward, the Turkmen authorities need to rebalance the country's asset portfolio by making specific policy choices to strengthen human capital through reforms in health, education, social protection.** Key policy options include: (a) identifying the optimal pace of increased public investment in health and education, taking into account the country's current level of development and absorptive capacity; (b) developing appropriate mechanisms to improve the quality of public spending on health and education to meet the economy's development needs; and (c) participating in international benchmarking exercises such as Programme for International Student Assessment (PISA) to identify challenges and opportunities for education outcomes.

### **C. Political profile and governance**

**32. Turkmenistan's governance is characterized by a gradual approach to economic and political reform, a top-down decision-making framework, and a highly centralized public administration.** The President, who is both head of state and government, chairs the Cabinet of Ministers and appoints its members. The system of political parties developed under the constitution introduced in 2008 includes the ruling Democratic Party of Turkmenistan (DPT); the Union of Industrialists and Entrepreneurs (UIE) party established in 2012; and the Agrarian Party created in 2014. In December 2013 parliamentary elections, the ruling DPT obtained 47 seats of the 125 available and the UIE 14, with the remainder shared among groups representing women, workers, as well as youth and religious organizations.

---

economics while men dominate in other areas such as transport, law, industry, construction and agriculture (UNDP: Overview of the MDG Progress in Turkmenistan).

<sup>10</sup> A national database for gender statistics (GenStat) was recently set up comprising over 1,500 indicators in population, health care, physical education and sports, education and science, social welfare, employment, and households. Once GenStat statistics are populated and available to the public, the authorities will be to assess more accurately the status of women, in particular to monitor progress towards achieving true gender equality in line with country's international obligations.

<sup>11</sup> Multiple Indicator Cluster Surveys (MICS) are an international household survey initiative developed by UNICEF to assist countries in collecting and producing statistically sound, internationally comparable estimates of social indicators to monitor human development in general and the situation of children and women in particular.

**33. Improving public finance management and public sector governance have become important government objectives.** In 2014 and 2015, Turkmenistan’s Parliament approved a number of laws to strengthen the accountability of public officials and enhance the capacity and efficiency of public service delivery. These included an anti-corruption law, a modern budget code and a public procurement law that came into force in March 2014, January 2015, and July 2015 respectively.<sup>12</sup> While the authorities continue efforts to enhance the efficiency and effectiveness of public administration and services at all levels, they would be more effective if accompanied by better public access to basic economic, financial, and social data. This would enhance not only the quality and relevance of the government’s own economic analysis, monitoring, and policymaking, but also facilitate Turkmenistan’s compliance with its international obligations and, indirectly, help attract private domestic and foreign direct investment, especially to non-hydrocarbon sectors of the economy.

**34. Increased private sector participation in the economy, improvements in the investment climate, and creation of a level-playing field are also important parts of the governance agenda.** In this context, acceleration of the privatization program based on international best practice, banking and financial sector reforms, and improving the business environment remain top priorities for development of a more diversified and competitive economy. The government has adopted action plans focused on increasing private sector involvement in import substitution and export promotion sectors such as agribusiness, chemicals, textiles, and construction materials. Going forward, government should consider using market-based mechanisms to stimulate the development of the private sector and improve business environment in Turkmenistan through the market institutions vis-à-vis administrative measures such as restrictive trade regime, non-tariff barriers and availability of subsidized government financing which will create a level-playing field, lead to more efficient allocation of resources in Turkmenistan and better economic outcomes.

#### **D. Regional cooperation**

**35. Turkmenistan’s relations with the international community have continued to broaden and deepen, particularly in the areas of energy, transport, and environmental protection.** In 2014, for example, Turkmenistan hosted international meetings sponsored by the United Nations (UN) and its Specialized Agencies on energy transit and transport, on desertification and water salinity, and on agricultural research in dry areas. It has also organized international conferences on refugees in the Muslim world and on migration and statelessness. A meeting on reliable and stable transit of energy is planned for December 2015. In 2015, Turkmenistan also marks the 20th anniversary of its UN-recognized ‘positive neutrality’ status, a main pillar of its foreign policy.

**36. Regionally, Turkmenistan has proposed various initiatives to boost cooperation in Central Asia in terms of trade, transport, and stability.** In Ashgabat, it houses the UN Regional

---

<sup>12</sup> In March 2014, Turkmenistan’s parliament approved a new Budget Code that establishes new budget system principles, based on Medium Term Expenditure Framework (MTEF) and Results-Based Budgeting (RBB). It also stipulates aligning the system with international standards of Government Finance Statistics (GFS) and defines inter-budgetary relations within Turkmenistan. First introduced in the banking sector, International Financial Reporting Standards (IFRS) were expanded to all economic sectors in January 2014.

Centre for Preventive Diplomacy in Central Asia (UNRCCA) and, as one of Afghanistan's neighbors, has advocated several regional peace and security initiatives. These include the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and, more generally, Central Asia's potential as an energy and transport link connecting East Asia to Europe and the Persian Gulf. Turkmenistan also participates in regional dialogue on water management and climate resilience—two important areas given its dependence on trans-boundary rivers<sup>13</sup> and its vulnerability to climate change. Finally, the government recently announced that, at this year's United Nations General Assembly, it plans to offer to host a regional conference on peace and security in Central Asia in Ashgabat in 2016.

**37. Turkmenistan has intensified its engagement with development partners including the WBG on the regional agenda.** The WBG's regional work in Central Asia aims to help countries build on the benefits of cooperation while pursuing national priorities. It complements national interventions in laying a foundation for regional stability, poverty alleviation, and shared prosperity. The WBG also helps countries draw upon international experience and mobilize international consensus and support. In particular, the WBG's multi-track engagement in water and climate change includes a number of new regional programs with the International Fund for Saving the Aral Sea (IFAS)—the only regional institution with a mandate from all countries in Central Asia—partnering with the UN, other multilateral development banks, and bilateral agencies.

**38. Against this background, Turkmenistan is expected to join two new WBG-sponsored regional initiatives involving five Central Asian countries** and supported by several other development partners:

- the Central Asia Water Resources Information Management Program (CAWaRIM), to help modernize water management systems and strengthen accessibility and reliability of water information, as well as capacity for planning, operations and coordination of water resources; and
- the Climate Adaptation and Mitigation Program for the Aral Sea Basin (CAMP4ASB), to help address the mounting impact of climate change through improved datasets, knowledge, and tools for climate assessment and decision-making, as well as increased financing and technical assistance to rural communities for climate investments that improve livelihoods and productivity in the face of climate risks.

### **III. GOVERNMENT PROGRAM AND MEDIUM-TERM STRATEGY**

**39. Sustained growth, continued improvement in living standards, an increased role for the private sector, and economic diversification are the government's strategic priorities for 2030.** Specific objectives of its long-term (2011-30) National Program for Socio-Economic Development (NPSD) include: (a) increasing the private sector's role and share of the non-hydrocarbon economy to at least 70 percent; (b) ensuring sustainable regional development by achieving universal access to clean drinking water; (c) closing the income gap between rural and

---

<sup>13</sup> 88 percent of Turkmenistan's water originates from outside its borders.

urban areas and ensuring inclusive development throughout the country; and (d) achieving high-income status by 2025.

40. **Economic policies elaborated in the NPSD focus on three broad areas:** (a) *diversification*—in particular, more investment in high-technology, environmentally sound enterprises in the non-hydrocarbon sectors of the economy; (b) *innovation*—specifically, government support for research and development, including education and training, and for industries with export potential; and (c) *infrastructure*—expanding and modernizing the country’s communications and transport systems. In particular, the NPSD recognizes that a reliable and efficient financial sector is the cornerstone for diversification strategies and better integration into global markets. The authorities have identified specific priorities aligned with these strategies, including a growing role for the banking system, enhanced banking supervision, a more competitive environment, improved transparency, and a modern financial infrastructure. Social policies target two strategic objectives: *first*, expanding the size of the middle-class *inter alia* through new, more attractive private sector jobs, expanded employee training and retraining, and higher incomes; *second*, reducing the number of disadvantaged and vulnerable people through more and better targeted social assistance and higher quality social services.

41. **A number of five-year medium-term programs support implementation of these long-term priorities.** These include the Rural Development Strategy, the Small and Medium Enterprise (SME) Development Strategy, and five-year programs for socio-economic development. Energy and transport are high priority areas, in which large public investments are envisaged. By 2016, assuming continued robust growth, industry is expected to account for 55 percent of GDP, services 22 percent, construction 14 percent, and agriculture 9 percent. The government’s climate change strategy—presented to the United Nations Conference on Sustainable Development in Rio de Janeiro in June 2012—provides an analysis of the issues and a framework for defining a climate change policy.

