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**AND**

**INTERNATIONAL FINANCE CORPORATION**

**INTERIM STRATEGY NOTE**

**FOR**

**TURKMENISTAN**

**FOR THE PERIOD FY14-15**

**June 26, 2013**

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

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

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The last Country Assistance Strategy was discussed by the Board on January 23, 2001

### **Currency Equivalents**

Currency Unit: Turkmen Manat (TMT)

US\$1: TMT 2.85

TMT1: US\$ 0.35

(June 15, 2013)

### **Government Fiscal Year**

January 1—December 31

### **Weights and Measures**

Metric System

## **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
CAS	Country Assistance Strategy
CBT	Central Bank of Turkmenistan
CEP	Caspian Environment Program
CAREC	Central Asia Regional Economic Cooperation
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICP	International Comparison Program
IsDB	Islamic Development Bank
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MDG	Millennium Development Goal
MoF	Ministry of Finance
NPSD	National Program for Socioeconomic Development, 2011-2030
RDP	Rural Development Program
SF	Stabilization Fund
SIO	State Insurance Organization
SSC	State Statistics Committee
RAS	Reimbursable Advisory Services
TICA	Turkish International Cooperation Agency
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WBG	World Bank Group
WDI	World Development Indicators
WTO	World Trade Organization

**TURKMENISTAN**  
**INTERIM STRATEGY NOTE, FY14-15**

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## EXECUTIVE SUMMARY

i. **With growth averaging 11 percent annually since 2007, according to official data, Turkmenistan has recently been one of the fastest expanding economies in the world.** Its economy is dominated by hydrocarbons which, including related gas processing and oil refining, are estimated to account for over half of GDP. The 2008-09 global economic downturn affected Turkmenistan mainly through lower external demand for its oil products and natural gas exports. After slowing to a still acceptable 6.1 percent in 2009, GDP growth recovered to 9.2 percent in 2010 and, as a result of increased gas exports especially to China and sustained public investment, to 14.7 percent in 2011 and 11.1 percent in 2012.

ii. **While the medium-term outlook is broadly favorable, it largely depends on external demand for, as well as the price of Turkmenistan's oil and gas.** The baseline growth projection of 10 percent in the medium-term (2013-15), in line with recent outcomes, is explained by the expected continued high growth of natural gas exports to China. However going forward, Turkmenistan will need to be prepared to address vulnerabilities associated with the downside risk of declining gas prices, in particular improve the framework for managing and effectively using its abundant hydrocarbon resources. To achieve sustainable, inclusive growth in the long-term, it will need to enhance governance and macroeconomic management, implement its strategy to encourage growth in job-creating sectors, develop its banking system, and expand the role of the private sector. This will involve *inter alia*: strengthening public financial management; eliminating directed or policy lending by the central bank; implementing market-oriented structural reforms; and bringing national statistics into line with international standards. These challenges will require sustained commitment by the authorities, as well as substantial investments in human capital and institutional capacity.

iii. **The strategic goal of the government's long-term *National Program for Socioeconomic Development, 2011-2030* (NPSD) is to diversify the country's economy.** It incorporates four guiding principles, namely: high rates of growth; macroeconomic stability; private sector development; and improved living standards. The program also anticipates future growth being generated more and more by the private sector, with increasing use of market mechanisms to facilitate structural reforms and promote private savings. Improved living standards—a primary goal of social development—would be achieved through a mix of economic and social policies, with the latter incorporating two objectives: an increasing middle-class through new, more attractive private sector jobs, expanded employee training and re-training, and higher incomes; and, a declining number of disadvantaged and vulnerable people through increased and better targeted social assistance and higher quality social service delivery. Final NPSD outcomes by 2030 would include: a more diversified economy less reliant on the extraction and export of hydrocarbons and other minerals; more agricultural and other products processed domestically; increasing use of alternative, renewable sources of energy; and mainstreaming of modern methods for protecting the country's ecology.

iv. **Though a member since 1992, Turkmenistan’s engagement with the World Bank Group (WBG), including with IFC which it joined in 1997, has been limited.** In 2011, pursuant to efforts underway since 2007 to broaden and deepen Turkmenistan’s relations with the international community, the authorities signaled their interest in further developing their relationship with the Bank Group; and in May 2012, the principles of a reimbursable advisory services program—the core of this interim strategy—were agreed with the government. The purpose of this interim strategy is thus to help the government address selected issues related to the country’s development priorities. It consists of two components: *first*, a small, reimbursable advisory services program narrowly focused on activities in three areas proposed by the government—macroeconomic statistics, financial sector development, and private sector development; and *second*, a modest agenda of strategic studies that would provide an analytical foundation for addressing reform priorities in the country’s long-term development strategy selected by the government. The reimbursable services program would be implemented and supervised by the Bank and IFC; and the strategic studies would be financed and executed by the Bank and IFC in line with standard internal procedures for such activities. Bank lending has been neither requested nor is contemplated. Likewise, IFC has no specific investment proposals or plans at this stage, although it remains open to providing financial support for small and medium-sized private enterprise development and foreign direct investment.

v. **The interim strategy and program’s effectiveness would be measured by qualitative criteria defined and agreed with the Turkmen authorities *a priori* for each activity, rather than a conventional CAS-type results framework.** Overall, the key benchmark of success would be its completion in full to the mutual satisfaction of the Turkmen authorities and the Bank Group by end-FY15. This low-key, measured approach reflects the lessons of past experience, as well as the preference of the government, and is judged appropriate in this particular case. From the Bank Group’s perspective, it provides a novel, albeit narrow entry point for renewed engagement, as well as a potential learning opportunity that may, or may not lead to broader involvement in the future. Program implementation would be closely coordinated with the ongoing and planned activities of other development partners in the country.

vi. **Despite its narrow focus and small size, the interim strategy and program pose at least three risks that will need to be monitored and, if needed, managed.** *First*, significant political commitment as well as enhanced institutional capacity will be required. *Second*, the Bank Group’s renewed and visible involvement in Turkmenistan—a country ranked low on most governance quality indicators—may be judged to pose reputational risks. *Third*, a relationship based upon specific reforms of a mainly technical nature may be deemed to have limited value-added absent a broader economic dialogue; its effectiveness will also depend on the timely availability of robust data. The interim strategy addresses these risks which, given the modest commitment envisaged, are considered manageable.

## I. COUNTRY CONTEXT

### A. Socio-Political Context

1. **Landlocked and mainly desert, with a population of about 6.3 million and a GDP per capita of about US\$5,587 in 2012,<sup>1</sup> Turkmenistan is an energy resource-rich country.** With natural gas reserves estimated to be the fourth largest in the world—exported to Russia, Iran, and since 2010 increasingly to China as well—its economy is dominated by energy resources, primarily gas and oil. Including related gas processing and oil refining industries, they account for over half of GDP. Though agriculture, mostly irrigated cotton and wheat, now accounts for only about 10 percent of GDP, less than half its share in 1990, it still employs a significant portion of the country’s labor force.

2. **Following independence in 1991, Turkmenistan adopted a gradual approach to economic and political reforms and, more than twenty years later, the state still plays a leading role in most aspects of the economy.** The president, who is both head of state and government, chairs the Cabinet of Ministers and appoints its members. The new constitution introduced in 2008 permits the formation of political parties; and, in August 2012, a new party—the Union of Industrialists and Entrepreneurs—ended the monopoly of the ruling Democratic Party of Turkmenistan. This and the possible creation of an agrarian party may be intended to broaden the political base and presage greater private participation in the economy. However, despite these and other gradual trends towards more openness, most governance quality indicators describe public accountability as weak and participation in economic and social policy dialogue as limited.

