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Turkmenistan: Country Assistance Strategy

Turkmenistan’s membership in the World Bank Group has been short and uneventful since becoming a member in 1993. From 1995 to 1997, it received Bank support through three loans (TA for institution-building, urban transport and rural water supply) and a series of policy studies. During most of 1998 and the first half of 1999 all activities were suspended because of the investigation of a small but complex case of misprocurement (the first under the Bank’s new anti-corruption rules). Since then, the Bank resumed activities gradually and at a low level, hampered by a very small country budget, insufficient and ever-changing staff allocations and a difficult dialogue with the Turkmen authorities. Turkmenistan is one of the few countries where the Bank has only a liaison office in the country which is staffed by a local staff member working out of two rooms in the UN delegation office.

This position in the Bank Group has to be seen against the backdrop of the country’s economic situation. Turkmenistan lost over 50 percent of its GDP after the dismemberment of the Soviet Union. Until 1999, it missed the opportunity of using the strong oil and gas sector as a motor for development because of the regional economic crisis, falling prices, non-paying customers and a blocked main export pipeline. In spite of these adverse developments, the Turkmen authorities managed to maintain economic and political stability. This came at a price: envisaged institutional and structural reforms slowed down or were not started. Since 1999, growth has been impressive (see Annex 1) driven by both the energy and agriculture (cotton and wheat) sectors. But whether this export base will become a sustainable source for the economy will depend on uncontrollable external risks as well as internal structural reforms. Even if successful, the country will have to avoid the pitfalls of a dual economy and Dutch disease.

The Turkmen authorities are grateful that, through this CAS, the dialogue with the World Bank Group will intensify. They share some of the concerns expressed by Bank staff but think that the CAS does not sufficiently value Turkmenistan’s positive achievements. They consider the long suspension of disbursements as one of the main causes for their non-compliance with the goals of the 1997 CAS. While the three-stage approach to Bank activities recommended in the CAS makes sense, the means proposed by the Bank to support the country are insufficient, and some of the policy steps required to pass to a higher level of engagement are too encompassing and express distrust. Specifically, we would like to make the following recommendations.
• We agree with the emphasis on building a more solid foundation of economic capacity. However, the steps the Government must comply with to pass from non-lending to minimal lending (basic needs lending) are considerable as they are the essential first steps for a total overhaul of fiscal and debt management. While the Government agrees to go in this direction, it will need more determined technical support than presently available or envisaged by the Bank to reach these goals quickly. For example, the options to modify the management of the Foreign Exchange Reserve Fund will have to be explored carefully. Greater transparency in the FERF will be closely linked to a separation of the policy and productive functions in the oil and gas sector, which will also have to be planned. These policy and planning steps should also be more narrowly defined since there is no good reason (if the implementation of ongoing projects improves) why first new projects should not be undertaken while the policy reforms take place. Reading some passages of the CAS document, it is our impression that the Bank does not seriously expect for some of these steps to happen and assumes a non-lending scenario for the next three years (e.g. paras. 66, 68, 86, 31, 30).

• For the proposed strategy to be successful, it will be essential to create a more continuous and trusting relationship between the Bank and the Turkmen authorities. More solid knowledge of country realities would be required. We consider that the upgrading of the liaison office to a country office is an essential step to achieve this. An experienced country representative who is able to establish a solid professional working relationship at the highest levels would provide this missing link, as UNDP has demonstrated. Also, the Bank’s country team should become more stable and exposed to Turkmen realities. For instance, it is urgent to assign a macro-economist as spurious, one-time assignments are not helpful.

• While we understand IFC’s reasons for its minimal involvement in Turkmenistan, we encourage IFC to make a more determined effort at identifying projects, even during the initial phase (para. 73). As to the second stage (para. 74), we are surprised to see that IFC requires the completion of most major market reforms before stepping up its activities. It might be more operational to define the minimal critical reforms necessary to engage in projects and use the projects themselves to create a more level playing field. There are many business opportunities in the energy sector, textile industry, manufacturing and agribusiness, including food processing, packaging and extension. This pro-active approach has led to very promising involvement in other transition countries.

• It is obvious that such steps would imply an increase in the administrative budget assigned to Turkmenistan. We are aware that a mechanical application of cross-country performance criteria might not justify such an increase. However, we are convinced that the World Bank Group has a special responsibility towards countries that are recent members, are going through the double revolution of creating free markets and more democracy and are not yet able to become major borrowers.

The main reason for these recommendation is our fear that the Bank’s proposal for a three-stage engagement contains the seed of a vicious cycle of lowering the respective understanding of local and Bank realities, growing mutual distrust, and decreasing engagement.
Turkmenistan is on its way to becoming a market economy. The transition period in Turkmenistan, like in many other countries, involves the creation of new forms and approaches to economic activities, the adaptation to new conditions, and the reorganization of ineffective forms of activity. There is not a "unique model" for transforming a planned economy into a market economy. Countries in transition during this process are "learning by doing" and are developing and introducing reform programs according to their own context. Turkmenistan has chosen a strategy of phased reforms, paying full attention to the social security of the people. This has helped to maintain political stability and foster trust. The measures undertaken in Turkmenistan in the years of independence, including creation of an extensive social safety net, have led to a decline of maternal and infant mortality, increased life expectancy and maintained the nation’s well-being. Only seven percent of the population currently live below the absolute poverty line. This achievement lends credence to Turkmenistan's gradual approach. In comparison, many FSU countries which have successfully implemented radical policy reforms have experienced a significant increase in poverty and a deterioration of major social indicators.

Finally, I would like to express the sincere appreciation of my Turkmen authorities to the country team for the continuous assistance it has provided to Turkmenistan.