42. **Turkmenistan’s national development priorities are broadly consistent with the WBG’s strategic goals, in particular those related to the second, shared prosperity goal.** Nevertheless, as an upper middle income country, Turkmenistan needs to continue: strengthening its human capital; ensuring a more level playing field for private businesses; improving access to, and the quality of public and private services; and manage the country’s natural resources more efficiently. The authorities also need to enhance their monitoring of the NPSD’s impact on growth and ultimately on improved living standards through periodic publication of basic economic, financial and social statistics.

#### IV. FY14-15 INTERIM STRATEGY

43. **The FY14-15 ISN—the WBG’s first formal engagement in Turkmenistan since 2001—was modest in scope, narrowly defined, with results focused on outputs rather than outcomes or impact.** Its primary objective was to provide international knowledge and experience to assist the government address selected issues related to the country’s overall development and, as a platform for WBG re-engagement, to create a track record of accomplishment for timely delivery of high quality knowledge products. It comprised two components: (a) a small, reimbursable advisory services (RAS) program focused on activities in three areas—

macroeconomic statistics, financial sector development, and support for privatization; and (b) five WBG-financed strategic studies designed to provide an analytical framework for further elaboration of the country's reform priorities. It also included an IFC program focused on supporting the government's privatization program and exploring financing opportunities in the private sector. The key benchmark of success was completion of the agreed program in full to the mutual satisfaction of the Turkmen authorities and the WBG by end-FY15. This low-key, measured approach reflected the lessons of past experience, as well as the preference of the government, and was considered appropriate under the circumstances.

**44. RAS program activities were delivered as planned and to the government's satisfaction.** The financial sector component provided strategic recommendations that, if implemented, would strengthen the country's financial system and align it with international standards. Specifically, adoption of recommended revisions in the legal and institutional framework—started in November 2014 with approval and introduction of a new law on securities markets—would in time help align the country's banking supervision framework with international standards, create a safer and more efficient inter-bank payments system, and allow for gradual development of capital and insurance markets. Technical assistance under the macroeconomic component of the FY14-15 ISN will enable Turkmenistan's participation in the next round of the International Comparison Program planned for 2016 and improve the quality of Turkmenistan's national accounts in terms of compliance with the 1993 System of National Accounts (SNA 93). While IFC delivered a workshop on valuation attended by representatives from the government, banks, private sector, and valuation consultants, no privatization transactions occurred because implementation of the overall privatization program proceeded more slowly than expected. Detailed ISN results are summarized in Box 2 below.

**45. WBG-funded strategic studies under the ISN's second component were important in facilitating initial policy dialogue on several structural issues, including banking system reform and private sector development.** Evidence of this included the government's request to organize an international conference on Growth and Competitiveness which, held in Ashgabat in November 2014, enabled the WBG to showcase global experience and knowledge on a variety of topics ranging from strategic policy options for increasing the economy's competitiveness to connectivity.<sup>14</sup> Later in the year, ECA's Vice President visited Turkmenistan and agreed with the President the broad contours of future cooperation. Thus, the second RAS program outlined below builds on the recommendations of the strategic studies, the outcomes of the conference, and extensive discussions with the authorities.

**46. Overall, the level and quality of the authorities' engagement in RAS-funded tasks was higher and provided more timely than in the WBG-financed advisory studies.** This was due to the fact that RAS activities were entirely demand-driven and very specific which empowered government teams to engage in technical discussions and make decisions promptly. By contrast, policy dialogue was more challenging, owing mostly to the complex and broad nature of the advisory studies. Nonetheless, analytical work turned out to be important for sharing international

---

<sup>14</sup> The conference covered the following topics: (a) pre-conditions for economic development and competitiveness; (b) public spending for growth; (c) developing commercial financial services; (e) skills development and innovation in support of competitive industries; (f) connectivity and competitiveness and (g) fostering a competitive and resilient agro-food industry.

experience with the authorities and opening up new areas for future engagement.<sup>15</sup> Second, access to information and data was better for RAS- than for WBG-funded activities, partly because the data required for RAS tasks was focused, specific and confidential. Although data access improved as agreed during ISN preparation, it still needs to be further strengthened for the WBG to provide strategic policy-level high quality advisory services. Finally, quarterly review meetings with the authorities were a useful instrument to improve program implementation and strengthen collaboration with ministries and agencies.

**Box 2: Summary of FY14-15 RAS Program Results**

**Macroeconomic Statistics**

- *International Comparison Program (ICP):* The RAS program helped: (a) transfer ICP methodology, construct nationally representative product lists, and de-compose GDP by detailed expenditure classification for ICP comparison; and (b) develop software applications and data validation skills of selected State Statistics Committee staff that will enable Turkmenistan’s participation in the next round of the ICP.
- *Input-Output Tables:* The RAS program helped build skills of State Statistics Committee staff: (a) to improve the quality of national accounts; (b) to analyze relevant data for macroeconomic consistency; and (c) to construct the country’s resource balance, reveal comparative advantages, and analyze sectoral contributions to growth and tax revenues.

**Financial Sector Development**

- *Strengthening bank regulation and supervision:* Central Bank of Turkmenistan (CBT) supervisors are using off-site toolkits and methodologies to conduct stress tests of individual banks and the banking system in general. CBT is using RAS program recommendations to enhance the legal framework required to transform the banking system in line with international best practice. Revised prudential regulations to be adopted by CBT are now in line with Basel principles and will contribute to banking system stability and transparency.
- *Designing strategic approaches in capital markets development:* RAS program activities resulted in the adoption on November 8, 2014 by Turkmenistan’s parliament of a new law on securities. Recommendations on the role of banks and on certification of securities markets professionals will provide tools for the valuation and privatization of enterprises.
- *Payment systems:* The RAS program supported development of a National Payments Systems Strategy that, when implemented, will lead to increased efficiency and access by reduction of cash and paper-based payments and migration of large volume payment programs to electronic payments.
- *Insurance sector:* RAS program-financed training helped build a knowledge base for staff working in insurance, including better understanding of insurance contracts in an IFRS accounting framework and familiarization with international best practice in different insurance related subjects, including from Germany and Estonia.

47. **Lessons learned during implementation of the ISN include the following.** *First*, after several years of only limited dialogue, developing a collaborative and trusted working relationship, especially at the strategic level, will take time. Thus, patience and continuation of the current low-key but well-defined engagement is appropriate in the short- and medium-term. *Second*, elevating the dialogue from individual tasks to the policy and strategic level will require continued attention and commitment by country and global practice management and staff, in particular, given limited financial resources, in ensuring the timely delivery of high quality services which will be key to program expansion. *Third*, while data sharing has improved, both the authorities and the WBG need to do better. Specifically, WBG teams need to be clear about what data is needed and why, including why data needs may change as analysis proceeds. At the same time, the government

---

<sup>15</sup> This includes, *inter alia*, follow up work requested by the authorities in banking sector governance, bank model reform, and living standards measurement.

needs to improve access to and the timeliness of basic data, if deadlines are to be met, the quality and relevance of deliverables are to remain high, and the partnership is to grow. In this context, the authorities need to expand the scope of data (including living standards measurement methodology and data collection), enhance its accuracy and quality, and ensure its timely dissemination—all key factors in determining the quality of public policies and the confidence of economic actors. *Finally*, the authorities need to simplify their administrative procedures to ensure that key decisions are communicated to WBG teams and management in a timely manner.

## V. FY16-17 COUNTRY ENGAGEMENT

48. **Taking into account the country context, the government’s program, experience with the ISN, and the WBG’s strategic goals, the principal objectives of the WBG’s continued engagement in Turkmenistan, in particular of the RAS program outlined below, are as follows:**

- *First*, and most important, it will enable continued WBG support for Turkmenistan’s on-going reform process aimed at improving the competitiveness of its economy and its growing integration into the global economy. In particular, it will ensure continued access by Turkmen officials and institutions, as well as civil society and non-governmental organizations, to international experience, global knowledge, and best practice for the design, sequencing, and implementation of structural reforms—the WBG’s main value-added and comparative advantage.
- *Second*, it will support the authorities’ continuing efforts to engage more effectively in the broader international and regional development agenda, in particular Turkmenistan’s contribution to, and participation in various Central Asian regional initiatives and activities, such as trans-boundary and regional connectivity, energy, and water management and use, as well as global programs and public goods such as environmental protection and climate adaptation and change.
- *Third*, it will complement, leverage and reinforce the activities of other development partners in the country and support government efforts to broaden and deepen the country’s relations with the international economic community towards further improvement of the population’s living standards.
- *Finally*, it will enable the WBG and other stakeholders to continue learning and improving their understanding of Turkmenistan’s economy and public sector-led development process to better focus their support on the country’s reforms.

