



Turkmenistan Diagnostic

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European Bank
for Reconstruction and Development

Country diagnostics are an EBRD tool to identify the main obstacles to entrepreneurship and private sector development and to help shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in the country.

Each country diagnostic assesses the progress and challenges of the country of operations in developing a sustainable market economy. Private sector development and entrepreneurship are at the heart of the Bank's mandate in the regions of operation of the bank, but the private sector in all EBRD countries faces a range of problems and obstacles. The diagnostic highlights the key challenges facing private companies and shows where each country stands vis-à-vis its peers in terms of six qualities of transition – competitive, well-governed, resilient, integrated, green, and inclusive – and points out the main deficiencies and gaps in each quality.

The diagnostics draw on a range of methodologies and best practice for assessing how big different obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (**BEEPS**) and the Life in Transition Survey (**LITS**), as well as other cross-country surveys and reports from institutions such as the World Bank, World Economic Forum and OECD. For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical for private sector development in the country.

The diagnostics are led by the EBRD's Country Economics and Policy team, drawing substantially on the expertise of sector, governance and political experts in the Economics, Policy and Governance department (EPG) and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

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Executive summary

This paper assesses the progress in Turkmenistan towards a well-functioning, sustainable market economy, and the challenges ahead. It provides a basis for the design of the forthcoming EBRD Country Strategy for Turkmenistan and for the structure and prioritisation of ongoing and future investment activities and policy advice/advocacy in the country.

Private sector activity remains severely limited in Turkmenistan despite a range of government programmes and new legislation aimed at increasing its role. The report finds that the main obstacles holding back private sector development are **the challenging business climate resulting from heavy state presence in the economy, weak property rights, and in many cases state-directed - instead of market-based - access to resources required for conducting business.**

Other major obstacles are:

- **Rationing and slow conversion of local currency into foreign exchange because of the fixed, overvalued exchange rate, which weighs both on current businesses and on foreign investment.**
- **Lack of reliable data, which complicates policy-making by officials and investment choices by businesses.**

The report also presents scores for the six desirable qualities of a sustainable market economy – *competitive, well-governed, green, inclusive, resilient and integrated* – and a description of the main transition gaps, which are among the largest in EBRD countries of operations.

1. The Private Sector: Size and Structure

Enhancing the role of the private sector has been declared a priority in the country's development programmes. A target has been set of 70 per cent of non-gas GDP to be produced by the private sector by 2020, excluding the hydrocarbon sector. Officials estimate that some 68 per cent has been reached already. However, the lack of reliable data makes it difficult to pin down what share of GDP the private sector actually produces.

Private sector activity remains limited in

Turkmenistan. According to official data, revenues of all types of non-state businesses accounted for some 60 per cent of GDP in 2017. However, the true share of GDP produced by the private sector is believed to be well below this figure, for the following reasons: first, state-ownership is defined as a 100 per cent state share in equity, and therefore activities of firms with even a small privately-owned share would count as "non-state"; and second, the official calculations by the State Committee of Turkmenistan for Statistics show revenues, not value added.¹

A privatization programme has been in place for several years.

In December 2013, Turkmenistan adopted the Law on the Denationalization and Privatization of State Property, which took effect in July 2014. Since then, some 400 non-strategic enterprises have been privatised. Privatisation tenders are regularly published in the local media. The energy sector, however, is not being considered for privatisation and the government has stated its intention to keep it this way for the time being. At the same time, energy sector companies were reported to absorb up to 70 per cent of the funds available from state programmes.

Table 1: Active non-state businesses in 2016²

Type	Number	per cent
Micro-enterprises	6,505	80.1
Small enterprises	890	11.0
Medium enterprises	634	7.8
Large enterprises	88	1.1
Total enterprises	8,117	100.0
Individual entrepreneurs	76, 317	
Foreign enterprises	581	
Joint ventures	62	

Source: State Statistics Committee of Turkmenistan.