3. **The availability and quality of economic, financial, and social data remain a major challenge.** While the authorities are undertaking steps to enhance the efficiency and effectiveness of public administration and services at all levels, this will need to be supported by better access to basic economic, financial, and social data. In this regard, efforts are underway to improve the quality of macroeconomic and other statistics, align them with international conventions and standards, and make them more publicly accessible. Examples include: the recent publication of a statistical yearbook; measures to improve the country’s national accounts and financial and monetary statistics, with technical assistance from the International Monetary Fund (IMF); implementation of various “e-government” initiatives; and rapid development of the government’s internet presence. Such initiatives are needed not only to enhance the quality and relevance of the government’s own economic analysis, monitoring, and policy-making, but also to facilitate Turkmenistan’s compliance with its international obligations and, indirectly, to help attract more private and foreign direct investment (FDI)<sup>2</sup>, especially to the non-hydrocarbon sectors of the economy.

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<sup>1</sup> According to preliminary results of the December 2012 census, the first since 1995, the population is 6.3 million.

<sup>2</sup> According to the UN Conference on Trade and Development’s 2012 World Investment Report, Turkmenistan ranks among the top 10 countries in terms of receiving foreign direct investment (FDI), mostly in hydrocarbon-related sectors.

## **B. Living Standards, Gender and Millennium Development Goals**

4. **Since 2007, large increases in real *per capita* spending on education, health, and social security have contributed to gradually improving scores on UNDP’s Human Development Index.** The government supports living standards by providing a wide range of goods and services to the entire population either free of charge or at negligible cost. Prices for staples such as bread, electricity, gasoline, and water are low even by regional standards; education is free; and health care, housing, and public transport for public sector employees—estimated at about 30 percent of the labor force—are heavily subsidized. However, owing to the lack of up-to-date information and unavailability of recent household survey data, it is unclear to what extent the doubling in Turkmenistan’s GNI *per capita* since 2006 is reflected in higher incomes, better living standards, or lower poverty among the population at large, especially in rural communities.<sup>3</sup> The government recently increased the prices of bread, flour and public transport and has begun exploring options to improve the efficiency and effectiveness of public services, including the targeting of certain subsidies. However, administrative price controls on selected goods and services will remain in the foreseeable future.

5. **Turkmenistan’s progress towards its Millennium Development Goals (MDGs), including gender-related and other data, is currently being updated.** In 2011, the share of women in the labor force was estimated at 44 percent, up slightly since 2007 and lower than the 49.9 percent average for the developing countries of Europe and Central Asia. The share of girls at secondary vocational and higher education institutions is currently estimated at 54 percent and 33 percent respectively, but at high schools was only half that of boys in 2010-11. More broadly, Turkmenistan scores well on such intermediate indicators as female and male youth literacy, measles immunization, and improved sanitation; and infant, under-5 child, and maternal mortality have all declined significantly since 1990. Thus, progress towards these particular MDGs appears to be on track. The authorities are currently working with the UN to update MDG data.

## **C. Recent Economic Developments<sup>4</sup>**

6. **With growth averaging 11 percent annually since 2007, according to official data, Turkmenistan has recently been one of the fastest expanding economies in the world.** The global economic downturn of 2008-09 affected Turkmenistan mainly through lower external demand for its natural gas and oil products. As a result, the economy slowed to a still acceptable 6.1 percent in 2009. In 2010, growth recovered to 9.2 percent and after reaching 14.7 percent in 2011, thanks mainly to higher gas exports to China as well as sustained public investment, increased further to an estimated 11.1 percent in 2012.

7. **Growth is driven mainly by hydrocarbons, although other sectors also contribute significantly.** Hydrocarbons, including related gas processing and oil refining,

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<sup>3</sup> According to the WBG’s Development Data Platform, Turkmenistan’s GNI *per capita* (Atlas method, current US\$) increased from US\$1,900 in 2006 to US\$4,920 in 2011.

<sup>4</sup> Source: *Turkmenistan: Time to Balance Investment Priorities*, World Bank Economic Report No. 2, May, 2013.

account for over half of GDP and were the largest contributors to the 11.1 percent growth recorded in 2012. Growth remained high in construction, more than 30 percent year-on-year, and both non-metallic minerals and textiles grew by more than 10 percent. The main long-term trends in the sectoral composition of GDP since 2000 have been threefold: the increasing share of industry—accounting for more than 49 percent in 2012; the declining roles of agriculture and services, now averaging 10 percent and 16 percent respectively; and the recent surge in construction, from 10 percent in 2008 to over 15 percent in 2012. This is partly explained by a huge increase in public infrastructure investment, including in the capital, Ashgabat, and also by the ongoing national rural development program (*cf.* para. 18 below). Meanwhile, retail trade has increased, slowly but steadily, from 5.3 percent of GDP in 2008 to almost 7 percent at present.

8. **Recently high rates of growth have been powered not only by gas exports but also by high and rapidly increasing public investment.** In 2012, capital investment by the central and local governments in large industrial and rural and urban social infrastructure projects almost doubled in nominal terms compared to 2011. This was accompanied by a 27 percent increase by state-owned enterprises. Overall investment at about 50 percent of GDP, two thirds from public sources, is one of the highest in the world. This rapid expansion was fueled not only by domestic but also by substantial foreign direct investment (FDI), though the latter was mostly in hydrocarbons. In this context, with FDI totaling US\$4 billion in 2012, Turkmenistan's FDI/GDP ratio was 12 percent of nominal GDP, among the highest in the Commonwealth of Independent States (CIS).

9. **In 2012, inflation averaged 5.3 percent, though an increase in administratively controlled prices during the second half resulted in higher end of year inflation.** Headline inflation has tracked global food prices. However, increases in administratively set prices for domestic food items and transportation services pushed up overall inflation during the second half to 7.8 percent by the end of 2012. The government still employs administrative methods to control the prices of many food and construction materials and, when needed to counter inflationary pressures, initiates food imports and other measures. In 2013, inflation is expected to average 7.6 percent, pushed mainly by the expected high level of public spending.

10. **Turkmenistan's fiscal performance remained strong during 2012.** State Budget revenues increased by about 40 percent compared to the 2011 outturn and exceeded the approved budget by about 60 percent. State Budget expenditure was contained at an initially approved level that was 20 percent higher than 2011. Although the country runs an overall fiscal surplus and has been able to build a comfortable buffer, its potential vulnerabilities are better illustrated by the non-hydrocarbon primary deficit which reached about 10 percent of non-hydrocarbon GDP in 2012. This reliance on hydrocarbons needs to be addressed not only by diversifying endowments, products, and services, but also trading partners.

11. **In 2012, external sector performance remained positive.** With record growth in gas exports and prices and a surge in oil prices, export revenues surpassed the pre-crisis level, ensuring a balanced current account, and official reserves remained at a comfortable

level. Excluding hydrocarbons, however, the trade deficit is around 40 percent of GDP—a structural deficit that has widened from 30 percent of GDP each year since 2010. Meanwhile, trade remains heavily concentrated in a few commodities, with natural gas and oil accounting for an estimated 78 percent of total exports in 2012, according to official data. This very high share underscores the need to stimulate growth in more employment-intensive sectors.