49. **Against this background, the rationale for the still modest but more broadly based RAS program is as follows.** *First*, the government confirmed that a knowledge-based program is its preferred modality for extending, as well as gradually expanding and intensifying, the country’s dialogue and relationship with the WBG. *Second*, a RAS program bolstered by limited WBG advisory services and development partner and trust fund financing ensures that these activities are fully client-driven and thus consistent with the government’s development and reform priorities. *Third*, as noted above, there remain significant constraints in terms of data

availability and access to institutions required to undertake more detailed macroeconomic and sectoral analysis—a prerequisite for more wide-ranging engagement. Given the time that may still be needed to nurture and institutionalize what remains a nascent relationship, a two-year knowledge-based program strikes an appropriate balance between benefits and risks and provides a suitable time period to monitor progress and assess prospects for a more comprehensive engagement in the medium-term beyond this limited CEN framework. This could include increased focus on human and social development issues to address the country's large development agenda. *Finally*, the limited and well defined engagement proposed will help the WBG manage the operational and reputational risks related to the CEN, described in paras. 61-63 below.

## **Program Description**

50. **Continuing the approach of the FY14-15 ISN, the knowledge-based program outlined below aims to support Turkmenistan's gradual integration into the international economy and its transition to a more market-based economy.** It would *deepen* ongoing involvement in the two focus areas of the FY14-15 ISN (macroeconomic statistics and financial sector development) and *broaden* it into two new areas critical to increased competitiveness. Program activities are grouped into four broad areas: (a) improving data for policy making and governance; (b) financial sector modernization; (c) enhancing competitiveness; and (d) managing natural resources efficiently. These are summarized briefly in paras. 51-54 and Table 1 below and in more detail in Annex 5.

51. **Improving Data for Policy Making and Governance.** This area of engagement comprises five components: (a) strengthening statistical capacity; (b) welfare measurement and monitoring; (c) macroeconomic modelling and forecasting; (d) public investment management; and (e) civil service capacity building. The first activity, which will assist Turkmenistan's State Committee of Statistics (SCS) construct input-output tables, introduce the United Nations (UN) System of National Accounts (SNA) 2008-compliant methodology (replacing the SNA 1993 system still in use), and enable Turkmenistan to participate in the International Comparison Program (ICP), continues work started under the FY14-15 ISN. The remaining four activities—welfare measurement and monitoring, macroeconomic modelling and forecasting, public investment management and civil service capacity building—are initiatives that would enhance the quality and relevance of the government's economic analysis and policy making. They would also: facilitate Turkmenistan's compliance with its international obligations; help, indirectly, attract more private and foreign direct investment, especially to the non-hydrocarbon sectors of the economy; and, permit more detailed macroeconomic and sectoral analysis—a pre-requisite, as noted above, for more comprehensive engagement with the WBG. Meanwhile, the welfare measurement and monitoring activity would facilitate the design of gender-informed policies to improve living standards and promote equity and, at the same time, help the authorities assess the implications of planned reforms such as the elimination of utility subsidies and/or the introduction of more targeted social assistance programs.

52. **Financial Sector Modernization.** This area of engagement, which will support the government's medium-term financial sector modernization and reform strategy, comprises technical assistance to the Central Bank of Turkmenistan and the Ministry of Finance in three priority areas: (a) *bank business model and corporate governance reform* will include a detailed

pilot at one state-owned bank to review current practices and provide recommendations on business model modernization and corporate governance measures, supported by a training module to enhance bankers' reform capacity; (b) *credit reporting system* (CRS) will evaluate the efficiency of the current CRS (including the regulatory framework and institutional arrangements), identify gaps and provide recommendations on its further development, and share knowledge and expertise on international best practices; and (c) the *National Money Laundering/Terrorist Financing Risk Assessment* (NRA) will help Ministry of Finance use the NRA tool to complete Turkmenistan's first national money laundering/terrorist financing risk assessment.

53. **Enhancing Competitiveness.** This area of engagement has two objectives—one operational and specific, the other, advisory and strategic. The *first* is to identify a small number of potentially competitive products or sub-sectors and then to develop a competitiveness, innovation, and skills road map outlining reforms needed to catalyze investment in these sub-sectors, including an implementation plan. This will first entail a review of Turkmenistan's comparative advantage in two sectors—agribusiness and either construction materials, petrochemicals, or textiles—selecting up to four sub-sectors where the potential for export competitiveness appears strongest. After agreeing up to four products or product groups in which Turkmenistan can compete internationally, two clusters will be chosen for in-depth competitiveness assessments, following which a comprehensive roadmap will be prepared summarizing strategic policy actions required to realize Turkmenistan's competitive potential in the sub-sector or product areas concerned. The *second* objective is to provide advice and technical assistance to help improve the efficiency of Turkmenistan's transport corridors and logistics environment, including: (a) developing a corridor and logistics strategy for selected high priority corridors; (b) addressing obstacles to exports and employment; and (c) designing indicators to assess their impact in terms of exports and job creation.

54. **Managing Natural Resources Efficiently.** Activities in this area would cover knowledge support to the government on four related topics: (a) *agricultural production*, including sharing international experience and best practices in two areas vital to improving competitiveness: livestock productivity and veterinary services and new seed technologies; (b) *irrigation efficiency*, including preparation of a national action plan to promote the adoption of the institutional, policy and technological innovations required to improve the efficiency of Turkmenistan's irrigation system; (c) *water resources management*, including support for improved planning, monitoring, and management of water resources nationally and regionally, thus leveraging the ongoing Central Asia Energy Water Development Program (CAEWDP) and the Central Asia Water Resources Information Management Project (CAWaRIM) currently under preparation; and (d) *climate change*, including support for Turkmenistan's participation in the regional Climate Adaptation and Mitigation Program for the Aral Sea Basin (CAMP4ASB). By strengthening the knowledge and capacity base for more efficient use of natural resources, activities in this area will lay the basis for needed investments in the water, agriculture, and climate change nexus.<sup>16</sup>

**Table 1: FY16-17 CEN: Program Summary**

---

<sup>16</sup> Such investments could be eligible for support from a range of international green/climate resources, including the Global Environment Facility (GEF) or the Green Climate Fund (GCF).

Program Area	Activity	Funding Modality	
<b>Improving Data for Policy Making &amp; Governance</b>	• National statistics		RAS
	• Welfare measurement and monitoring	BB	RAS
	• Macroeconomic modelling and forecasting	BB	RAS
	• Public investment management		RAS
	• Civil service capacity building		RAS
<b>Financial Sector Modernization</b>	• Bank corporate governance and bank model reform		RAS
	• Credit reporting		RAS
	• National Money Laundering/Terrorist Financing Risk Assessment (NRA)		RAS
<b>Enhancing Competitiveness</b>	• Enhancing competitiveness	BB	RAS
	• Transit corridors strategy	BB	RAS
<b>Managing Resources Efficiently</b>	• Agricultural production		RAS
	• Irrigation efficiency		RAS
	• Water resources management information systems	BB	RAS
	• Climate change	BB	RAS

55. **IFC would participate in the second and third program areas, mainly through advisory services and, possibly, as an investor.** Advisory services will enable IFC to identify investment climate reforms, infrastructure investment needs, and skill gaps and thus provide an entrée into several sectors potentially suitable for greater private investment. IFC also remains open to providing support for privatization and the banking system as soon as the business operating environment improves. IFC will continue to map companies in potentially competitive sectors to assess investment opportunities in the real economy, although current opportunities remain limited due to the small size of the private sector, the challenging business environment, and the availability of subsidized government-financing. IFC experience from other transition economies demonstrates that private projects in the financial and real sectors usually lead the change. The initial IFC support will be in the form of advisory services to commercial banks working with SMEs (e.g., operations and corporate governance improvements). In parallel, IFC will cautiously explore investment operations, including with foreign investors, in the most competitive sectors of the Turkmen economy. Meanwhile, MIGA will continue exploring opportunities for guarantees to potential investors interested in Turkmenistan.