Table 2: Non-state sector revenues and employment 2016

	Employment, thousand persons	Revenue, billion manat	Revenue, per cent of GDP ³
Domestic non-state enterprises	124	19.2	15.2
Individual entrepreneurs	76	19.6	15.5
Foreign companies	81	38.2	30.2
Total	279	77.0	60.9

Source: State Statistics Committee of Turkmenistan.

While private sector development is progressing to some extent, the number of private companies as well as their share in employment and GDP has remained low. There were over 8,000 domestic non-state enterprises active in 2016 (see Table 1). They employed 124,000 persons and had revenues⁴ equivalent to 15.2 per cent of GDP (see Table 2). Most of them were active in agriculture, construction

¹ If one assumes that value added is roughly 70 per cent of revenues, the non-state sector would account for some 40 per cent of GDP, or some 60 per cent of non-energy GDP, on the assumption that energy accounts for about one-quarter of GDP. This would be roughly in line with statements of officials. However, probably the assumptions both of 70 per cent value added share and 25 per cent energy in GDP share are too high. If state-ownership is defined as an above 25 per cent state share in equity, and if calculated at more reasonable assumptions for the ratio of value added to revenues, the share of the private sector in GDP would be substantially lower than official figures suggest.

² There are 2017 enterprise data published in the 2018 Statistical Yearbook of Turkmenistan; however data allowing combining the number of enterprises, employment and revenue are only up to 2016 available.

³ GDP was 126.6 billion manat in 2016, US\$ 36.2 billion according to the official exchange rate.

⁴ There are no value added data been published, only revenue data.

and manufacturing. About 80 per cent were micro-enterprises⁵, and 11 per cent small enterprises. There were also some 76,000 individual entrepreneurs active in 2016, which had revenues equivalent to 15.5 per cent of GDP. About 79 per cent of these were engaged in trade, 7 per cent in transportation, and 6 per cent in real estate activities. In other countries of the region the number of non-state enterprises is several times higher.⁶

The number of foreign companies has remained limited as well, but they provide a significant share of investment, particularly in the mining sector (including oil and gas).

There were 581 foreign companies and 62 joint ventures active in 2016 with revenues of about 30 per cent of GDP. Revenues per employee were more than twice as high in foreign as in domestic companies. Two-thirds of revenues were generated in construction, and much of the rest in mining. Foreign companies and joint ventures employed together 93,700 people in 2016, of which 75 per cent were employed in construction and another 17 per cent in mining. Investments by foreign enterprises amounted to almost 5 per cent of GDP (6.2 billion manat) in 2016, albeit substantially lower than the almost 9 per cent of GDP (10.8 billion manat) in 2015.⁷ Of these investments, 82 per cent went to the mining sector in 2016.

⁵ Micro-enterprises are defined as employing up to 15 persons in industry, construction, electricity, gas, water and up to 10 persons in other industries; small enterprises 16-50 persons in industry, construction, electricity, gas, water and 11-25 persons in other industries; medium enterprises 51-200 persons in industry, construction, electricity, gas, water and 26-100 persons in other industries; large enterprises more than 200 persons in industry, construction, electricity, gas, water more than 100 persons in other industries

⁶ For comparison: There were 256 thousand domestic non-state enterprises in Kazakhstan and over one million individual entrepreneurs. The number of foreign companies was about 23 thousand, the number of joint ventures 11 thousand. Of the foreign companies, 22.6 thousand were small enterprises, 265 medium and 118 large enterprises (source: State Committee for Statistics of the Republic of Kazakhstan). In Uzbekistan there were 239 thousand domestic non-state enterprises in 2016 and over 5 thousand enterprises with foreign participation.