**12. China, Turkey, and Russia are Turkmenistan’s main trading partners, each with sizeable shares of both imports and exports.** Since the opening of the Central Asia-China pipeline in December 2009, gas exports to China have increased rapidly and by end-2010 exceeded 40 percent of the total. By 2015, this pipeline is expected to be operating at its maximum capacity of 65 billion cubic meters annually, equivalent to more than half of China’s total natural gas demand in 2010. The dominance of hydrocarbons is a structural vulnerability not only for the trade balance but also the current account.

#### **D. Medium Term Outlook**

**13. While the medium-term economic outlook is broadly favorable, it largely depends on external demand for, as well as the price of Turkmenistan’s oil and gas.** The baseline growth projection of 10 percent in the medium-term (2013-15), in line with recent outcomes, is explained by the expected continued high growth of natural gas exports to China. However, going forward, Turkmenistan will need to address vulnerabilities associated with the downside risk of falling gas prices. While the diversification of export routes to China and Iran since 2010 helps balance the limited risk of contagion from the continuing Eurozone crisis, slower growth in China and Russia may present more serious challenges. Risks to the longer-term outlook are essentially the same, namely the economy’s reliance on hydrocarbons as well as their potential price volatility, including quarterly adjustments under long-term delivery contracts.

**14. To achieve inclusive, sustainable growth in the longer-term, Turkmenistan needs to facilitate an expanded role for the private sector, improve its overall governance and macroeconomic management, and develop its banking system.** This will involve *inter alia*: (a) implementing market-oriented structural reforms, in particular to improve the business environment (especially for small and medium enterprises), facilitate internal and external trade, and reduce domestic price and interest rate distortions; (b) bringing national statistics into line with international standards, as well as improving public access to, and the quality of, basic economic, financial, and social data, thereby increasing accountability and transparency; (c) strengthening public financial management and improving the quality of public investment and social spending; and (d) eliminating directed or policy lending by the central bank, introducing international financial reporting standards (IFRS), enhancing bank regulation and supervision, and expanding private sector access to credit. These challenges will require sustained commitment by the authorities, as well as substantial investments in human capital and institutional capacity.

## E. Turkmenistan's Development Strategy

15. **The strategic goal of the government's long-term *National Program for Socioeconomic Development, 2011-2030* (NPSD) is to diversify the country's economy.** Approved in 2010, the NPSD calls for the country's development to be accelerated through a combination of stronger institutions and policies, better synergy between the public sector and private market forces, greater use of modern technology, and deeper integration into the global economy. It incorporates four guiding principles, namely: high rates of growth; macroeconomic stability; private sector development; and improved living standards and quality of life. It also anticipates future growth being generated more and more by the private sector, with increasing use of market mechanisms to facilitate structural reforms and promote private savings. Macroeconomic stability would be maintained by policies designed to ensure a balanced budget, low inflation, increased trade, and a positive trade balance.

16. **Improved living standards are to be achieved through a blend of economic and social policies.** Economic policies 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, for industries with export potential; and (c) *infrastructure*—expanding and modernizing the country's communications and transport systems. 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 re-training, and higher incomes; *second*, reducing the number of disadvantaged and vulnerable people through more and better targeted social assistance and higher quality social services.

17. **Against this background, the NPSD envisions several qualitative long-term outcomes for the country's economic and social development by 2030.** These include: a more diversified economy, less dependent on the extraction and export of hydrocarbons and other minerals, that is characterized by: enhanced human capital with an improved skills base; upgraded market institutions; expanded domestic processing of agricultural and other products, such as cotton textiles, fruit, vegetables, and livestock; increased production of chemicals and construction materials, increased use of alternative, renewable sources of energy; and the mainstreaming of modern, evidence-based approaches to the protection of the country's ecology, including the management of its scarce arable land, water, and forestry resources. In this latter context, the government's recently approved national climate change strategy—presented to the United Nations Conference on Sustainable Development in Rio de Janeiro in June 2012—provides an analysis of the country's serious climate change issues and a framework for the definition and implementation of a national climate change policy.

18. **Meanwhile, upgrading the country's rural infrastructure and increasing the rural population's living standards are the special focus of an ongoing national and rural development programs.** Approved by President Berdymukhamedov in April 2007 and covering the thirteen years 2008-20, this large investment program (72.5 trillion manats

at 2007 exchange rates and prices, or about US\$25 billion) represents a major effort to upgrade educational, health, and cultural facilities, energy and water supply, communications and transport, and local government infrastructure at the district, town, and village level in the country's five regions. It is also designed to complement and support accelerated implementation of reforms in agriculture, such as recently increased procurement prices for cotton and grains and the liberalization of fruit, vegetables and livestock production by private farms.

## II. BANK GROUP INTERIM STRATEGY

### A. Background

19. **Though a member since 1992, Turkmenistan's engagement with the World Bank Group (WBG), including with IFC which it joined in 1997, has been limited.** A country economic memorandum in 1994<sup>5</sup> was followed by two country assistance strategies, in 1997 and 2000 respectively,<sup>6</sup> and three loans—for institution-building and technical assistance (1994-2003), urban transport (1997-2001), and water supply & sanitation (1997-2004). During 1998-2003, several analytical and advisory activities were undertaken in agriculture, energy and infrastructure, human development, and public resource management. Since 2004, the Bank has maintained a small, trust fund-financed program of mainly technical assistance activities, including for accounting and auditing, anti-money laundering/counter terrorism financing, and statistical capacity building. Annex E summarizes the Bank's involvement in Turkmenistan to date, including the lessons learned that have informed the design and preparation of this interim strategy.

20. **During the last five years, President Berdymukhamedov has launched a series of important reforms in several areas, including agriculture, education, financial and private sector development, and social security.** The president has also led efforts to broaden and deepen Turkmenistan's relations with the international community by reaching out to the country's regional neighbors and, in particular, by intensifying its cooperation with the United Nations (UN) system and bilateral and multilateral development agencies. Since 2007, for example, Turkmenistan has hosted a UN Center for Preventive Diplomacy in Central Asia in Ashgabat and, in 2012, the president proposed the creation of a similar regional center for climate change. Meanwhile, several international financial institutions have increased their presence (*cf.* para. 30 below) and, in 2011, the authorities signaled their interest in further developing their relationship with the World Bank Group through a program of reimbursable analytical and advisory services. Thus, in May 2012, the contours and principles of such a program—the core of this interim strategy—were discussed and agreed during a meeting with President Berdymukhamedov in Ashgabat.

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<sup>5</sup> Turkmenistan: *Country Economic Memorandum*, Report No. 11647-TM, February 7, 1994.

<sup>6</sup> Turkmenistan: *Country Assistance Strategy*, Report No. 16547-TM, May 5, 1997.

Turkmenistan: *Country Assistance Strategy*, Report No. 21530-TM, December 22, 2000.

## **B. Interim Strategy and Program, FY14-15**

21. **The purpose of the interim strategy is to assist the government address selected priority issues related to the country's overall development priorities.** It consists of two components: *first*, a small, reimbursable advisory services program narrowly focused on activities in three areas proposed by the government—macroeconomic statistics, financial sector development, and private sector development; and *second*, a modest agenda of strategic studies that would provide an analytical foundation for addressing reform priorities in the country's long-term NPSD. The reimbursable advisory services program would be implemented and supervised by the Bank and IFC. The analytical studies would be financed and executed by the Bank in line with standard internal procedures for such activities and with IFC support where appropriate.

