

Turkmenistan: An Overview

Turkmenistan is a lower-middle income country that has substantial oil and gas reserves. Having a relatively closed economy, Turkmenistan was less affected by the financial crisis than other countries in the region, partly due to its isolation from global markets, but also due to substantial reserves that supported public investments and social programs. More recently, inflows of FDI have increased, particularly in hydrocarbons. The main political economy drivers in Turkmenistan are centralization of authority, geopolitical forces, and the politics of natural resources. These resources, notably gas have fostered greater cooperation between Turkmenistan and partners such as China and the EU. However, the abundance of power vested in the executive limits pluralism, the functions of local government, and appears to be affecting service delivery; although data on poverty and other indicators are not published. Turkmenistan faces governance challenges including rule of law, voice, accountability and transparency, public participation, administrative capacity, corruption, and private sector development. While World Bank engagement in Turkmenistan is limited, there may be emerging entry points to introduce governance reforms.

This brief summarizes Turkmenistan's performance on various governance indicators and summarizes recent developments in political economy along with a discussion of challenges identified by Bank Staff.



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BASIC GOVERNANCE FACTS

Government Type:

Turkmenistan is nominally a presidential republic, but is characterized by authoritarian presidential rule, with little power outside the executive branch.¹

Administrative Divisions:

Turkmenistan is a unitary state characterized by a highly centralized government system.² It is divided into 5 regions (welayats) and an independent city (the Capital city of Ashgabat).³ The 5 regions of the territorial-administrative structure are formed based on tribal characteristics. Local government structures are comprised of people's councils at the regional, central government

district, and city levels. At the village level, directly elected legislative councils are present, but they follow the lead of local governors who are directly appointed by the president, at all levels.⁴ The tribal characteristics and affiliations have strong political implications.

Table 1: Rankings for Key Governance Indicators
(Lower ranks indicate better performance)

	EIU Democracy Index 2011 (of 167 countries)	Doing Business Index 2012 (of 183 countries)	Transparency International Corruption Perceptions Index 2011 (of 183 countries)	Heritage Foundation Index 2012 (of 179 countries)	WEF Global Competitiveness Index 2011 (of 142 countries)
Turkmenistan	165	NA	177	168	NA
FSU-S Average	119.9	85.9	134.4	95.6	93.2
EU-25 Average	24.7	36.3	32.4	40.1	33.9
ECA Average	80.6	72.4	93.1	78.8	72.6

SECTION 1: GOVERNANCE AT A GLANCE

Constitution: Adopted in 1992, and amended in 2008. The 2008 amendments dissolved the People's Council, a second, 2,507-member legislative body. The amendments also expanded the number of deputies in the National Parliament from 65 to 125.

Executive Branch:

Head of State: President Gurbanguly Berdimuhamedow has been in power since February 14, 2007 and was re-elected for a second term on February 12, 2012.

Presidential Elections: The president is elected by popular vote for a five-year term and can be re-elected (there is no limit on a number of terms in the office). The last election was held on February 12, 2012; the next is to be held in February 2017.

Head of government: President Gurbanguly Berdimuhamedow also acts as the head of the Cabinet of Ministers.

Cabinet: Council of Ministers appointed by the President.

Legislative Branch: Turkmenistan has a unicameral National Parliament (Mejlis), comprised of 125 seats. Members are elected by popular vote to serve 5 year terms. Elections were last held on December 14, 2008; and the next are to be held in December 2013.

Major Political Parties: There are two political parties: the Democratic Party of Turkmenistan or DPT⁵ and newly established Party of Entrepreneurs. Most of the members of the national parliament are affiliated with the DPT. There are several non-registered (in Turkmenistan) opposition parties in exile: the National Democratic Movement of Turkmenistan (NDMT), the Republican Party of Turkmenistan, and the Watan (Fatherland) Party.⁶

Judicial Branch and Legal System: The primary judicial body is the Supreme Court; however, there are also regional, district and city courts. The Supreme Economic Court hears all commercial disputes and cases involving conflicts between state enterprises and ministries. There is no constitutional court. All judges at all levels are appointed by the president.