⁷ State Committee of Turkmenistan for Statistics

2. Key obstacles to private sector development

Private sector development is hindered by the continued overwhelming presence of the state in the economy. The private sector is very much state-directed and subordinated to state programmes. The Union of Industrialist and Entrepreneurs plays a key role in this. The state strongly controls private businesses' access to finance (especially foreign exchange) and land. State procurement is highly selective and, along with insufficient observance of property rights, is another source of concern for the private sector.

Turkmenistan announced a series of reforms in response to the deterioration of the country's economic situation brought about by lower proceeds from natural gas prices in 2016 and 2017. The national development plan for 2018-2024, adopted at the Elders Council session on 10 October 2017, states as objectives, among other things: nurturing small and medium enterprises, and creating conditions for the emergence of private farmers as primary guarantors of food security. The update of the 2018-24 development plan, the Programme for socio-economic development of the country for 2019-2025, calls for the reorganization of the industrial and service sectors towards the production of goods with high value added. State-ownership shall be reduced by further privatisation. State enterprises shall be transformed into joint-stock companies and the management system upgraded. A "State programme on support of small and medium entrepreneurship for 2018-2024" has been approved as well as a "Law on Free Economic Zones". Turkmenistan also announced a "State Programme on Energy Saving for 2018-2024", which among other things emphasizes the role of alternative energy sources. In addition, the authorities adopted a "National Programme of support and development of tourism in Turkmenistan in 2011 – 2020". The authorities are preparing reforms such as medium-term budgeting, transition to GFSM2001 fiscal data reporting, and a financial regulatory overhaul which would introduce elements of Basel principles into local regulations.

However, the reform plans lack in many cases implementation plans and capacity, and severe

obstacles for the development of the private business remain. There have been declarations of reforms also before, with limited progress on implementation. For the time being, a scarcity of foreign exchange and the difficult business climate make the economic environment very challenging.

2.1. Business climate

Turkmenistan's business climate suffers from the large role the state plays in the distribution of resources. When domestic private businesses come forward with projects, they have to be approved by working groups of the Union of Industrialists and Entrepreneurs (UIET) and signed by its chairman in order to receive state support for access to land, infrastructure, preferential loans and foreign exchange. The UIET is strongly aligned with the state. Foreign companies or individuals are permitted to lease land for non-agricultural purposes. However, according to the land code, only the President has the authority to grant the lease. Turkmenistan's legislation does not provide for private ownership of land. Article 21 of the Investment Law allows investors' property to be confiscated via an official court decision. Property rights are not always well observed by the authorities. The government has some history of expropriating the property of local businesses and individuals. In December 2016, for example, the government expropriated the largest (and only foreign-owned) grocery store, the Yimpas shopping and business centre in Ashgabat, without compensation or other legal remedy.⁸ Recently a law on a business ombudsman has been adopted, but it still needs effective implementation.

Abrupt changes in regulations and the scarcity and limited reliability of publicly available data greatly complicate decision-making by private businesses. Regulations often change abruptly, sometimes in breach of property rights. Russia's Mobile TeleSystems (MTS), for example, suspended its services in Turkmenistan on 29 September 2017 because the state telecommunications provider,

⁸ <https://www.export.gov/article?id=Turkmenistan-Executive-Summary>

Turkmentelecom, had cut MTS from the country's international and intercity communications network.⁹ Business data are scarce and rarely publicly available, and government web-pages are often underdeveloped and vague. State procurement is often not transparent and contracts are not always honoured. Turkmenistan ranks 161st out of 180 countries in Transparency International's Corruption Perception Index 2018.