56. **The proposed program is broadly aligned with the WBG’s strategic goals, in particular with shared prosperity.** *Improving data for policymaking* would enable the authorities’ social and economic policy decision making become more fact-based, help improve accountability and efficiency of public spending, assist better policy planning and, indirectly, enhance the transparency and targeting of reforms. *Support for modernizing and strengthening financial sector infrastructure* would help improve access to finance and banking system management in the medium term. *Activities in the area of enhancing competitiveness* would contribute to improved competitiveness, economic diversification, and job creation, especially for young people. *Activities in the area of managing natural resources more efficiently* would support more sustainable management and use of natural resources, as well as Turkmenistan’s contribution to enhanced regional cooperation in Central Asia. *Finally*, the program would enable the WBG to deepen its understanding of Turkmenistan’s economy, to update its knowledge about the drivers of shared prosperity, and to develop a broader and more effective partnership with the country. Consistent with the government’s strategic priorities, the knowledge-based program would be

funded primarily by the government through reimbursable advisory services (RAS), supplemented by WBG advisory and analytical services, as well as development partner and trust fund support to be mobilized during implementation.<sup>17</sup>

57. **Multi-disciplinary teams under the overall guidance of the WBG’s regional office in Almaty, as well as the country office in Ashgabat, will work closely with the ministries and agencies concerned to support RAS program implementation.** They will also be responsible for multi-sector dialogue and inter-agency coordination. Quarterly review meetings with the government will monitor progress toward achievement of program milestones and, as may be needed, adjust the scope or modality of activities.

## **Consultations and Partnerships**

58. **Stakeholder consultations.** Consultations with government agencies and ministries, as well as with representatives of development partners active in the country, the private sector, and civil society took place during May 12-15, 2015. Many of the stakeholders expressed their support for the WBG’s continuing engagement in Turkmenistan, in particular those areas which complement the activities of various development partners. However, some stakeholders were skeptical about the proposed WBG’s engagement in Turkmenistan<sup>18</sup>, and some advocated for focusing more on the human development aspects, such as health, education, social protection, and civic engagement. While considering the four areas of engagement proposed, stakeholders requested the WBG to: (a) continue close cooperation with development partners during program implementation, ensuring complementarity and avoiding duplication; (b) develop and implement a communications strategy designed to keep all key stakeholders informed about program implementation; and (c) explore options for involving civil society organizations (CSOs) in program implementation (*e.g.*, in capacity building and training activities). Private sector participants requested support for improvement of the business environment. To enable open and inclusive consultations with various groups of society, a dedicated web-page was created with a summary of planned activities in English, Russian and Turkmen, inviting interested stakeholders to provide comments and suggestions through a dedicated email address during a four-week period. Additionally, the country team prepared and posted an update on the CEN preparation process upon completion of in-country consultations.

59. **Partnerships.** The main multilateral aid institutions— Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Union (EU), International Monetary Fund (IMF), Islamic Development Bank (IsDB), and the UN agencies, as well as the WBG—are represented in Ashgabat—as are several bilateral agencies, such as the German Agency for International Cooperation (GIZ), the Turkish Cooperation and Coordination Agency (TIKA), and the United States Agency for International Development (USAID). The UN Resident Coordinator facilitates coordination of externally-financed activities in the country and there is high degree of inter-agency information sharing and cooperation. The government leads

---

<sup>17</sup> WBG will supplement the program with advisory and analytical services in the following activities: (a) welfare measurement and monitoring; (b) macroeconomic modelling and forecasting; (c) enhancing competitiveness; (d) transit corridors strategy; (e) water resources management information systems; and (e) climate change.

<sup>18</sup> Country team staff at Bank Group headquarters briefed a number of US-based nongovernmental organizations with global interests in human rights and public accountability on the proposed program in June 2015.

the UN-Turkmenistan Strategic Advisory Board—a development partners’ coordination mechanism that meets periodically to discuss, review and approve projects in support of the country’s national development. Under this umbrella, nine thematic working groups enhance development partners’ collaboration and improve aid effectiveness: the WBG and EBRD lead the Finance and Private Sector Reform group. Going forward, WBG will extend its participation into the work of other thematic groups to ensure complimentary and coordination with development partners in the third and fourth program areas under the FY16-17 CEN.

60. Although the amount of official development assistance to Turkmenistan has not hitherto been significant, ADB, EBRD, EU, IsDB, as well as the UN agencies, have all gradually increased their presence and expanded their activities in recent years.<sup>19</sup> Their main areas of focus include human resources, especially education and health, regional energy and transport infrastructure, and the environment. The current portfolio of investment projects financed by international financial institutions active in Turkmenistan exceeds US\$780 million. Annex 4 summarizes the scope and size of key development partners’ activities in Turkmenistan.

### Managing Risks

61. **Despite its still narrow focus and modest scope, the CEN and related RAS program pose two key risks.** First, implementation of some of the program’s new components will depend on the untested capacity of ministries or agencies with little or no recent experience working with the WBG, implying that weak institutional capacity could require the program to be scaled back. However, this risk is mitigated *inter alia* by the following: the program’s entirely demand-driven nature; the relatively independent character of individual activities, meaning that possible challenges under one would not necessarily impact others; the satisfactory implementation track record under the ISN in similar circumstances; and the planned close follow-up and hands-on support to be provided by WBG teams.

62. **Second, program implementation could be affected by increasing instability in the external environment, particularly if it resulted in a change in government policy priorities or direction.** To mitigate this risk, the WBG will continuously monitor external developments and, as may be needed in consultation with the authorities, adjust the program accordingly.

63. **Besides these two implementation risks, the WBG’s continued engagement in Turkmenistan may be considered by some to have limited value, absent a broader economic and reform dialogue.** It may also be seen as creating reputational risks, given the country’s governance, data availability and other challenges. While these are clearly judgment calls, the WBG’s knowledge-based engagement with Turkmenistan is a limited, but important framework enabling the country to tap into global knowledge pool and, as may be relevant, adapt it to local circumstances. Moreover, the WBG’s ability to convene and bring international best practices to bear on the reforms required to integrate the country with the global economy and to support its transition to a more market-based economy—confirmed by the satisfactory experience of the last two years—fully justifies this continued limited and focused engagement. In the circumstances, any perceived reputational risk is deemed acceptable and manageable. Table 2 summarizes risk

---

<sup>19</sup> Recently averaging US\$38 million annually according to OECD-DAC data.

ratings vis-à-vis the program implementation, based on the Systematic Operational Risk-Rating Tool.

**Table 2: Systematic Operational Risk-Rating Tool**

<b>Risk Categories</b>	<b>Ratings (H,S,M or L)</b>
Political and Governance	M
Macroeconomic	M
Sector strategies and policies	L
Technical design of project or program	L
Implementation capacity for implementation and sustainability	M
Fiduciary	L
Environmental and Social	L
Stakeholders	M
<b>Overall</b>	M

## Annex 1: SELECTED DEVELOPMENT AND SOCIAL INDICATORS

	1998	2003	2011	2012(Pr.)
Population, mid-year (millions)				6.3
Surface area (thousand sq. km)	491.2	491.2	491.2	491.2
Urban population (% of total population)			50.7	50.9
Mortality rate, infant (per 1,000 live births)			19.7	19
Literacy rate, youth male (% of males ages 15-24)				100*
Literacy rate, youth female (% of females ages 15-24)				100*
The number of primary school pupils, male (% of school-age)			100	100
The number of primary school pupils, female (% of school-age)			100	100
Roads, paved (% of total roads)	89.7	89.8	89.8	89.8
Telephone lines (per 100 people)	7.5	6.3	8.5	8.8
Mobile cellular subscriptions (per 100 people)			33.6	73.2
<b>Environment</b>				
Arable land (% of total Agricultural land area)	81.9	81.8	81.1	81.1
Land protected areas (% of total land area)		3.8	3.7	3.7
CO2 emissions (metric tons per capita)		0.01	0.02	0.01
<b>Employment indicators</b>				
Labor force participation, % of total popul., o/w	42.6	46.6	51	51,3
Women labor force participation rate	41.6	42.8	44.1	44,2
Percentage of total employed engaged by types of economic	100	100	100	100
Industry	12.5	13.8	14	14,1
Construction	5.9	5.2	8.5	8,7
Agriculture	48.5	49.2	46.6	46,5
Transport and communication	4.9	4.9	5.7	5,8
Trade, catering and supply	6.3	6.5	6.9	7
Other services	21.9	20.4	18.3	17,9
Percentage of employed women engaged by types of economic	100	100	100	100
Industry	12.4	12.3	13	13,2
Construction	2	2.7	3.3	3,2
Agriculture	47	51.5	50.3	50,5
Transport and communication	3.1	3.2	3.7	3,7
Trade, catering and supply	6	5.8	6.7	7,1
Other services	29.5	24.5	23	22,3