22. **Given the state's leading role in most areas of the economy, the political challenges posed by liberalization, and the modest scope and narrow focus of the interim strategy, outcomes are expected to be equally modest and incremental, with no predetermined outcome.** The effectiveness of the interim strategy and program would be measured not by reference to a conventional CAS-type results framework, nor necessarily by its progression to a full country partnership strategy, but by qualitative criteria defined and agreed with the Turkmen authorities *a priori* for each activity. Overall, the key benchmark of success would be completion by end-FY15 of the agreed program of activities to the mutual satisfaction of the Turkmen authorities and the Bank Group. While these outcomes may be considered insufficiently ambitious or challenging, they reflect the lessons of past experience—in particular, the need for simple objectives focused on the most critical issues and for institutional and policy changes and reforms to be linked to the country's political economy—as well as the preferences of the Turkmen authorities, and are judged appropriate in this particular case. From the Bank Group's perspective, this low-key, measured approach provides a novel, albeit narrow entry point for renewed engagement, as well as a potential learning opportunity that may, or may not lead to broader involvement in the future. Meanwhile, Bank lending has been neither requested nor is contemplated. Likewise, IFC has no specific investment proposals or plans at this stage, although it remains open for providing financial support for small and medium-sized private enterprise development and foreign direct investment.

## **C. Program Description**

23. The interim strategy's program is depicted graphically in Table 1 below, summarized in paras. 24-27 below, and described in more detail in Annex B1.

### **Reimbursable Advisory Services**

24. **Macroeconomic Statistics.** The objectives of these two discrete but inter-related activities, would be: (a) to assist the State Statistics Committee (SSC) enhance the quality of Turkmenistan's national accounts by introducing methodologies for computing input-output (I/O) tables; and (b) to enable the SSC's participation in the next round of the International Comparison Program (ICP), allowing it to access data on relative price levels

of consumer and capital goods and to update Turkmenistan’s purchasing power parity (PPP) index.

25. **Financial Sector Development.** The second and largest element of the reimbursable advisory services program would consist of four individual activities, all designed to support the further development of Turkmenistan’s banking system and, more broadly, its emerging financial sector. Two would facilitate efforts by the Central Bank of Turkmenistan (CBT): (a) to strengthen the supervision of banks and other financial institutions—by aligning the regulatory framework for licensed financial institutions to Basel standards and by developing a more risk-oriented approach; and (b) to upgrade the country’s inter-bank payments and clearing systems and, in addition, identify initiatives to enhance the development of the non-cash retail payments market. In this connection, if requested by the authorities, IFC would be ready to provide Reimbursable Advisory Services to help CBT develop an effective and modern credit reporting system with the ultimate goal of improving financial market infrastructure. The third activity would help the Ministry of Finance (MoF) design strategic approaches for financial sector development by reviewing and making recommendations to strengthen the existing legal and institutional framework, and assist the authorities prepare a strategic concept for the development of securities markets. The fourth would assist the MoF and the State Insurance Organization (SIO) strengthen their regulatory oversight capacity and support the development of insurance services.

**Table 1: Interim Strategy Program, FY14-15**

Advisory Services	Activity	Funding Modality
<b>Macroeconomic Statistics</b>	<ul style="list-style-type: none"> <li>• National accounts—input-output tables</li> <li>• Strengthening capacity for participation in 2014 round of International Comparison Program (ICP)</li> </ul>	Reimbursable Advisory Services
<b>Financial Sector Development</b>	<ul style="list-style-type: none"> <li>• Strengthening bank regulation and supervision</li> <li>• Developing inter-bank payments system</li> <li>• Designing strategies for financial sector development, including securities markets</li> <li>• Strengthening institutional oversight capacity for insurance</li> </ul>	Reimbursable Advisory Services
<b>Private Sector Development</b>	<ul style="list-style-type: none"> <li>• In-country seminar/training for valuation<sup>7</sup></li> <li>• Financial advisory services for one or more pilot privatizations</li> </ul>	IFC Trust Funds
Analytical Studies	Topic	Funding Source
	<ul style="list-style-type: none"> <li>• Options to enhance the diversification of Turkmenistan’s economy</li> <li>• Priorities for enhancing Turkmenistan’s investment climate</li> <li>• Improving Turkmenistan’s privatization process</li> <li>• Strategies for expanding private entrepreneurs’ access to finance</li> <li>• Reforms needed to satisfy requirements for accession to World Trade Organization (WTO)</li> </ul>	Bank Budget

<sup>7</sup> This seminar/training activity would be provided and financed by IFC.

26. **Private Sector Development.** The first phase of the government's privatization program, already underway, envisages the sale of all companies with fewer than 100 employees by the end of 2013. The second, scheduled for 2014-16, will cover larger, medium-sized industrial concerns and service-based businesses. The third, planned for 2017 and beyond, will involve the sale of large businesses in construction, transport, communications, and banking. IFC would provide advisory services in two specific areas: (a) *knowledge sharing*—a seminar to share the lessons learned from other countries' experience with privatization and to train officials in preparing valuation models using discounted cash flow and market comparables methodologies; (b) *pilot privatizations*—financial advisory services for one or several pilot privatizations, including deal screening, due diligence, investor search and screening, bid evaluation, and closing. With support from Austrian and Swiss government trust funds, IFC would co-finance privatization transaction costs with the government on a 50-50 basis up to a ceiling of US\$500,000.

### **Strategic studies**

27. A program of strategic studies financed by the Bank Group would provide an analytical foundation for addressing priorities in the country's long-term strategy (NPSD). It would include: (a) a study of options to enhance diversification of Turkmenistan's economy—the NPSD's long-term goal; (b) a study of priorities for enhancing Turkmenistan's investment climate; (c) a study on the policy framework for privatization; (d) a study on strategies for expanding access to finance by private enterprises; and (e) limited advisory support on requirements for accession to the WTO. While this program, selected by the government, precludes analytical involvement in living standards, gender, human development, or social policy issues for the time being, opportunities to broaden the agenda and dialogue would be sought over time—for example by introducing gender and other human development dimensions to relevant studies, such as (a) and (d) above. At the same time, the first of these studies may benefit from the results of the recently completed Europe and Central Asia (ECA) regional flagship study on diversification.

28. Meanwhile, the Bank Group will continue to cooperate with Turkmenistan in various ongoing regional activities and initiatives, including: the Central Asia Energy-Water Development Program (CAEWDP); the Central Asia Regional Economic Cooperation (CAREC) program through its Energy Sector Coordinating Committee; the Central Asian Countries' Initiative for Land Management (CACILM); the Framework Convention for the Protection of the Marine Environment of the Caspian Sea (Tehran Convention); the environmental and social impact assessment study of the proposed Trans-Caspian Pipeline financed by a multi-donor trust fund managed by the World Bank; and knowledge exchange initiatives related to green growth and climate resilient development.

### **D. Consultations and Partnerships**

29. **Stakeholder consultations.** Consultations with government agencies and ministries as well as with representative of development partners active in the country, the private sector, and civil society were conducted during the period August 2-9, 2012 and also during subsequent country management and team visits to Ashgabat through mid-May 2013.