Private capital is to a large extent held in the parallel economy due to the difficult business climate. While there are no reliable estimates, substantial funds are reportedly available in the private sector (not always revealed to the authorities), mostly accumulated in the past construction boom. One indicator of this is the way investments are financed. Only 26 per cent of fixed investment was financed by own means of enterprises in 2017, according to StatCommittee data, 7 per cent by means from central and local budgets, 13 per cent from credits and 10 per cent by foreign means. As much as 44 per cent was funded from "other means", reflecting extra-budgetary funds and private wealth.¹⁰

The UIET's role is set to increase further. While the UIET does support private sector development to some extent, it also guarantees that strong state control over the private sector is preserved. The Programme of Social and Economic Development of Turkmenistan for 2018-2024 entrusts the UIET members with the construction, reconstruction and expansion of the production capacity of 56 industrial, agricultural, commercial and service enterprises. At a meeting with the members of the Union, held on 16 March 2018 on the occasion of the 10-year anniversary of the founding of the Union, President Gurbanguly Berdimuhamedov initiated a series of actions in favour of the Union. Among other benefits, the Central Bank of Turkmenistan (CBT) was supposed to extend a US\$ 2.4 billion, 20-year loan to

the UIET through Rysgal Bank with a 1 per cent interest rate and a 5-year grace period for the financing of the construction of the high speed highway Ashgabat – Turkmenabat.¹¹ The Avaza National tourism zone has been in part handed over to the UIET.

2.2. Access to foreign exchange

Access to foreign exchange is highly restricted. Weak export proceeds in 2016-17 and ambitious government projects have resulted in a scarcity of foreign exchange, which in turn has prompted foreign exchange rationing by the central bank. Exports recovered to US\$ 11.2 billion in 2018 after a deep slump the previous two years, but it remains uncertain how much of the exports actually translate into export proceeds. The gap between the official and unofficial exchange rates has widened significantly, suggesting that the manat is significantly overvalued. The parallel market rate stood at about 18 manat:US\$1 by April 2019, compared to the official peg of 3.5:1 established in January 2015. The government is responding by continuously introducing harsher currency restrictions, severely disrupting trade activity and profit repatriation. Businesses not working on high-priority projects reportedly get only about 2 per cent of the eligible sums converted every few weeks, or even less (food and agribusiness a bit higher, 10-20 per cent). Exceptions included companies working on high-priority projects or companies paid in kind in oil or gas on the basis of production-sharing agreements. However, these companies also report that their subcontractors had conversion problems. The foreign exchange amount that Turkmen citizens living abroad can withdraw from their bank cards has been sharply reduced.

Turkmenistan is trying to enhance foreign exchange reserves through export diversification and import substitution. Since April 2019 gas exports to Russia have resumed. Other export initiatives include the initiation of a large ammoniac-

⁹<https://www.rferl.org/a/turkmenistan-mts-suspends-operations-telecoms/28764540.html>

¹⁰ By contrast, in Kazakhstan for example, own funds of enterprises account for 69 per cent, 16 per cent came from the central and local budgets, 7 per cent bank credit, and only 8 per cent were "other means", of which 2.5 per cent from abroad.

¹¹ Turkmenistan News Bulletin, 19 March 2018

carbamide complex, with a capacity of 1.155 million tons of carbamide a year, in the city of Garabogaz. Turkmenistan is attempting to increase exports of electric power to Afghanistan and Iran, to produce and exporting liquefied petroleum gas, and to increase the volume of natural gas refinement within the country. An import-substitution initiative is the construction of a plant close to Ashkhabad producing 600,000 tons of gasoline, for example. The main candidate industries for import substitution policies are the textile, food and construction material industries. The export of mineral fertilisers, sulphur, leather raw materials, cotton yarn, wool, flour confectionery, sweets, juices as well as new types of goods such as clothes, other textile products and eggs are encouraged. The following industrial facilities were commissioned: railway and road bridge across Amudarya river, international airport in Ashgabat, international sea port in Turkmenbashi, polypropylene film plant at the Turkmenbashi Refinery, potash plant in Garlyk settlement of Lebap welayat, greenhouses for growing flowers, trees and vegetables, glass plant “Turkmen ayna onumleri”, urea plant in Balkan welayat, polyethylene and polypropylene plant in Kiyanly settlement of Balkan welayat, cattle hides processing enterprise in Ahal welayat, water purification plants in various regions of the country, gas power plant at Mary water power plant, fruit and vegetable canning plant in Lebap welayat, poultries in Lebap and Mary welayats and a number of other facilities.