Turkmenistan is relatively closed society and on the governance indicators that are available, it ranks in the lowest percentiles. This section provides an overview of governance indicators for Turkmenistan.

Key Governance Indicators

• Democracy Index (EIU 2011) 165 out of 167

The Democracy Index of the Economist Intelligence Unit measures democracy via five categories (electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture). Turkmenistan is considered an “authoritarian regime” by the EIU⁷. Authoritarian regimes per the EIU have characteristics including the absence of political pluralism, a disregard for civil liberties, and fundamental weaknesses of democratic institutions⁸.

• Global Integrity Index (GI 2011) NA

This indicator is not available for Turkmenistan.

• Government Accountability (GI 2011) NA

This indicator is not available for Turkmenistan.

• Doing Business (2012) NA

This indicator is not available for Turkmenistan.

• ICRG Country Risk Ranking (2011) NA

This indicator is not available for Turkmenistan.

• Transparency International Corruption Perceptions Index (2011) 177 of 183

The levels of reported corruption are reflected in this ranking. Of ECA countries, Turkmenistan ranks last, tied with Uzbekistan.⁹

• Freedom House Political Rights Index (2012) 7 out of 7

This indicator measures political freedoms based on an evaluation of the electoral process, pluralism and functioning of government. Turkmenistan is rated as “not free”.¹⁰

• Heritage Foundation Economic Freedom Rank (2012) 168 of 179

Turkmenistan had an overall score of 43.8, which corresponds to a rating of “repressed”. From the previous year, Turkmenistan improved on aspects of business freedom, fiscal freedom, and monetary freedom. However, it declined in 4 areas: freedom from corruption, labor freedom, government spending and trade freedom.¹¹

• Global Competitiveness Index (WEF 2011) NA

This indicator is not available for Turkmenistan.

• Bribe Frequency (BEEPS 2008) NA

This indicator is not available for Turkmenistan.

SUMMARY OF GOVERNANCE INDICATORS: <i>Turkmenistan</i>	
Governance Indicator (source, year)	Score
Democracy Index (EIU 2011)	165 of 167
Global Integrity Index (2011)	NA
Government Accountability (GI 2011)	NA
Doing Business Rank (2012)	NA
ICRG Country Risk Rating (2011)	NA
Transparency International Corruption Perceptions Index (2011)	177 of 183
Freedom House Political Rights Index (2012)	7 out of 7
Heritage Foundation Index Rank (2012)	168 of 179
Global Competitiveness Index (WEF 2011)	NA
Bribe Frequency (BEEPS 2008)	NA
Bribe Frequency: Dealing with Taxes (BEEPS 2008)	NA
Bribe Frequency: Dealing with Customs (BEEPS 2008)	NA
Bribe Frequency: Dealing with Courts (BEEPS 2008)	NA
Rule of Law (WGI 2010)	4.3 out of 100
Voice and Accountability (WGI 2010)	1.4 out of 100
Political Stability (WGI 2010)	54.2 out of 100
Government Effectiveness (WGI 2010)	3.3 out of 100
Regulatory Quality (WGI 2010)	1.9 out of 100
Control of Corruption (WGI 2010)	1.9 out of 100
Statistical Capacity (2011)	34 out of 100

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•Global Competitiveness Index (WEF 2011) NA

This indicator is not available for Turkmenistan.

• Bribe Frequency (BEEPS 2008) NA

This indicator is not available for Turkmenistan.

• Bribes are Frequent in Dealing with Taxes (BEEPS 2008) NA

This indicator is not available for Turkmenistan.

• Bribes are Frequent in Dealing with Customs (BEEPS 2008) NA

This indicator is not available for Turkmenistan.

• Bribes are Frequent in Dealing with Courts (BEEPS 2008) NA

This indicator is not available for Turkmenistan.