\*) source: MICS4- Multiple Indicator Cluster Survey, 2012;  
MICS5 data will be used to update indicators once available;

## Annex 2: SELECTED MACROECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014(Pr.)
<b>National Accounts</b>							
Real GDP growth rate (annual percent change)	14.7	6.1	9.2	14.7	11.1	10.2	10.3
Real non-hydrocarbon GDP growth rate (annual percent change)	18.6	14.9	8.7	13.1	11.9	15.3	12.7
Gross Domestic Product (in millions of USD)	17,358	18,476.9	20,001	28,061.8	35,164	39,197.4	43,485.5
GDP sectoral composition (percent of total), o/w	100	100	100	100	100	100	100
Industry, o/w	50.5	42.7	40.4	49.3	51.1	48.6	48
Construction	10.1	18.2	18.7	13.6	15.7	16.6	17
Agriculture	10.7	10.5	11.3	10.0	8.4	9.0	9
Transport	4.1	5.0	5.9	4.6	4.6	4.6	4.6
Trade	5.3	6.1	6.9	5.9	5.9	6.0	6
Other services	19.3	17.5	16.8	16.6	14.3	15.2	15.4
<b>Monetary Indicators</b>							
Total credits to the economy (mln TMM), o/w	9,942	13,025	17,203	21,141	25,887.2	33,601.7	39,845.5
Credits to the private sector	515	902	1,580	2,744	3,581.3	6,030.5	7,372.4
CPI inflation, end-of-period (percent change)	8.9	0.1	4.8	5.6	7.8	4.0	4.4
CPI inflation, period average (percentage change)	14.6	-2.7	4.4	5.3	5.3	6.8	6.0
<b>Investment/Savings (in % of GDP)</b>							
Total Investment, o/w	31.4	47.5	45.3	46.2	47.2	41.4	39.6
Public	18.4	31.8	30.3	33.6	36.7	30.5	29.1
Non-government sector	12.9	15.7	15.0	12.6	10.5	10.9	10.5
<b>General Government operations (% of GDP)</b>							
Total Revenues, o/w	20.4	20.4	16.1	18.3	21.0	17.4	16.2
Tax Revenue, o/w	20.3	20.1	15.5	17.6	20.2	16.7	15.2
Hydrocarbon tax revenues	13.3	11.7	7.5	10.1	11.9	8.9	7.8
Total Expenditures, o/w	10.9	17.6	14.1	14.6	14.7	16.1	15.4
Current expenditures	8.8	13.5	9.5	9.0	8.1	8.6	8.4
Capital expenditures	2.1	4.1	4.5	5.7	6.6	7.6	7.0
Overall balance	9.5	2.8	2.0	3.6	6.3	1.3	0.8
Non-hydrocarbon balance	(7.1)	(8.7)	(5.5)	(6.4)	(5.6)	(7.4)	(7.0)
<b>External Sector (in USD)</b>							
Exports of goods and services	12,359.	9,517.4	10,348	17,449	20,585	18,936.8	20,192
o/w exports of gas, oil and oil products	11,021	8,419	8,617	15,817	18,743	17,786	18,249
Imports of goods and services	7,780	11,325	10,921	14,138	17,332	19,366	19,964
Merchandise trade balance	6,438	875	2,232	6,260	6,527	4,043	3,750
Capital and financial account	-3,385	2,940	2,420	-503	47	3,697	3,769
Foreign direct investments	1,277	4,553	3,631	3,399	3,117	3,770	4,863

### Annex 3: MILLENNIUM DEVELOPMENT GOALS<sup>20</sup>

Millennium Development Goals	1995	2000	2005	2010	2011	2012
<b>Goal 1. Eradicate extreme poverty and hunger</b>						
Percentage of population living below the wellbeing line					0*)	
<b>Goal 2. Achieve universal primary education</b>						
Pupils with primary education as percentage of total	36.2	36.8	29.6	26.0	27.4	28.7
<b>Goal 3. Promote gender equality and empower women</b>						
Percentage share of girls with primary education	49	49.2	49.3	49.1	48.9	48.9
Percentage share of girls with secondary education	49.3	51.4	49.2	49.2	49.2	49.2
Percentage share of girls in vocational training	69	63	65.1	58.2	54.1	50.0
Percentage share of women in higher education	37.6	32	37.5	33.8	33.4	34.4
Percentage share of women employed in social sector	63.2	61.4	59.1	61.6	62.3	62.9
Percentage share of women employed in non-social	36.8	38.6	40.9	38.4	37.7	37.1
Percentage share of women entrepreneurs (**)	44.8	39.1	41.5	46.9	50.4	51.8
<b>Goal 4. Reduce child mortality</b>						
Child mortality rate per 1000 population (0-4 years old)	67.0	35.8	20.2	29.9	25.2	24.8
Infant mortality rate per 1000 population	42.2	21.4	12.1	23.2	19.7	19.0
<b>Goal 5. Improve maternal health</b>						
Maternal mortality rate per 100 thousand live births	99.5	50.7	15.5	6.9	5.9	3.8
<b>Goal 6. Combat HIV/AIDS, malaria and other diseases</b>						
Number of people with HIV/AIDS infection	-	-	-	-	N/A	N/A
<b>Goal 7. Ensure environmental sustainability</b>						
Percentage of total population with access to safe water					78	
In rural settlements					69	
In urban settlements					92	
Percentage of population having own housing, including	71	78.4	79.5	80.5	80.8	81,0
In rural settlements, fund %	95	95.9	96.2	96.5	96.6	96.7
In urban settlements	37	47.8	48.8	49.0	49.5	49.7
<b>Goal 8. Develop a global partnership for development</b>						
Number of internet users per 100,000 population	-	-	40.6	1,809	6,609	17,256

\*) Share of population with incomes below the daily consumption at US\$2.50 per capita in PPP (LSMS 2011).

\*\*) The share of women entrepreneurs, including those employed in the informal sector.

\*\*\*) MICS-4, 2012.

<sup>20</sup> An MDG report for Turkmenistan is currently under preparation but more up-to-date information on MDGs is not yet available.

## **Annex 4: TURKMENISTAN: DEVELOPMENT PARTNER COOPERATION**

### **Overview**

1. Accounting for less than 0.1 percent of GNI, official development assistance to Turkmenistan has not hitherto been significant.<sup>21</sup> On the other hand, ADB, EBRD, EU, IsDB, and the UN agencies have all gradually increased their presence in the country in recent years. Their main areas of focus include human resources, especially education and health, regional energy and transport infrastructure, and the environment.

### **Development Partner Coordination**

2. All the main multilateral aid institutions—ADB, EBRD, EU, IsDB, and the UN agencies, as well as the WBG—are represented in Ashgabat, as are several bilateral agencies, such as the German Agency for International Cooperation (GIZ), the Turkish International Cooperation Agency (TICA), and the United States Agency for International Development (USAID). The UN Resident Coordinator facilitates coordination of externally-financed activities in the country through quarterly meeting with development partners and there is high degree of inter-agency information sharing and cooperation. The government leads the UN-Turkmenistan Strategic Advisory Board—a development partners’ coordination mechanism that meets to discuss, review and approve projects in support of the country’s national development. Within this framework, nine thematic working groups aim to enhance development partners’ collaboration and improve aid effectiveness. The WBG and EBRD lead the activities of the Finance and Private Sector Reform group.

### **Key Development Partner Activities**

3. **ADB** established a resident mission in Ashgabat in 2010 and approved its first loan to Turkmenistan in 2011: US\$125 million for telecommunications technology and project management consultancy services for the 677 kilometer North-South railway project connecting Kazakhstan and Turkmenistan with Iran and the Persian Gulf. Since 2010, Turkmenistan has also benefitted from regional technical assistance projects under the Central Asia Regional Economic Cooperation (CAREC) Program.<sup>22</sup> ADB is a key backer of the proposed 1,800 kilometer Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project and, in November 2013, was appointed transaction adviser by the gas companies of the four countries, assisting in the subsequent establishment of the consortium entity—the TAPI Pipeline Company Ltd. Going forward, ADB assistance is expected to focus on energy and transport and its country operations business plan for 2015-16 provides for two loans totaling US\$210 million—US\$160 million for the proposed Turkmenistan-Afghanistan Regional Power Interconnection project and US\$50 million for the CAREC Multimodal Transport Corridor Development project—as well as non-loan funding of US\$1 million to support project preparation and capacity building.