Views expressed during these meetings helped refine the scope of the interim strategy and program. In addition, an executive summary of the interim strategy and program was posted on the Bank's external website in October 2012 in English, Russian and Turkmen to provide opportunities for additional input and comments. The outcome of these consultations was broad endorsement and support for the interim strategy's focused approach and content.

30. **Partnerships.** The main multilateral aid institutions—ADB, EBRD, EU, IsDB, the United Nations and the UN Specialized Agencies, as well as the Bank Group—are represented in Ashgabat, as are several bilateral agencies, such as the German Agency for International Cooperation (GIZ), Turkish International Cooperation Agency (TICA), and 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. In addition, the government leads the newly established 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. Under this umbrella, nine thematic working groups aim to enhance development partners' collaboration and improve aid effectiveness.

31. Although the amount of official development assistance to Turkmenistan has not hitherto been very significant,<sup>8</sup> ADB, EBRD, EU, IsDB, as well as the UN Specialized Agencies have all gradually increased their presence and expanded their activities in recent years. Their main areas of focus include financial and private sector development, human resources, especially education and health, regional energy and transport infrastructure, and the environment. Going forward, the Bank Group will coordinate closely with the IMF for the macroeconomic statistics element of the interim strategy and program and with the ADB, EBRD, IMF, and USAID for its financial and private sector development activities. The IMF conducts Article IV consultations—the 2013 consultation has recently been completed — and in recent years has provided technical 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, all with broadly satisfactory results. Annex F summarizes the scope and size of key development partners' activities in Turkmenistan.

### III. RISKS AND RISK MANAGEMENT

32. **Despite its narrow focus and modest scope, the interim strategy and program pose at least three risks that will need to be monitored and, if needed, managed.** Significant political commitment to reform, dialogue and data availability as well as enhanced institutional capacity will be required. As mitigation, the Bank Group's exposure is circumscribed and the program's small size and narrowly focused content are such that, if necessary, it could be easily adjusted at minimal cost. Moreover, implementation would be supported and periodically monitored by the Bank Group team, including the country

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<sup>8</sup> Recently averaging about US\$40 million annually according to OECD-DAC data.

office in Ashgabat and regional office in Almaty. Not least important, the broad content and principles underlying the program have been endorsed by the country's political leadership. In the circumstances, this risk is considered acceptable.

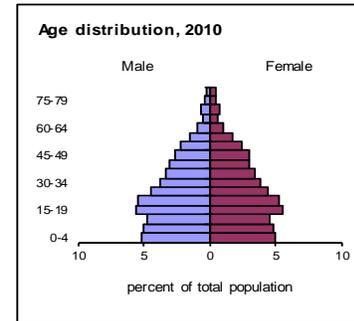
33. **The Bank Group's renewed and visible engagement in Turkmenistan—a country ranked low on most governance quality indicators—may be judged to create reputational risks.** Given that the engagement would be strategic, narrowly defined, and calibrated to the potential for qualitative outcomes—and that other development partners such as the ADB, EBRD, IMF, IsDB and the UN system have been significantly involved for some time—this second risk is considered manageable. As mitigation, a tailored external communications and outreach strategy is planned, explaining the program's specific objectives and intended outcomes. Finally, a relationship based upon specific reform activities of a mainly technical nature may be deemed to have limited value-added absent a broader economic dialogue; its effectiveness will also depend upon the timely availability of robust data. While this is clearly a judgment call, the Bank Group's ability to convene and bring global experience and knowledge to bear is, in the management's view, an important public good that justifies the focused approach of the proposed program.

## Annex A1: COUNTRY AT A GLANCE

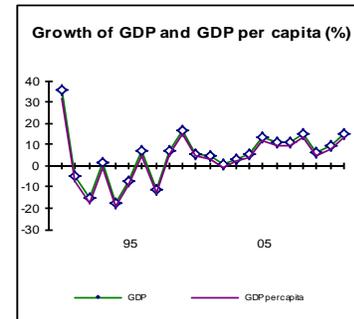
### Turkmenistan at a glance

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Key Development Indicators	Turkmenistan	Europe & Central Asia	Lower middle income
<i>(2011)</i>			
Population, mid-year (millions)	5.1*	405	2,519
Surface area (thousand sq. km)	491	23,614	23,579
Population growth (%)	1.3**	0.4	1.5
Urban population (% of total population)	50	64	39
GNI (Atlas method, US\$ billions)	25.1	2,947	4,078
GNI per capita (Atlas method, US\$)	4,920**	7,272	1,619
GNI per capita (PPP, international \$)	7,490**	13,396	3,632
GDP growth (%)	14.7	5.7	6.9
GDP per capita growth (%)	13.3	5.3	5.3
<i>(most recent estimate, 2005–2011)</i>			
Poverty headcount ratio at \$125 a day (PPP, %)	..	0	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	2	..
Life expectancy at birth (years)	71	71	65
Infant mortality (per 1,000 live births)	19	19	50
Child malnutrition (% of children under 5)	..	2	25
Adult literacy, male (% of ages 15 and older)	100	99	80
Adult literacy, female (% of ages 15 and older)	100	97	62
Gross primary enrollment, male (% of age group)	100	99	110
Gross primary enrollment, female (% of age group)	100	98	104
Access to an improved water source (% of population)	78	96	87
Access to improved sanitation facilities (% of population)	98	84	47



Net Aid Flows	1980	1990	2000	2011 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	..	7	35	43
<i>Top 3 donors (in 2010):</i>				
United States	..	5	8	8
European Union Institutions	..	0	3	6
Germany	..	0	1	2
Aid (% of GNI)	..	0.2	1.3	0.2
Aid per capita (US\$)	..	2	8	9
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	..	103.0	8.0	5.6
GDP implicit deflator (annual % change)	..	-20.9	21.3	19.1
Exchange rate (annual average, local per US\$)	..	0.0	18	2.85
Terms of trade index (2000 = 100)	..	93	100	..
Population, mid-year (millions)	2.9**	3.7**	4.5**	5.1*
GDP (US\$ millions)	..	3,232	2,853	29,233
<i>(% of GDP)</i>				
Agriculture	..	32.2	22.9	10.0
Industry	..	29.6	41.8	62.9
Manufacturing	..	25.5	35.0	49.3
Services	..	38.2	35.2	27.1
Household final consumption expenditure**	..	48.4	36.5	36.8
General gov't final consumption expenditure***	..	8.8	14.2	9.3
Gross capital formation	..	39.6	34.7	46.2
Exports of goods and services	..	10.3	95.5	57.3
Imports of goods and services	..	107.4	80.9	38.9
Gross savings	..	42.8	46.4	53.9



**1980–90    1990–2000    2000–11**  
*(average annual growth %)*

Note: Figures in italics are for years other than those specified. .. indicates data are not available. a) Data as of 2012

\*According to 1995 population census data

\*\* WB Staff estimates

\*\*\* Central Budget Operations

Development Economics, Development Data Group (DECDG), IMF.