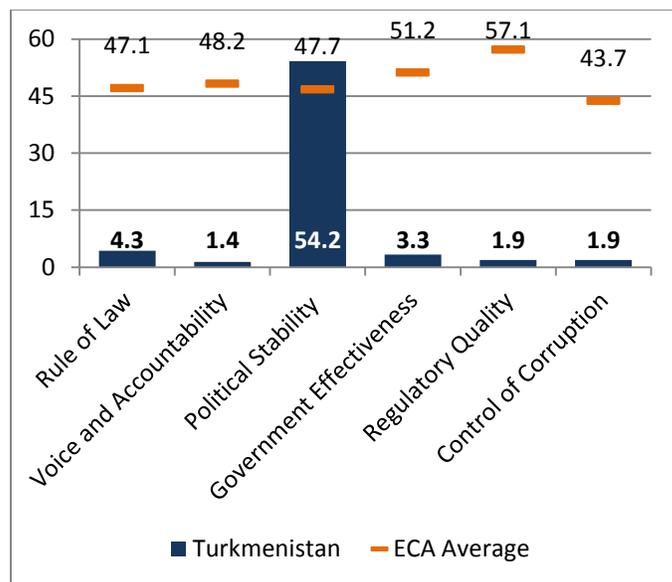
•Rule of Law (WGI 2010) 4.3 out of 100

Turkmenistan ranked in the 4th percentile on this indicator, below the ECA average of 47.1. This reflects limited confidence in the adherence to rules and laws, as well as limited separation of powers between the three branches of government.

•Voice and Accountability (WGI 2010) 1.4 out of 100

Turkmenistan ranks in the 1st percentile on Voice and Accountability, due to the limits on political participation, and on news media in the country. Turkmenistan is on the Reporters’ without Borders list of Internet Enemies (2012), and ranks 177th of 179 countries on the Press Freedom Index.¹³

Chart 1: World Governance Indicators (2010) Scores for Turkmenistan (0-lowest, 100-highest)



•Political Stability (WGI 2010) 54.2 out of 100

Turkmenistan exceeds the ECA average of 47.7 for this indicator, which captures the likelihood that the government may be destabilized by unconstitutional or violent means.

•Government Effectiveness (WGI 2010) 3.3 out of 100

This indicator captures perceptions of the quality of public services, civil service, policy formulation and implementation and credibility of the government's commitment to policies. Turkmenistan falls below the ECA average of 51.2.

•Regulatory Quality (WGI 2010) 1.9 out of 100

This indicator captures perceptions of the government's ability to formulate and implement regulations that promote private sector development. Turkmenistan falls below the ECA average of 57.1.

•Control of Corruption (WGI 2010) 1.9 out of 100

Turkmenistan only ranked in the 1st percentile for control of corruption, lower than ECA average of 43.7.

•Statistical Capacity (2011) 34 out of 100

Turkmenistan falls below the ECA average of 81 for this indicator.

Summary

The indicators above highlight a number of opportunities for governance improvements in Turkmenistan. These include improving rule of law and judicial independence, transparency, voice and accountability, enhancing government effectiveness, combating corruption, fostering pluralism, and improving access to information.

Further efforts to improve governance from the fiscal management framework (in order to better manage revenues from hydrocarbons and natural resources) to enhancing democratic principles are needed in Turkmenistan. More on governance challenges can be found in Section 3.

SECTION 2: POLITICAL ECONOMY BACKGROUND

As a rather closed economy and country, there is limited information available on which to base a political economy analysis. However, it is clear that there are several key political economy drivers in Turkmenistan which help shape governance and economic outcomes, particularly centralization of authority as the state controls much of the economy. However, progress has been made to increase inflows of FDI, and as a result, geopolitical relations have become more important to development. This section provides a brief background of these issues and describes some of the implications of these factors.

Background

Turkmenistan borders Uzbekistan and Kazakhstan to the north, Iran to the south, and shares the longest border with Afghanistan of the all Central Asian countries. The border with Afghanistan poses security considerations to both Turkmenistan and its northern neighbors. Turkmenistan has fewer check points and is more accessible than Tajikistan, as

the latter's mountainous topography makes it more difficult to navigate.