---

<sup>21</sup> Averaging US\$38 million annually during 2011-13 according to OECD-DAC data. During 2012-13, education, health and other social infrastructure accounted for 70 percent of total aid flows.

<sup>22</sup> The Central Asia Regional Economic Cooperation (CAREC) Program is a partnership of 10 countries and 6 multilateral institutions, including the WBG, to promote regional cooperation in areas such as energy, transport, and trade.<sup>20</sup>

4. **EBRD** has been active in Turkmenistan since 1994 and by end-2014 had signed 47 operations with a net cumulative business volume of €206 million, of which 88 percent is in the private sector. Its current portfolio (including undisbursed commitments) totals €51 million, of which 94 percent is for industry, commerce, and agribusiness. In 2014, it signed 7 operations totaling €12 million, mainly for small and medium-sized enterprises and the financial sector. In May 2014, EBRD's Board approved a new country strategy, which provides for it to: (a) support private sector development, directly and indirectly through local partner banks, focusing on food processing and distribution, logistics, transport services, packaging, furniture, and hospitality, as well as strengthening the financial sector; (b) facilitate Turkmenistan's gradual integration into the international economy by attracting foreign direct investment and promoting cross-border trade through its Trade Facilitation Program; and (c) lay the foundations for future reforms by engaging in policy dialogue in areas where reforms have been insufficient to warrant full engagement, particularly energy efficiency, power, and municipal services.

5. The **UN Agencies** have been engaged in Turkmenistan since 1995.<sup>23</sup> They will be signing in November 2015 a new 2016-20 Partnership Framework for Development (PFD) with the government that will guide their engagement in the country for the next five years. The eight key results expected from this partnership are aligned with the priorities established in Turkmenistan's National Program for Socio-Economic Development (NPSD) and the proposed Sustainable Development Goals (SDGs).<sup>24</sup> They include: advancing equitable economic growth, improving environmental management, strengthening accountability, delivering quality social services, and strengthening systems for quality data and progress monitoring. The UN will also support the development of gender-sensitive monitoring instruments and gender analysis of legislation and policies. Strategies for each outcome share a common focus of reaching vulnerable groups and assisting Turkmenistan to meet its human rights obligations. The UN agencies have also supported the Government of Turkmenistan in developing three human rights action plans: (a) the National Plan of Action for Children to address recommendations related to implementation of Convention on the Rights of the Child (CRC); (b) the National Action Plan on Gender Equality to address CEDAW recommendations and (c) National Action Plan on Human Rights to address all other remaining treaty body and Universal Periodic Review (UPR) recommendations. Support to implementation of these plans is an essential component of the UN PFD for 2016-20.

6. **The World Health Organization (WHO)** established a country office in Ashgabat in November 1995 to assist the government in developing its health policy, health system, and public health programs, which address the country's main health needs through WHO's *Matching Services to Needs* institutional strategy. Priorities in WHO/Europe's ongoing 2014-15 biennial collaborative agreement include: control and prevention of communicable and non-communicable diseases; promoting health throughout the life cycle; health systems strengthening; and preparedness, surveillance and response.

7. **European Union (EU)** support to Turkmenistan under its second multi-annual indicative program (MIP) for the three-year period 2011-13 totaled €31 million, averaging about €10 million

---

<sup>23</sup> Turkmenistan became a member of the United Nations (UN) in 1992 and, on December 12, 1995, the UN General Assembly adopted a resolution recognizing Turkmenistan's status of permanent neutrality, which has become the guiding principle of the country's foreign policy. UN Women has established its presence in Ashgabat in April 2015 to leverage support of other UN agencies to Turkmenistan in designing and implementing policies for gender mainstreaming.

<sup>24</sup> Sustainable Development Goals and targets, <http://sustainabledevelopment.un.org/focussdgs.html>, Sept 2014.

annually. Going forward, EU grant assistance of €65 million is planned for the seven- year period 2014-2020, averaging €9.3 million annually, of which €37 million, or about 57 percent, for the ongoing four period 2014-17 is allocated almost entirely for secondary and professional education, including vocational education and training. Turkmenistan also participates in several ongoing EU regional and thematic programs.

8. The **International Monetary Fund (IMF)** has no financial arrangement in Turkmenistan, but plays an advisory role through Article IV Consultations and technical assistance. Its Executive Board concluded the most recent Article IV Consultation on March 16, 2015. In recent years, IMF staff have provided advisory assistance for the 2008-09 exchange rate unification and currency reform, the legal framework for anti-money laundering and combating financing for terrorism, and national accounts and monetary statistics. Implementation has been broadly satisfactory. Looking ahead, the focus will be on capacity building and improving the quality of national accounts and monetary statistics. The authorities have also requested assistance with procedures for implementing a currency basket peg, strengthening the banking system, and improving debt management.

9. The **Islamic Development Bank (IsDB)**, active in Turkmenistan since 1997, has committed over US\$588 million for 16 projects including the construction of medical centers, the purchase of two oil tankers, the rehabilitation of part of the Mary-Tejen highway, construction of the North-South railway, a rural water supply project, and an optical fiber cable project for the state telecommunications company.

10. The **Turkish Cooperation and Coordination Agency (TIKA)** opened its office in Ashgabat in July 1993 to support implementation of its March 16, 1993 technical cooperation agreement with Turkmenistan on the economy, culture and education. In 2013, TICA's program totaled US\$15.76 million.

11. **USAID**, active in Turkmenistan since 1992, works with the government to strengthen and diversify the economy, build up nascent civil society institutions, increase good governance, and improve the quality of key health care services. As part of its regional mission in Central Asia, USAID in Turkmenistan also participates in a range of regional programming, including the United States' New Silk Road initiative, which increases regional connections between the economies and peoples of Central and South Asia— including Afghanistan—to foster greater stability and prosperity across the region. During the three fiscal years 2012-14, USAID assistance averaged US\$3-3.5 million annually.

## **Annex 5: FY16-17 CEN: FOUR AREAS OF ENGAGEMENT**

### **1. Improving Data for Policy Making and Governance**

This area of engagement consists of five components: strengthening statistical capacity; welfare and living standards measurement; public investment management; macroeconomic modelling and forecasting; and civil service capacity building.

#### **National Statistics**

This component will assist Turkmenistan's State Committee of Statistics (SCS) to improve the quality of national accounts statistics by constructing input-output tables and introducing the United Nation's (UN) System of National Accounts (SNA) 2008-compliant methodology.

*National accounts.* Based on methodological support provided under the recently completed FY14-15 ISN/RAS program, activities in this area will help SCS construct input-output tables (IOTs)—the first step towards which is to construct a supply and use table (SUT). During the first year, the main focus will be on designing, conducting, and assessing the results of a pilot survey to generate the actual data required to construct a SUT for Turkmenistan. Towards the end of the two-year program, a revised SUT/IOT methodology will be developed to help SCST start preparing an IOT, which will however require several years of iterative improvement.

*SNA 2008-compliant methodology.* Activities in this area will help SCS upgrade Turkmenistan's national accounts statistics by introducing the United Nations (UN) System of National Accounts (SNA) 2008-compliant methodology, replacing the SNA 1993 system still in use. They will start with a comprehensive assessment of the current status of national accounts classification to inform the SCS's action plan for SNA classification improvement. Later, a customized approach for adopting SNA-2008-compliant methodology will be proposed to the SC through workshops and discussions of the new/pilot classifications.

*International Comparison Program (ICP).* Activities in this area will finalize the bilateral Turkmenistan-Turkey pilot project started in October 2013 under the FY14-15 ISN/RAS program and thus create the capacity within the SCS for Turkmenistan to participate in the next round of the ICP. Building on the outcomes of the pilot, the main focus will be on: (a) addressing the problems encountered in finalizing the breakdown of GDP expenditures for 2014 into 155 product groups; (b) conducting a bilateral comparison of national expenditures; (c) preparing expenditure weights and calculation of purchasing power parities (PPPs); and (d) organizing a workshop for SCST staff to demonstrate how PPPs are calculated and how global comparisons are constructed.