<b>Balance of Payments and Trade</b>	<b>2000</b>	<b>2011</b>		
<i>(US\$ millions)</i>				
Total merchandise exports (fob)*	2,506	16,719		
Total merchandise imports (cif)*	1,785	10,447		
Net trade in goods and services**	423	5,390		
Current account balance*	412	582		
as a % of GDP	14.4	2.0		
Workers' remittances and compensation of employees (receipts)	..	..		
Reserves, including gold	N/A	N/A		
<b>Central Government Finance</b>				
<i>(% of GDP)</i>				
Current revenue (including grants)	23.5	18.9		
Tax revenue	18.7	18.4		
Current expenditure	22.1	9.3		
Overall surplus/deficit	-0.3	3.7		
Highest marginal tax rate (%)				
Individual	..	..		
Corporate	..	..		
<b>External Debt and Resource Flows</b>				
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	2,609	N/A		
Total debt service	468	N/A		
Debt relief (HIPC, MDR)	–	–		
Total debt (% of GDP)	91.5	N/A		
Total debt service (% of exports)	16.0	N/A		
Foreign direct investment (net inflows)	131	3,399		
Portfolio equity (net inflows)	0	0		
<b>Technology and Infrastructure</b>				
			<b>2000</b>	<b>2012</b>
Paved roads (% of total)			812	89.8
Fixed line and mobile phone subscribers (per 100 people)			8	73
High technology exports (% of manufactured exports)			...	..
<b>Environment</b>				
Agricultural land (% of land area)			69	81
Forest area (% of land area)			..	..
Terrestrial protected areas (% of land area)			3.0	3.7
Freshwater resources per capita (cu. meters)			..	..
Freshwater withdrawal (billion cubic meters)			..	..
CO2 emissions per capita (mt)			7.9	0.01
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)			..	..
Energy use per capita (kg of oil equivalent)			..	..
<b>World Bank Group portfolio</b>				
			<b>2000</b>	<b>2010</b>
<i>(US\$ millions)</i>				
<b>IBRD</b>				
Total debt outstanding and disbursed			28	11
Disbursements			20	0
Principal repayments			1	1
Interest payments			1	0
<b>IDA</b>				
Total debt outstanding and disbursed			0	0
Disbursements			0	0
Total debt service			0	0
<b>IFC (fiscal year)</b>				
Total disbursed and outstanding portfolio of which IFC own account			0	0
Disbursements for IFC own account			0	0
Portfolio sales, prepayments and repayments for IFC own account			0	0
<b>MIGA</b>				
Gross exposure			0	0
New guarantees			0	0
<b>Private Sector Development</b>				
	<b>2000</b>	<b>2011</b>		
Time required to start a business (days)	–	..		
Cost to start a business (% of GNI per capita)	–	..		
Time required to register property (days)	–	..		
Ranked as a major constraint to business (% of managers surveyed who agreed)	<b>2000</b>	<b>2010</b>		
n.a.	..	..		
n.a.	..	..		
Stock market capitalization (% of GDP)	..	..		
Bank capital to asset ratio (%)	..	..		

Note: Figures in italics are for years other than those specified.  
 .. indicates data are not available. – indicates observation is not applicable.  
 \* IMF data \*\* WB staff estimates  
 Development Economics, Development Data Group (DECDG), IMF.

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## **Annex B1: TURKMENISTAN—REIMBURSABLE ADVISORY SERVICES**

### **A. Macroeconomic Statistics**

#### **1. National accounts—input-output tables**

Until recently, the main statistical product in the field of national accounts was the inter-sectoral balance. When it was decided to discontinue this erstwhile Soviet legacy two years ago, however, nothing was developed to replace it. This technical assistance aims to assist the State Statistics Committee (SSC) introduce methodologies for constructing input-output (I/O) tables, thereby improving the quality of Turkmenistan's national accounts. I/O tables can also be used to cross-check the overall consistency of sectoral statistics and to inform analytical work.

#### **2. Strengthening institutional capacity for participation in 2014 round of International Comparison Program**

Since Turkmenistan did not participate in recent rounds of the International Comparison Program (ICP), the SSC missed these opportunities to develop technical experience and skills in this area. This technical assistance aims to create capacity in the SSC to participate in the next round of the ICP, enabling it to obtain information on relative price levels of consumer and capital goods and on these grounds update the purchasing power parity (PPP) index for Turkmenistan.

### **B. Financial Sector Development**

#### **1. Strengthening regulation and supervision of banks and other financial institutions**

This technical assistance would assist the Central Bank of Turkmenistan (CBT) to: (a) adopt international (Basel) standards for bank regulation; (b) strengthen bank supervision methods and processes; and (c) train CBT staff in the new regulatory framework and supervision methods.

#### **2. Developing inter-bank payments systems**

This technical assistance would assist the CBT to: (a) review the existing legal framework governing payment systems' operations and make recommendations to strengthen it; (b) review CBT's plans for the new payment systems infrastructure to identify additional areas of development that may be required to conform to international practices; (c) train CBT staff and market participants on the effective operation of payment systems; and (d) make recommendations for development of electronic payments services to enterprises and individuals.

### **3. Designing strategic approaches for financial sector development**

This technical assistance would assist the Ministry of Finance (MoF) to: (a) analyze the potential for capital markets development, including a review of the existing infrastructure, institutions and legal framework; (b) assess potential market participants (including demand for and supply of securities); (c) scope the potential for developing various debt and equity instruments by public and private issuers; and (d) make recommendations, including for the legal framework, institutional setting and development of securities.

### **4. Strengthening institutional capacity for insurance**

This technical assistance would assist the MoF and Turkmen State Insurance Organization (SIO) to strengthen their institutional and human resource capacity to oversee the regulatory environment for the insurance industry and develop new insurance services, with particular emphasis on capacity building in risk management techniques and understanding international best practices.

## **C. Private Sector Development<sup>9</sup>**

### **1. Valuation**

This activity would consist of an in-country knowledge sharing seminar for selected governmental officials, delivered and financed by IFC, that would train them in the preparation of valuation models using discounted cash flow and market comparable methodologies and share the lessons learned from other countries' experience with privatization.

### **2. Pilot privatizations**

This technical assistance would make financial advisory services available for one or several pilot privatizations, to be identified separately, that would include deal screening, due diligence, investor search and screening, bid evaluation, and closing.<sup>10</sup>

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<sup>9</sup> IFC executed activities.

<sup>10</sup> With Austrian and Swiss government trust funds, IFC would co-finance (50/50) with the government the cost of financial advisory services for eventual pilot privatizations up to a total of US\$0.5 million.

## **Annex B2: BANK-FUNDED STRATEGIC ANALYTICAL STUDIES**

1. **Study of options for diversifying Turkmenistan’s economy**—analytical briefings to: (a) provide an overview of international best practice examples of economic diversification; and (b) identify areas of Turkmenistan's comparative advantages besides the hydrocarbon cluster. Options for diversification include consideration of trade partners, products and services, and endowments (infrastructure, human capital and institutions).
2. **Study of priorities for enhancing Turkmenistan’s investment climate**—identification of main obstacles to creation of new, and development of existing private enterprises; and, recommendations for reforms needed to address the obstacles identified.
3. **Support for improving the privatization process**—complementing financial advisory services provided by IFC.
4. **Study of strategies for expanding access to finance by private enterprises and entrepreneurs**—(a) identification of main obstacles to effective development of micro-finance, leasing, and factoring, including recommendations to address these obstacles; and (b) identification of gaps or shortcomings in the operations, legal framework and institutional setting of credit bureaus and collateral registries and recommendations to address them; the findings of these studies could potentially lay the ground for consequent IFC Reimbursable Advisory Services on modern credit reporting system development.
5. **WTO accession**—briefing on the legal, policy, and regulatory reforms that would be needed for Turkmenistan to satisfy the requirements for accession to the World Trade Organization (WTO).