After local producers have been established, the state in some cases protects them from import competition by not granting importers of competing goods access to foreign exchange or by raising tariffs. A list of construction and industrial goods subject to customs duties came into force on April 1, 2018. While some positive effect on the trade balance from import substitution policies is visible, waste of resources could be reduced and welfare gains could be achieved if trade policies were based on better market research and a more market-based approach.

2.3. Access to credit

Credit to the private sector very is low, with credit growth over recent years driven mainly by subsidised state programmes aimed at stimulating local production. Outstanding credit to non-state legal entities in local currency totalled only 1.7 per cent of GDP as of 1 January 2019, versus 26 per cent for state legal entities (see Table 3).

Table 3: Credit to the economy and assets of the banking system as of 01.01.2019

	billion manat	billion US\$*	per cent of GDP
Local currency to non-state legal entities	2.6	0.7	1.7
Local currency to private persons and individual entrepreneurs	10.4	3.0	6.9
Local currency to state legal entities	39.0	11.1	26.0
Local currency to economy	51.9	14.8	34.6
Local + foreign currency to economy	85.2	24.3	56.9
Assets of the banking system	114.4	32.7	76.4

* Conversion at the official rate of 3.5 to the US\$.

Source: Vvestnik of the Central Bank of Turkmenistan 1/2019.

Lending to the private sector has been mainly funded by targeted state programmes prioritising import substitution and export orientation at highly concessional rates. The central bank provides 2 per cent 10-year funding to banks with a 2 per cent interest rate, for on-lending at 5 per cent, not risk-differentiated, and with even lower rates for some industries like agriculture. While this subsidised funding is available through all banks, in practice, as private companies need approval for their projects from the Union of Industrialist and Entrepreneurs, a

large share of state programmes are channelled through the Union's Rysgal Bank.¹²

The “Banking sector strategy 2011-2030” attempts to bring the sector in line with international standards. It outlines a three-phase approach to developing the financial sector and supervision, but falls short of practical milestones/deadlines. While the strategy touches on many relevant objectives such as strengthening competition, corporate governance, financial disclosure and the legal framework, it is mixed with social objectives such as preference to finance projects that generate jobs, support of local production, and support of exports.

2.4. Connectivity

The country has been investing heavily in transport infrastructure, but obstacles caused by the lack of soft infrastructure prevent its full exploitation. The Ashgabat airport (US\$ 2.5 billion) and Turkmenbashi seaport on the Caspian Sea (US\$ 2 billion) have high passenger and cargo potential. A multi-modal transport network is being developed, to enhance the utilization of the ports. The completion of the Turkmenbashi Sea Port and related roads and logistics and the establishment of free economic zones could result in intensified international trade and foreign investment. However, the lack of supporting factors such as ease of obtaining visas, the limited number of airlines flying to the country, restrictions on shipping operators limit the utilisation of this infrastructure.

There are initiatives under way to improve the soft infrastructure. A new association for logistics providers (forwarders) is being established by the Union of Industrialists and Entrepreneurs to conduct international relations, as well as to govern the sector. A new structure is being created to define

compliance for international standards (ISO), along the currently existing barcode system. The country adopted a FEZ law in October 2017, a step to support FDI, although the law does not yet explicitly define a road map. Currently, government agencies are working on the secondary legislation.

Turkmenistan is strongly investing in new gas export routes. Turkmenistan began the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas line on its own territory, and on 23 February 2018 the construction of the Afghan section was formally launched. However, the completion of the TAPI is still under question because of security issues in Afghanistan and Pakistan, which deter investors even though agreements with local tribes were reached about the protection of the pipeline and the Taliban welcomed the pipeline. The construction of the Tajikistan part of another gas pipeline - Line D of the Central Asia-China pipeline – has also begun, but the future of the pipeline will depend on how much gas China is actually willing to purchase. After the presidents of the five countries with coastlines on the Caspian Sea agreed in August 2018 on the sea's legal status after 22 years of negotiations, Turkmenistan is eager to revitalise the Trans-Caspian gas pipeline project. However, significant political and economic hurdles have still to be removed.