#### **Welfare measurement and monitoring.**

This component will support SCS efforts to modernize Turkmenistan's system of household welfare and living standards measurement, enabling it to measure changes across different population groups and thus allow policy makers to respond to changes in a timely way and target social welfare programs more precisely. The first of two stages will entail a review of existing methods of measuring welfare, such as sample design, the survey questionnaire, and

survey implementation. The second will provide training to SCS staff, including learning and experience exchange visits to other countries in the region (*e.g.* Moldova, Kazakhstan, Armenia), on welfare measurement and methodology, including the consumption aggregate, poverty and middle class measurement, and a non-monetary poverty index.

### **Public Investment Management (PIM)**

This component will help strengthen Turkmenistan's public investment management (PIM) system. Activities will include the following: (a) a review of the efficiency and effectiveness of the country's public investment portfolio, *i.e.* its current pipeline and past spending, as well as an in-depth analysis of a sample of active and recently closed projects; (b) an institutional assessment of Turkmenistan's PIM system, using the WBG's diagnostic framework for public investment management; (c) drafting of PIM guidelines and methodologies covering the entire project cycle from identification, preparation, and appraisal through implementation, monitoring and evaluation, including guidance on cost-benefit and cost-effectiveness analysis techniques; and (d) preparation of a capacity development action plan that identifies the core skills required for officials responsible for each stage of the project cycle, the development of relevant training materials, and the organization of training workshops.

### **Macroeconomic modelling and forecasting**

This component will assist the *Ministry of Economy and Development (MED)* and related stakeholders strengthen their capacity for macroeconomic analysis and forecasting. Specific objectives are to help the MED develop two types of model: (a) to improve forecasting of GDP and its components (by sources and uses) to be used primarily in preparing the macroeconomic framework for the budget; and (b) to understand the structural transformation of the economy *inter alia* by simulating various growth scenarios. Activities will focus on: learning about models used by other governments to calculate and forecast GDP, including sector-specific growth; training on forecasting models; capacity building to improve the quality of Turkmenistan's GDP and sector forecasts; and knowledge sharing to facilitate better understanding by the MED of the changes in inputs and allocation of resources required for the structural transformation of the economy.

### **Civil service capacity building**

This component will develop a capacity building program for Turkmenistan's State Civil Service Academy (SCSA) in selected areas, thereby upgrading the quality of civil servants' in-service education and training. Activities will include the following three steps: (a) Develop Course Material on Public Procurement. The proposed short course to be delivered by the SCSA for the public servants will include international best practice in public procurement and will cover, among others, the following subject areas: drafting contracts; improving reporting standards; and modern hiring practices; (b) Develop Course Material on International Investment Agreements (IIAs). The Bank will prepare a detailed syllabus (outline and reading materials) for a short course (2-3 days long) on IIAs and delivery of the first course by the WB team to staff of the Academy and other ministries, agencies, and administrative units (decided by the SCSA in consultation with other relevant counterparts); (c) Two-Year 'Pilot' Master's Program in Public Administration/Public Policy. Under this activity the Bank will provide assistance and

advice/guidance to establish several twinning arrangements (to be decided later) by SCSA, help organize study tours, faculty exchanges, programs to prepare ToTs, support curriculum development, and joint teaching arrangements (for cost reduction, on-line/audio technics could be mixed with face to face) between SCSA and the chosen international public policy school(s).

## **2. Financial Sector Modernization**

This area of engagement consists of three components: bank corporate governance; credit reporting; and completion of Turkmenistan's national money laundering/terrorist financing risk assessment (NRA).

### **Bank corporate governance and model reform**

This component, designed to support the modernization of Turkmenistan's banking system, comprises two phases: *first*, a strategic review of the banking system overall, including its structure, performance, operating framework and corporate governance; *second*, a detailed pilot study of a single state-owned bank, including its current practices, and recommendations for the modernization of its business model and corporate governance. Outputs will include: recommendations for modernization of key areas of the banking system overall, taking into account international experience and best practice; a specific, prioritized, time-bound action plan for the modernization of the single state-owned bank, in line with the Turkmen authorities' strategic objectives; and a 5-day training workshop on selected issues, including bank corporate governance, for the bank's senior management and/or staff and eventually for the banking system as a whole.

### **Credit Reporting**

This component will: (a) assist the *Central Bank of Turkmenistan* evaluate the efficacy of Turkmenistan's existing credit reporting system (CRS), including its regulatory framework and institutional setup (based on General Principles for Credit Reporting), identify gaps, and make recommendations to enhance the financial sector's stability; and (b) share international experience and best practices in credit reporting. Outputs will include: a diagnostic report with recommendations for addressing gaps in the CRS' institutional and legislative arrangements; and an in-depth three-day workshop covering international best practices, international standards of credit reporting, the legal framework required for an efficient CRS, and private credit reporting supervision mechanisms (including corporate governance, technical requirements, licensing, reporting and informational standards).

### **National Money Laundering/Terrorist Financing Risk Assessment**

This component will assist the *Ministry of Finance* complete the National Money Laundering/ Terrorist Financing Risk Assessment (NRA) for Turkmenistan through provision of the WBG's NRA tool, guidance on its technical aspects, and assistance with its use.

### 3. Enhancing Competitiveness

This area of engagement has two objectives—one operational and specific, the other, comprising three components, more advisory and strategic.

The *first* is to identify a small number of potentially competitive products or sub-sectors and, against this background, to develop a competitiveness, innovation, and skills road map outlining reforms needed to catalyze investment in these sub-sectors, including an implementation plan. This will first entail a review of Turkmenistan’s comparative advantage in two sectors—agribusiness and either construction materials, petrochemicals, or textiles—selecting up to four sub-sectors where the potential for export competitiveness appears strongest. It will assess possible markets for Turkmen products (domestic and export), identifying potentially competitive items, sources of comparative advantage for Turkmen producers, drivers of competitiveness, and constraints in terms of the investment climate, resources, and skills. After reaching agreement on up to four products or product groups for each of the two sub-sectors in which Turkmenistan can compete internationally, two clusters will be chosen for in-depth competitiveness assessments. Upon completion, a comprehensive roadmap will be prepared summarizing the actions required to realize Turkmenistan’s competitive potential in the sub-sector or product areas concerned, including public investment that may be needed in areas such as infrastructure and skills, private investment, and reforms necessary to align Turkmenistan’s regulations with those of end markets.

The *second* objective is to provide advice and technical assistance in one of the areas central to enhancing Turkmenistan’s overall competitiveness, namely: *improving transit corridors*. Since diversifying Turkmenistan’s economy will depend, *inter alia*, on improving the efficiency of its transport corridors and logistics environment, activities in this area will include: (a) developing a corridor and logistics strategy for selected high priority corridors; (b) addressing obstacles to exports and employment; and (c) designing indicators to assess their impact in terms of exports and job creation. Diagnostic studies will consist of two phases: *first*, identifying for each corridor the key business, procedural, and regulatory issues, as well as infrastructure bottlenecks and constraints; and *second*, prioritizing their relative importance, using a horizontal and vertical approach, and making recommendations to achieve sustainable improvements in the efficiency of each corridor, including the adoption of analytical techniques and data collection mechanisms required to evaluate their impact.

### 4. Managing Natural Resources Efficiently

This area of engagement consists of four components: agricultural production; irrigation efficiency; water resources management; and climate change.

#### **Agricultural production**

This component will help strengthen the *Ministry of Agriculture*’s capacity to guide the further development of Turkmenistan’s agricultural sector by sharing international experience and best practices in two areas vital to improving productivity and competitiveness: (a) livestock productivity and veterinary services; and (b) new improved seed technologies.

*Livestock productivity and veterinary services.* Activities in this area will include: (a) a study of options for improving livestock productivity in Turkmenistan, including animal feeding and nutrition practices, as well as animal genetics and artificial insemination, and recommendations on international best practices that may be suitable for adoption in Turkmenistan; and (b) an assessment of opportunities for strengthen Turkmenistan's veterinary services, based on the internationally recognized International Animal Health Organization (OIE) Performance of Veterinary Services. Results in both cases would be disseminated through workshops and external training of Ministry staff, including a study tour to provide examples of how veterinary services, animal disease control and productivity measures have been strengthened in other regions and countries (including in South-East Asia, Latin America and Europe),

*New seed technologies.* Activities in this area will consist of a study, in collaboration with CIMMYT and/or FAO, to review options for developing a modern seed sector in Turkmenistan, including strengthening the linkages between farmers and researchers. Results would be disseminated through workshops and external training of Ministry staff, including a study tour to a country with a well-developed seed sector and advanced seed production technologies.

