Statement by Jan Piercy
Date of Meeting: January 23, 2001

Turkmenistan Country Assistance Strategy

Overview and Key challenges:

1. We thank staff for a timely and informative briefing in advance of this Board discussion. Given the regrettably limited progress in enacting critical reforms since the last CAS in 1997, we concur with the focus of this CAS on non-lending activities to improve public resource management. Turkmenistan’s critical needs in health, education, agriculture, private sector development, and poverty alleviation cannot be addressed without a clear sense of government’s financial resources – the source of revenues, the composition of government spending, and the transparency with which government funds are allocated.

2. The Bank’s "cautious and limited" approach in this CAS is appropriate, given Turkmenistan’s poor reform record and lack of budgetary transparency and public accountability. Although the government’s Ten Year National Program has some positive elements in terms of reform objectives – improved budget and debt management, trade and exchange rate liberalization, agricultural reform, and privatization -- its orientation toward central planning, including mandated growth targets, import substitution policies, and full subsidization of utilities will seriously constrain sustained growth and poverty reduction. Demonstrated performance, not just commitments, will be key.

3. Turkmenistan’s debt management problems, as well as the procurement issues surrounding earlier Bank loans, further highlight the need for fundamental reforms of economic management and transparency. In this regard, we welcome the candid discussion of governance issues (paras. 35-37 and Box 1) and of the long-term challenges Turkmenistan must address to improve prospects for private investment and sustainable growth.

Macroeconomic Assessment:

4. Turkmenistan is over-dependent on hydrocarbon reserves and a statist agriculture sector. While real GDP growth data appear quite favorable, we question their sustainability, in view of Turkmenistan’s temporary gas deals, highly unproductive government expenditure, current oil and gas prices subject to fluctuations, an increasingly unsustainable external debt burden,
growing external arrears, and long-standing reluctance to engage with the IFIs.

5. Although the CAS describes a "sharp economic upswing" in light of recent gas sale agreements, we caution against excessive reliance on energy exports as the key engine of growth and poverty reduction. As we have observed in a number of other countries, world price fluctuations can be devastating to growth projections. Furthermore, the enclave nature of the energy sector often limits the degree to which hydrocarbon wealth reaches the bulk of the population. The revenues from these gas sales will be irrelevant if the institutional capacity is not in place to use them effectively. This is further distorted by the Foreign Exchange Reserve Fund (FERF) as well as the other ministerial funds and off-budget activities. Ambiguity surrounding the FERF is especially alarming, as clear accountability for how this fund is structured and used is critical to addressing concerns about corruption, other possible leakages, and fiscal transparency. We could not agree more strongly with staff that the rationalization of the FERF and implementation of transparent mechanisms to govern foreign exchange transactions are critical to sustained, equitable growth.

Lending Program:

6. We support the Bank's intent to limit itself to non-lending activities in the current environment. In the event of sufficient reform, however, we welcome the Bank's project-oriented, poverty reduction focus in the proposed lending program. As the CAS notes, "in light of the weak commitment to reform and the poor experience in reform implementation, it is important that [future lending] have a strong development impact"

7. If Turkmenistan were to satisfy the trigger conditions, we would have some concerns about the mix of "new lending" priority areas. The Pilot Health Project and the Canal Rehabilitation Project appear broadly appropriate. Both projects aim to address looming social problems and build on government support for these project areas. On the Karakum Canal project, we recognize the importance of addressing a looming water crisis. However, before the Bank would engage in such a project, we would like to see greater evidence of commitment on the part of the Turkmenistan government to addressing long-term water management problems both internally and regionally.

8. We share staff's concern about the critical state of health care in Turkmenistan, notably the high rate of maternal and infant mortality as well as severe shortages of medicines and other equipment. This is yet another example of how critical it is for the authorities to undertake fundamental reforms in the composition and transparency of public expenditures, to ensure that scarce resources for health care are reaching the most needy recipients. However, we question why the Bank selected crop protection and animal health as the third lending priority under the base case scenario. While this project aims to include conditionality related to transforming certain aspects of state intervention in the agricultural sector, the extent of government controls makes this a sensitive area, with limited prospects for success and government cooperation. Can staff explain their rationale regarding this loan? We are quite concerned about the lack of attention to primary education and would appreciate a fuller description of government-donor partnerships in this sector.