Turkmenistan was formerly a lower-middle income country, but experienced dramatic economic growth (nearly doubling the per capita GDP) from 2006 to 2011. In 2011, Turkmenistan experienced a 14.7 percent growth in GDP, resulting in a GDP per capita (in current US\$) of \$4500. The key economic sectors in Turkmenistan are industry (stemming from oil and refining), textile/manufacturing (based on the local production of cotton), agriculture, and services. Gas and oil make up the majority of principal exports, but agriculture accounted for about 12% of GDP in 2008.

There is not an abundance of data available for Turkmenistan due to a low statistical capacity and limited access to information. Economic information on balance of payments, external debt, monetary statistics and any detailed government budget data are not published. There is no data available on issues such as poverty and unemployment. Although employment is formally guaranteed, there are few opportunities for employment outside the public sector.

Centralization of Authority

As the power structure centralizes authority in the executive, and the economy is mostly state-run, centralization of authority is the primary political economy driver in Turkmenistan. The current president has continued the legacy of consolidated power that was present under Niyazov's leadership after Turkmenistan declared independence. As the president, Berdimuhamedow has an abundance of power. He appoints all judges, and it is speculated that the competition between candidates for the parliamentary elections are limited. This arrangement limits political pluralism and voice and accountability (see Section 3).

While centralization of authority is high, there appears to be a social contract with the public which may lessen the propensity for opposition and increase the acceptance of the status quo. While the government effectiveness indicators show very low performance for Turkmenistan, the government provides 13 different subsidy programs which are supported by the state budget which provide universal access to utilities free of charge to the public, including gas, electricity, water, sewage and public transportation. The budget guarantees access to health and education services free of charge (though the quality of these need to be upgraded substantially). These subsidy programs have been guaranteed until 2030.

Geopolitical Relations

Geopolitical relations with Russia, China, Iran and the European Union are largely driven by the potential for hydrocarbon export and other natural resources and neutrality status of the country. According to official figures

Turkmenistan has the fourth large gas deposits and the largest single deposit in the world. While Russia was the primary partner and focus of foreign policy, more recently relations with China and Iran have been of growing importance. In 2009, Russia was the only buyer of Turkmen gas and decreased its imports due to reduced demand in Europe.

Turkmenistan as a result looked to other partners, and negotiated a deal with China to construct a pipeline. China is providing substantial loans to Turkmenistan to further develop gas production for the Central Asia-China pipeline which will be offset by future gas supplies. Although the gas tariff paid by China is lower than that paid by Russia, it has allowed Turkmenistan to diversify its exports. Turkmenistan has negotiated a similar agreement with Iran, and opened a second gas pipeline to Iran that created the potential for increased interaction.

Turkmenistan is also seeking other opportunities for diversification. Over the last two years another project was under discussion: the Turkmenistan-Afghanistan-Pakistan-India (TAPI). The framework agreement has been signed and the discussions are ongoing with the potential investors.

Geopolitical Relations: Central Asian Context

As a result of the gas saga of 2009 with Russia, Turkmenistan changed its CIS Membership to an Associate Member. Turkmenistan almost de-facto de-linked from its CIS affiliation. However, Turkmenistan remains relatively close to its Central Asian neighbors. Although many of these countries have ongoing or frozen conflicts with each other, notably Uzbekistan and Tajikistan over water resources, Turkmenistan has attempted to mediate. Although these efforts so far have failed, Turkmenistan is participating in the discussion.