### Annex B3: 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 activities, o/w	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 activities, o/w	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: MICSA- Multiple Indicator Cluster Survey, 2012

## Annex B4: SELECTED MACROECONOMIC INDICATORS

	2008	2009	2010	2011
<b>National Accounts</b>				
Real GDP growth rate (annual percent change)	14.7	6.1	9.2	14.7
Real non-hydrocarbon GDP growth rate (annual percent change)	18.6	14.9	8.7	13.1
Gross Domestic Product (in millions of USD)	17358	20215	22583	29233
GDP sectoral composition (percent of total), o/w	100	100	100	100
Industry, o/w	50.5	42.7	40.4	49.3
Construction	10.1	18.2	18.7	13.6
Agriculture	10.7	10.5	11.3	10.0
Transport	4.1	5.0	5.9	4.6
Trade	5.3	6.1	6.9	5.9
Other services	19.3	17.5	16.8	16.6
<b>Monetary Indicators</b>				
Total credits to the economy (mln TMM), o/w	9,942	13,025	17,203	21,141
Credits to the private sector	515	902	1,580	2,744
CPI inflation, end-of-period (percent change)	8.9	0.1	4.8	5.6
CPI inflation, period average (percentage change)	14.6	-2.7	4.4	5.3
<b>Investment/Savings (in % of GDP)</b>				
Total Investment, o/w	31.4	47.5	45.3	46.2
Public	18.4	31.8	30.3	33.6
Non-government sector	12.9	15.7	15.0	12.6
<b>General Government operations (% of GDP)</b>				
Total Revenues, o/w	20.4	20.4	15.8	18.9
Tax Revenue, o/w	20.3	20.1	15.2	18.4
Hydrocarbon tax revenues	13.3	11.7	7.4	10.4
Total Expenditures, o/w	10.9	17.6	13.8	15.2
Current expenditures	8.8	13.5	9.4	9.3
Capital expenditures	2.1	4.1	4.4	5.9
Overall balance	9.5	2.8	2.0	3.7
Non-hydrocarbon balance	(7.1)	(8.7)	(8.4)	(8.5)
<b>External Sector (in USD)</b>				
Exports of goods and services	11,945	9,323	9,679	16,751
o/w exports of gas, oil and oil products	10,890	8,570	8,141	15,519
Imports of goods and services	5,707	8,992	8,204	11,361
Merchandise trade balance	6,238	331	1,476	5,390
Capital and financial account	153	5,111	2,307	2,958
Foreign direct investments	1,277	4,553	3,631	3,399

## Annex C: MILLENNIUM DEVELOPMENT GOALS

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 institutions	69	63	65.1	58.2	54.1	50.0
Percentage share of women in higher education institutions	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 sectors	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 ***, o/w					78	
In rural settlements					69	
In urban settlements					92	
Percentage of population having own housing, including private housing, o/w	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.

## **Annex D: CONSULTATIONS WITH STAKEHOLDERS**

### **Background**

1. From August 2-9, 2012, a first round of in-country consultations was held with government agencies and ministries and with representatives of development partners, the private sector, and some civil society organizations (CSOs). Their purpose was: (a) to present, discuss, and seek feedback on the interim strategy and proposed program; and (b) to exchange views about other development partners' ongoing and planned activities, including the scope for inter-agency coordination and synergy.

2. In October 2012, a summary of the interim strategy and program was posted on the Bank's external website in English, Russian and Turkmen, inviting comments and/or additional input from interested stakeholders. Subsequently, country management and team visits to Ashgabat in October, 2012, February, 2013, and May, 2013 to finalize the strategy and program with the Turkmen authorities also included consultations with interested stakeholders. Moreover, from May 15-17, 2013, the Bank Group and EBRD together conducted a series of learning sessions on private and financial sector development for over 30 Turkmen government, banking, and financial sector officials. Their main objective was to provide Turkmen counterparts with up-to-date knowledge on strategies and policies for private and financial sector development, and to acquaint them with international best practices,

3. Meanwhile, in September 2012 and February 2013, two US-based non-governmental organizations with global interests in human rights and public accountability requested and were given briefings on the interim strategy and program by country team staff at Bank Group headquarters.

### **Outcomes**

4. Financial and private sector representatives in Ashgabat agreed that Bank Group activities related to promoting private sector growth and creating a better enabling environment for private entrepreneurs were important, as were reforms aimed at easing business regulation, improving access to credit, and, in particular, creating employment for young people. Development partner representatives welcomed the inclusion of macroeconomic statistics in the interim strategy and program and, in particular, the Bank Group's emphasis on the need for more reliable and timely economic and social data, not only to better inform decision-making by the authorities but also to enhance the international development community's understanding of Turkmenistan's economic and social development. CSOs consulted in Ashgabat showed interest in the Bank Group's program but did not express specific views or concerns on reform priorities.

5. The two US-based non-governmental organizations, while acknowledging the interim strategy and program's small size and narrowly focused content, expressed a desire that it should address what, in their view, are the Turkmen people's most pressing needs, including issues such as: better access to public services, information, education and food

security through a consultative process. On the other hand, they welcomed the strategy's focus on the need for more reliable and timely economic and social data and thus for enhanced public accountability and transparency.

6. Implementation will be supported by an external communications and outreach strategy to be undertaken by the Bank Group's country and regional offices.

## **Annex E: WORLD BANK AND TURKMENISTAN—PAST ENGAGEMENT AND LESSONS LEARNED**

1. There follows below a brief history of the Bank’s engagement in Turkmenistan to date, including a summary assessment of outcomes and of lessons learned which have informed preparation of the interim strategy and program<sup>11</sup>.

2. **Operations.** Three loans totaling US\$89.5 million—for institution building technical assistance (US\$25 million), water supply and sanitation (US\$34.2 million), and urban transport (US\$30.3 million)—were approved between FY95-97. However, the projects were only partly implemented and closed without achieving significant results. With the benefit of hindsight, the design of these projects—the first in a new country where the Bank had no previous experience and where there was limited capacity and knowledge of Bank policies and procedures—was evidently flawed. In particular, intended reforms were overly ambitious, given the prevailing socio-economic conditions, and, as a result, they did not materialize. In addition, a 15 month-long suspension of all Bank activities while procurement irregularities were being investigated hindered efforts to address issues that were affecting project implementation. Thus, project outcomes, as well as the performance of both the Bank and the Borrower were deemed unsatisfactory.

3. Besides these three loans, Turkmenistan was the beneficiary of three Institutional Development Fund (IDF) grants totaling US\$721,900: (a) US\$160,000 in FY97 to support public procurement reforms; (b) US\$324,000 in FY99 to help develop an external debt management system; and (c) US\$237,900 in FY01 to support the introduction of international accounting standards in the country’s banks. Later, during the early 2000s, several pieces of economic and sector work were undertaken, including in agriculture (a farm survey), energy (a study of export prospects and of energy taxation), public sector management (comments on the draft tax code), and a living standards survey. More recently, in FY08, Turkmenistan received a US\$1,970,000 grant from the Multi-Donor Trust Fund for Avian Influenza Control and Human Pandemic Preparedness and Response, for which the UNDP acted as fiduciary agent; in FY09, an Accounting and Auditing Report on the Observance of Standards and Codes (ROSC) was undertaken; and in FY10, the country received a US\$387,500 grant from the Trust-Fund for Statistical Capacity Building that was completed April 15, 2012.