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 the consent of the Executive Director concerned.
9. We noted a reference to "some new initiatives to address HIV/AIDS" in the recent Bank report "A Profile of Living Standards in Turkmenistan", but no mention of HIV/AIDS initiatives in this CAS. Can staff explain what 'new initiatives' are being undertaken by the Turkmen authorities, the state of HIV/AIDS infection rate and key risk factors, and what the Bank plans to do under its own health sector lending to address HIV/AIDS?

10. Last week's Workshop on Gender and Labor Markets in Transition Economies in Warsaw found that women have been differentially adversely affected by the social costs of the transition period and restructuring of economies, and that women were affected disproportionately by the reduction of social expenditure in many transition countries. We hope that the planned Living Standards Monitoring sheds light on the situation in Turkmenistan, and if needed, appropriate assistance is provided through the Bank's ESW and any future lending.

Triggers

11. In this context, structural adjustment lending is inappropriate (especially given the lack of budgetary/PERF transparency) and it is important to have specific, objectively quantifiable triggers based on reform implementation. We therefore welcome the challenging triggers, as described in Table 3 and Box 3, which will pre-condition project-based lending. Further, these triggers target some of the most fundamental obstacles to reform and broader IFI engagement in the Turkmen economy. The fact that the IMF has been unable to complete an Article IV on account of data problems highlights the magnitude and severity of this problem.

12. Resolving the long-standing issue of Turkmenistan's violation of the World Bank negative pledge clause is an essential first step to future lending. It is important to note that Turkmenistan is the only country in which the negative pledge issue has remained unresolved. Negative pledge aside, future lending to Turkmenistan, as staff have duly noted, depends on broader policy considerations – in particular, initiating a much-needed dialogue on budgetary disclosure, debt management, and the operation of the FERF. These areas are first-steps to improving longer-term corporate governance.

13. We believe the second trigger under the "Basic Needs" scenario, "significant improvement in the number of on-going loans rated satisfactory," needs to be more specifically defined, including explanation of how this condition would be fulfilled in the event of cancellation of one or more of the existing loans. Further, we would assert that the trigger for the FERF should be further strengthened to require complete rationalization of the FERF and liberalization of the foreign exchange regime prior to moving to a "Stronger Reform" scenario. In addition, trigger "ii" under that scenario should be more specific and quantitative regarding the reduction of the state order system for cotton sales. The state order has been a significant obstacle to economic growth and income for individual farmers and "substantial reduction" is too vague and non-specific.

14. As the Turkmenistan authorities pursue fiscal transparency measures, we urge them to
focus on accountability mechanisms for all public spending, including that of the military. Annual audits of all spending, reported to civilian authorities as well as increased transparency in government operations and broader participation by stakeholders would be welcome. Indeed, until the government has in place a functioning system for reporting to civilian authorities audits of receipts and expenditures that fund activities of the armed forces, the U.S. will oppose all non-basic human needs assistance from the IFIs.

Non-lending Services

15. In the immediate term, we appreciate the Bank’s efforts to use assessment studies, on-the-ground technical assistance, and existing projects as mechanisms for building an infrastructure of ideas and learning. Until the government evinces a credible commitment to reform, this approach is the best we can hope for. We appreciate the Bank’s focus on ‘follow-through’. This approach makes clear that these mechanisms go hand in hand. Assessment studies can act as a useful tool for creating an infrastructure of ideas in Turkmenistan. Similarly, assessment studies may find new implementation avenues for existing TA, such as the proposed National Economic Forum. Additionally, the IBTA loan may provide an effective vehicle through which to implement selected recommendations of the 1998 Public Expenditure Review.

Conclusion:

16. Turkmenistan’s natural resource endowment -- notably hydrocarbon reserves -- could propel the country to sustained growth and improved living standards for its people. The key to achieving this growth is a credible commitment to reform of public expenditures, liberalization of the agriculture sector and foreign exchange system, and creation of a conducive environment in which a viable market economy can emerge. We welcome the Bank’s measured, limited efforts as articulated in this CAS.