Geopolitical Relations: The European Union

There is an opportunity for greater cooperation with the EU. Currently the EU has an Interim Trade Agreement (ITA) in place, but concerns over human rights have hindered the ratification of a more comprehensive Partnership and Cooperation Agreement (PCA). The EU-Central Asia Strategy for a New Partnership (2007-2013) provides national level programmatic funding to Turkmenistan to assist in areas such as poverty reduction, regional and local community development, democratic development and good governance, and building administrative capacity among others.¹⁴

Geo-Political Relations: The Trans-Caspian Pipeline

The desire of the EU and other nations to reduce their reliance on gas imported from Russia has driven plans for the development of the Trans-Caspian pipeline from Turkmenistan through Azerbaijan. This plan has been in place since 1996 but has been actively blocked by Russia. In September of 2011, the EU began negotiations to build the

pipeline. More recently in 2012, Ukraine has recently voiced its support and willingness to fund a portion of the project under certain conditions.¹⁵

SECTION 3: KEY GOVERNANCE CHALLENGES

Turkmenistan has a unique policy environment, and given its natural resources and centralization of authority, there has been little progress transitioning to a democracy. As a result, compared to other ECA countries, there are several governance challenges that emerge from the governance data, including administrative capacity, fostering pluralism, increasing accountability and transparency in government, improving voice and accountability and demand for good governance, corruption, and promoting private sector development.

Centralization of authority negatively impacts **voice, accountability, and transparency**. Government decision making is non-transparent. The population and civil society play almost no role in policy making, and there is no independent media. Accountability mechanisms are lacking at the local, regional, and national levels.

Further, there is limited transparency in policy and budgetary processes. Detailed budget data is not published. Overall fiscal/budget management and resource-revenue management require greater transparency and accountability. A large portion of fiscal revenues come from the hydrocarbon sector but are kept in two separate accounts - the Stabilization Fund and the Reserve Fund. Most of investment projects are funded out of the Reserve fund which is not consolidated into the state Budget.

There are also no opportunities for citizens to voice opposition. Government NGOs (GoNGOs) and professional associations in Turkmenistan can be created by the President's decree, but other NGOs are not. GoNGOs are usually headed by a senior government official of a relevant organization (deputy-chair of Statistics Committee or Deputy-Minister etc.) therefore cannot be considered non-partisan. These missing mechanisms for interaction between the government and civil society hinder promotion of good governance as well as pluralism.

There is no formal mechanism for public participation in government other than through elections. On the surface, public participation is noted as high. While officials report near 100% voter turnout, per Freedom House, electoral processes are not free from interference. Officials have engaged in pressuring citizens and civil servants to vote, and other irregular practices such as ballot stuffing.¹⁶ No opposition parties are registered nor operate in Turkmenistan.

SECTION 4: WORLD BANK STRATEGY AND ACTIVITIES

Limited voice is further exacerbated by the lack of access to information. Detailed information on budgets, debt, poverty, and other indicators are unavailable or are not published. Currently all media is government run, and there are limits on foreign news: both print and online. Turkmenistan is on the Reporters' without Borders lists of Predators of Press Freedom and Internet Enemies (2012).¹⁷

While data on petty corruption is unavailable from sources such as BEEPS, **corruption** remains an issue due to the patronage system of power. Turkmenistan falls in the last quintile of countries on Transparency International Corruption Index, and Heritage Index of Economic Freedom.

Administrative capacity and government effectiveness are in need of improvement. The structure of the public administration results in less effective and less responsive government. The centralization of authority hinders decision-making among front line staff, which results in delays as they await guidance from upper staff. Turkmenistan's self-isolation from the rest of the world has led to an increasing gap of technical competencies and capacity of the government and administrative staff.

Turkmenistan's governance practices reflect its former soviet legacy. Ministries are weak and there is an unclear map of responsibilities. There is a strong and centralized control system (multiple agencies) which review not only financial transactions (budget, etc.) but also technical reports produced by different government agencies and proof-read for political correctness.

Private Sector Development has been limited by a number of factors. The government controls most of the economy and restricts foreign participation to a few sectors in which investment partners are chosen selectively and governed by project-specific presidential resolutions. The lack of an established rule of law, complex and arbitrary regulatory framework as well as incompliance with international business practices have deterred private sector development and FDI.