## **Irrigation Efficiency**

This component will help the *Ministry of Water Economy* prepare a National Action Plan for Irrigation Efficiency to promote the adoption of institutional, policy and technological innovations required to improve the efficiency of Turkmenistan's irrigation system. It comprises four activities: (a) capacity strengthening and knowledge exchange; (b) water efficiency assessment; (c) national action plan; and (d) implementation support

*Capacity strengthening and knowledge exchange.* Key activities in this area include: (a) a review of international and regional best practice in improving the efficiency of water use; (b) an assessment of institutional, policy, and technological innovation options for more efficient and sustainable use of water, with emphasis on modernizing irrigation systems; and (c) a national workshop to present international experience and how this might apply to Turkmenistan.

*Water efficiency assessment:* Key activities in this area include: (a) an update of water resource balances for Turkmenistan's main river basins, including the identification of current imbalances; (b) development of projections and scenarios for future water demand, including the impact of climate change; (c) a review of water sector institutions, legislation, and policies, including their impact on water efficiency; (d) an analysis of the main sources of irrigation inefficiency, including current cropping systems, and of international experience in dealing with soil salinity and degradation; and (e) a national workshop to present and agree on the findings of the overall assessment.

*National action plan.* Key activities in this area, comprising preparation of a national action plan for improving water use efficiency, include: (a) identification of investments, technical assistance, and institutional and policy reforms needed to improve water use efficiency, including their estimated cost and a quantification of potential water savings; (b) consultations with stakeholders to share preliminary findings and receive feedback; and (c) a national workshop to

present and agree on the national action plan, followed by its submission for approval jointly by the Ministries of Agriculture and Water Economy.

*Implementation support.* Key activities under this component include: (a) preparation of a communications strategy, including the definition of key messages, stakeholders, communications tools and outlets, and support for dissemination; and (b) capacity strengthening of key stakeholders, including in particular farmers and agricultural support staff.

## **Water Resources Information Management**

This component will help strengthen the capacities of the *Ministry of Water Economy* and Turkmenistan's *Hydro-Meteorology Agency* to increase the accessibility, reliability and use of water resources information for improved planning, monitoring, and management. It comprises three activities: (a) capacity strengthening of water specialists; (b) automated systems; and (c) extreme hydrologic events.

*Capacity strengthening:* Identifying priority opportunities for strengthening capacity will highlight human capacity needs in specific topics (*e.g.*, state-of-the-art analytical tools for planning and forecasting water resources), but also verify institutional adjustments (*e.g.*, to enhance information sharing and services) and technology gaps (*e.g.*, data sharing equipment). While focused mainly on the Hydro-Meteorology Agency, other ministries will be engaged as key service delivery partners and information customers.

*Automated systems.* Activities in this area will focus specifically on the use of automated systems and application of good practices. A review of international best practices will form the basis for a workshop and e-learning module to share practical lessons on the development, operation and maintenance of automated systems from around Central Asia and beyond. A study tour would provide hands-on exposure to, and the sharing of experiences with advanced water monitoring systems in Asia, Europe, or North America.

*Extreme hydrologic events:* Activities in this area will focus on tools and approaches to better manage extreme hydrologic events. Similar to the focus on automated systems, a review of international best practices will form the basis of two learning events on the use of forecasting and modeling tools—to be convened with key specialists from neighboring countries. This activity will be closely coordinated with the Climate Change component.

## **Climate Change**

This component will support Turkmenistan's engagement in the Climate Adaptation and Mitigation Program for the Aral Sea Basin (CAMP4ASB)—a program designed to strengthen regional dialogue and collaboration to enhance the preparedness of Central Asian countries to the mounting challenges of climate change. The component includes the four activities below that seek to strengthen the country's knowledge and capacity base for climate action.

*Strategic Climate Assessments:* This activity will help the *Ministry of Nature Protection* and other government agencies better understand climate risks, assess possible responses, and inform the design and prioritization of climate programs, with particular attention to the land-water nexus through: (a) technical assistance for vulnerability mapping of priority areas at risk for climate change,; and (b) technical and economic assessments to prioritize climate-smart options.

*Data and Information Management:* This activity will improve data availability and access for climate assessment in Turkmenistan and support the country's participation in CAMP4ASB's effort to build a data and information platform to facilitate public-domain collection, sharing, and maintenance of datasets relevant for climate assessments.

*Capacity and Coalition Building:* This activity will support the participation of Turkmen experts in selected training and capacity building activities under CAMP4ASB, such as: greenhouse gas emission inventory preparation, readiness to access the Green Climate Fund, and data management and modeling for the use of specific climate-risk screening tools.

*Experience Sharing:* This activity includes designing a two-week study tour to a best-practice site, located outside of Central Asia, to obtain insights on good practices in climate resilience. Specific scope (e.g., energy, agriculture, landscape management) will be agreed with counterpart before the study tour.

## **Annex 6: CONSULTATIONS**

1. Similar to the FY14-15 ISN, the CEN preparation benefitted from consultations with a wide range of stakeholders, including from government agencies, the development partner community, civil society, the private sector and others. The CEN preparation process included both in-country face-to-face meetings and virtual consultations.
2. Consultations with government agencies and the private sector comprised a continued collaborative process to ensure that CEN activities fully reflect the country's development needs. CEN consultations started with preliminary fact-finding discussions and continued through regular working meetings with respective agencies and the private sector to understand their needs and ensure that agreed activities fully reflect their needs and are aligned with sectoral and overall country development priorities.
3. On May 11, 2015 the scope of the proposed program was presented to representatives of government ministries and agencies in order to: (a) confirm counterparts' interest in the areas identified for collaboration; (b) review details of the proposed program; and (c) discuss possible sequencing and pacing of proposed activities. Following discussions in working groups representing the CEN's four main areas, participants reported on their mutual understanding of the next program of activities.
4. During May 12-15, 2015 consultations were held with representatives of civil society organizations (CSOs), the private sector, bilateral and multilateral development partners, and UN agencies. Many of the stakeholders supported the WBG's continuing engagement in Turkmenistan, in particular in the areas which complement the activities of different development partners. However, some stakeholders were skeptical about the proposed WBG's engagement in Turkmenistan, and some advocated for focusing more on the human development aspects, such as health, education, social protection, and civic engagement. While considering the four areas of engagement proposed, stakeholders requested the WBG to: (a) continue close cooperation with development partners during CEN preparation and implementation to ensure complementarity and avoid duplication of activities; (b) develop and implement a communications strategy to keep all key stakeholders regularly informed about CEN implementation; and (c) explore options to enable CSOs to support strategy implementation, including through their participation in training and capacity building activities. Private sector representatives expressed support for the WBG's continuing engagement in Turkmenistan especially related to improvement of the business environment.
5. It was confirmed that the CEN will focus on facilitating transfer of global knowledge and expertise to Turkmenistan in support of reforms required to integrate the country with global economy and support its transition to market-based economy mainly through reimbursable advisory services. The proposed program will deepen ongoing collaboration in areas included in current program and broaden it into selected new areas critical to increase competitiveness.
6. IFC had a number of business development meetings with private sector during May 12-15, 2015. During the meetings it was identified that in parallel with the implementation of the knowledge-based program, IFC may consider advisory services projects in banking and

agricultural sectors as well as investments in agricultural sector, production of construction materials and petrochemicals.

7. To complement face-to-face consultations, a dedicated web-page was created to keep stakeholders, civil society, and the general public aware of the entire CEN process, to present the main areas proposed and provide opportunity for comments and feedback. Upon completion of in-country consultations, an update was posted on the web to provide the latest information on the consultations process. The final CEN document will be made publicly available after review by the Board, as per the World Bank Group's disclosure policy.

8. The consultations period was open from April 30 through June 10, 2015 and any interested organization or an individual could provide feedback by email or other means of communication during that period.

9. Continued engagement and communication with stakeholders during implementation of the CEN will include publication of press-releases to inform the global audience of large events implemented/supported under CEN, as well as support to various Global Practice (GP) teams to highlight results (event write-ups, results stories, or publications etc.) as appropriate and in agreement with the client. WBG teams will also be open to regular face-to-face meetings with various interested stakeholders to keep them informed on the progress of the CEN implementation.