4. In undertaking these analytical and advisory services and technical assistance activities, the Bank Group provided limited but important policy advice in several areas, such as the development of the oil and gas industry, exchange rate unification, sovereign wealth funds, statistical capacity building, avian influenza pandemic preparedness, the legal framework for anti-money laundering/financing of terrorism, transport, and health sector reforms.

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<sup>11</sup> Based on Implementation Completion Reports (ICRs) for the three investment projects, the Independent Evaluation Group (IEG) reviews, and Implementation Completion Memoranda (ICMs) for the three Trust Fund-financed activities.

5. Lessons learned over the years include the following:
- Early activities and operations in new countries where the Bank Group has little or no previous experience, and where institutional capacity and/or knowledge of the Bank Group may be weak, should have simple objectives that focus on addressing the most critical problem;
  - Institutional and policy changes and reforms need to take account of, and be linked to the country's political economy—comprehensiveness, however desirable in theory, is rarely a desirable feature of project development objectives;
  - Political commitment refers not only to current decision makers but also to the existence and strength of other forces which may be friendly or inimical to proposed reforms—lack of, or inadequate commitment to reforms that was not clearly identified led to failure to make critical changes that contributed to negative outcomes;
  - During preparation, local requirements and policy regarding (*e.g.*) procurement should be properly assessed and discussed exhaustively with the client to avoid confusion and implementation delays;
  - Upstream quality assurance and control of projects or technical assistance, including of the development or reform agenda, needs to be strong; and
  - Resistance to external consultants may be reduced by including on the short-list consultants from other, more advanced transition countries and by ensuring borrowers' or recipients' full ownership of the terms of reference, *i.e.* that studies and/or technical assistance are fully aligned with real needs.

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

### **Overview**

1. Official development assistance (ODA) is not a significant factor in the financing of Turkmenistan's economic and social development. According to OECD-DAC data, net ODA during 2009-11 averaged about US\$40 million annually, over two thirds of which was from bilateral sources, mainly Turkey and the United States. Net ODA as a share of GNI averaged 0.2 percent during 2009-11. Education, health and other social sectors accounted for over half of bilateral ODA.

### **Development Partner Coordination**

2. The main multilateral aid institutions—ADB, EBRD, EU, IsDB, the United Nations and UN Specialized Agencies, as well as the Bank Group—are represented in Ashgabat, as are a number of bilateral agencies, such as the German Society for International Cooperation (GIZ), Turkish International Cooperation Agency (TICA), and the United States Agency for International Development (USAID). The UN Resident Coordinator facilitates coordination of externally-financed development activities in the country and there is high degree of information sharing and cooperation between bilateral development partners and the international financial institutions.

3. The government leads the newly established 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. Under this umbrella, nine thematic working groups aim to enhance development partners' collaboration and improve aid effectiveness.

### **Key Development Partner Activities**

4. **ADB** established a resident mission in Ashgabat in 2010 and, in 2011, approved a first US\$125 million loan for the North-South Railway Project. Turkmenistan also joined the Central Asia Regional Economic Cooperation (CAREC) program<sup>12</sup> in 2010. The CAREC program is one of the drivers of ADB's activities in the country. ADB's newly designed interim country partnership strategy will focus on: (a) the development of energy and transport infrastructure enhancing regional connectivity; and (b) policy advisory and capacity building technical assistance in areas ranging from clean energy to financial sector development. A proposed Afghanistan-Turkmenistan Regional Power Interconnection Project aims to quadruple electricity exports from Turkmenistan to Afghanistan by 2028. ADB is also supporting studies for the proposed Turkmenistan-Afghanistan-Pakistan-India Natural Gas Pipeline (TAPI) Project to enhance energy trade between these countries.

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<sup>12</sup> The Central Asia Regional Economic Cooperation (CAREC) Program is a partnership of 10 countries and 6 multilateral institutions, including the World Bank Group, to promote regional cooperation in areas such as energy, transport, and trade.

5. **EBRD** has been active in Turkmenistan since 1994 and as of end-2012 had signed 39 operations with a net cumulative business volume of €176 million. In 2012, with activities focused on local small and medium-sized enterprises and the banking system, it signed seven operations totaling US\$18.7 million. The private sector accounts for 100 percent of its Turkmenistan portfolio. In March 2010, EBRD's Board approved a new country strategy, whose core priority is to foster the growth of the private sector, strengthen the financial sector, and promote the country's international integration through trade and regional transport infrastructure.

6. **UN Agencies** have been engaged in Turkmenistan since 1995.<sup>13</sup> Their 2010-15 joint country program<sup>14</sup> addresses four priority areas: (a) strengthening democratization and the rule of law; (b) strengthening human development to achieve the MDGs; (c) improving sustainable development and inclusive growth; and (d) promoting peace and security. In 2012, cooperation with the government emphasized safeguarding human rights, building national capacities, responding to climate change, promoting human development, environmental sustainability, and accelerating achievement of Turkmenistan's MDGs. Meanwhile, the 2012 UN General Assembly elected Turkmenistan to the Economic and Social Council (ECOSOC) for the period 2013-2015, in addition to its existing 2012-15 membership of ECOSOC Commissions on Population and Development and on Drugs, and its permanent membership of UNHCR's Executive Committee.

7. **WHO** established its Country Office in November 1995 to assist the government develop its health policy, health system, and public health programs. Priorities in WHO/Europe's 2012-13 biennial collaborative agreement with Turkmenistan include: health systems strengthening; non-communicable diseases, health promotion and healthy lifestyles; communicable diseases, health security and environment; and health information, evidence, research and innovation.

8. **European Union (EU)** support to Turkmenistan under its second multi-annual indicative program for the three-year period 2011-13 totals €31 million, averaging about €10 million annually, up from €22 million for the four-year period 2007-10, averaging €5.5 million annually. Recent years have seen a significant strengthening of EU-Turkmenistan relations. The European Commission, via overall policy dialogue and the Development Cooperation Instrument, has also reinforced cooperation with Turkmenistan, with priority focus on: governance; agriculture and rural development; environment, energy and climate; health; and economy, trade, and the private sector.

9. The **International Monetary Fund (IMF)** has no financial arrangement currently in place, but plays an advisory role via Article IV Consultations and technical assistance. In recent years, it provided advisory assistance for the 2008-09 exchange rate unification and currency reform, the legal framework for anti-money laundering and combating financing

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<sup>13</sup> In March 1992, Turkmenistan became a member of the United Nations (UN) 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.

<sup>14</sup> UN Agencies' programs are described in the UN Development Action Framework (UNDAF) for Turkmenistan.

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.

10. **The Islamic Development Bank (IsDB)**, active in Turkmenistan since 1997, has committed over US\$587 million for 17 projects including the construction of medical centers, the purchase of two oil tankers, the rehabilitation of part of the Mary-Tejen highway, a rural water supply project, and an optical fiber cable project for the state telecommunications company. The 34<sup>th</sup> Annual Meeting of the Board of Governors of the Islamic Development Bank was held in Ashgabat in June 2009.

11. **TICA** 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 2011, TICA's program totaled US\$13.6 million.

12. **USAID's** program in Turkmenistan supports economic, civil society, education, and health reforms. During the three fiscal years 2009-11, its assistance averaged US\$6-7 million annually.