The law on Foreign Investment adopted in 2007 has laid the groundwork for greater participation and investment by foreigners and companies. Formerly, all foreign investments had to be approved by the State Agency for Foreign Investment; the updated law provides for foreign ownership of real estate and enterprises, and has increased foreign investment in some sectors, especially the hydrocarbon sector (e.g. gas pipelines to China and Iran). The government has also introduced international tenders for some state contracts to increase competition; however, the process is poorly managed and not transparent.

The World Bank currently has limited engagement with Turkmenistan. The Bank has implemented projects in the past in areas including public resource management, public procurement and fiscal transparency, and in sectors such as transport, energy and water and sanitation. The last active project (Statistical Capacity Building Project) was closed in April of 2012.

The Bank and the Government of Turkmenistan are discussing the areas of future activities in the country through a number of different instruments (fee-for-service and technical assistance) to support the areas of potential engagement. The Interim Strategy Note for Turkmenistan is under preparation to provide framework for expansion of cooperation between the Government and the World Bank Group.

NOTES:

¹ Central Intelligence Agency, 2012. CIA World Factbook: Turkmenistan. Available from:

https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_tx.html

² Freedom House: Nations in Transit, 2012: Turkmenistan. Available from

<http://www.freedomhouse.org/report/nations-transit/2012/turkmenistan>

³ The provinces include: Ahal Welayaty (Anew), *, Balkan Welayaty (Balkanabat), Dashoguz Welayaty, Lebap Welayaty (Turkmenabat), Mary Welayaty Central Intelligence Agency, 2012. CIA World Factbook: Turkmenistan

https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_tx.html

⁴ Freedom House Nations in Transit 2011: Turkmenistan http://www.freedomhouse.org/sites/default/files/inline_images/NIT-2011-Turkmenistan.pdf

⁵ EIU Country Report 2012 http://www.eiu.com.libproxy-wb.imf.org/report_dl.asp?issue_id=548753039&mode=pdf

⁶ Central Intelligence Agency, 2012. CIA World Factbook: Turkmenistan. https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_tx.html

⁷ Economist Intelligence Unit, 2011. "The Economist Intelligence Unit's Index of Democracy". Available from: http://www.sida.se/Global/About%20Sida/S%C3%A5%20arbetar%20vi/EIU_Democracy_Index_Dec2011.pdf

⁸ Economist Intelligence Unit, 2011. "The Economist Intelligence Unit's Index of Democracy". Available from: http://www.sida.se/Global/About%20Sida/S%C3%A5%20arbetar%20vi/EIU_Democracy_Index_Dec2011.pdf

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¹⁰ Freedom House. Freedom in the World 2011 <http://www.freedomhouse.org/template.cfm?page=363&year=2011&country=8161>

¹¹ Heritage Foundation 2012 Index of Economic Freedom. <http://www.heritage.org/index/country/turkmenistan>

¹² Heritage Foundation 2012 Index of Economic Freedom. <http://www.heritage.org/index/country/turkmenistan>

¹³ Reporters Without Borders Press Freedom Index <http://en.rsf.org/turkmenistan-turkmenistan-12-03-2012,42069.html> <http://en.rsf.org/press-freedom-index-2011-2012,1043.html>

¹⁴ European Commission Development and Cooperation – Europeaid Turkmenistan http://ec.europa.eu/europeaid/where/asia/country-cooperation/turkmenistan/turkmenistan_en.htm

¹⁵ Oil & Gas Eurasia, “Ukraine Supports Trans-Caspian Gas Pipeline Project” 4.9.2012 available from <http://www.oilandgaseurasia.com/news/p/0/news/14709/>

¹⁶ Freedom House Nations in Transit 2011: Turkmenistan http://www.freedomhouse.org/sites/default/files/inline_images/NIT-2011-Turkmenistan.pdf pg.557

¹⁷ Reporters Without Borders for Press Freedom: Internet Enemies 2012. Available from: <http://en.rsf.org/turkmenistan-turkmenistan-12-03-2012,42069.html>