To enhance private sector access and reduce costs, Turkmenistan's ICT needs further upgrading.

The price of fixed internet connection is high compared to the average income level (250-300 manat vs app 1500 manat per month). Connection speed remains very low on average (2MB). Services are provided by the state-owned company, Altyn Asyr, which, following the withdrawal of MTS, is now the sole provider of telecommunications services. 3G mobile services are available in cities but 2G appears to be the mostly widely available service in rural areas. Turkmenistan signed a deal with the Islamic Development Bank for US\$ 273 million, to finance the expansion of the telecommunications network (mobile, landline, and internet).

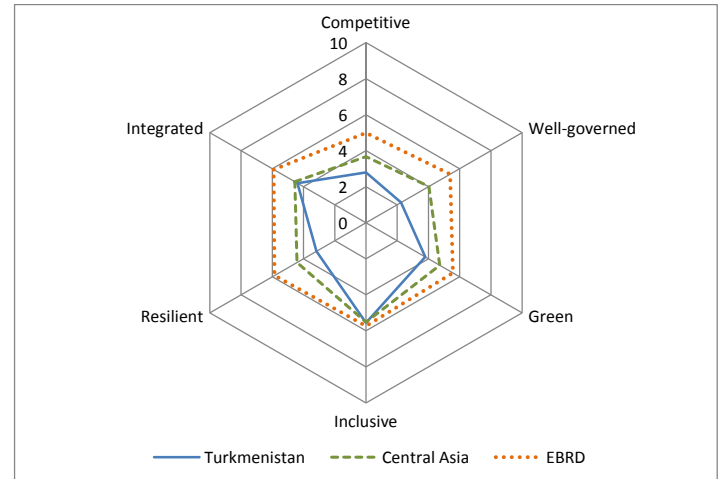
¹² The banking sector is comprised of 11 banks, which, with the exception of one, are under state ownership (5 state commercial banks, 3 joint stock companies, 2 reps of foreign banks, and 1 Development Bank). Rysgal Bank is the only private bank, owned by members of the Union of Industrialist and Entrepreneurs.

3. Qualities of a sustainable market economy

In the EBRD's Transition Qualities (ATQs), Turkmenistan scores close to the bottom of the EBRD countries of operation in all six transition qualities (competitive, well-governed, green, inclusive resilient, and integrated,). The scores are backward looking; a strong commitment to future reforms and their implementation would help the country catch up on regional comparators.

The following sections provide brief snapshots of each quality.

Chart 1: Turkmenistan's Transition Qualities



Source: EBRD calculations.

Note: The level of development within each of the qualities is measured from 1 to 10, with 1 meaning little or no progress and 10 representing the frontier.

Competitive [ATQ = 2.79]

Turkmenistan is one of the least advanced economies among EBRD's countries of operations in terms of overall competitiveness. The country enjoys natural resources abundance, but faces structural challenges in many dimensions, including the quality of the business environment, financial sector depth and the role of SMEs.

Market structures and institutions for competition

Data on the business environment are scarce but sources suggest that **regulatory frameworks are an obstacle to private sector.** The country strongly relies on the export of energy and cotton and the import of machinery and services, but remains the only one in the region not having applied for membership in the WTO.

The government plans to promote and increase the size of the private sector, and some acceleration of privatisation could be observed since 2017, especially in the manufacturing sector.

However, increasing the role of the private sector substantially would require regulatory reforms, a level-playing field for enterprises – especially SMEs – and greater freedom for entrepreneurial decision making.

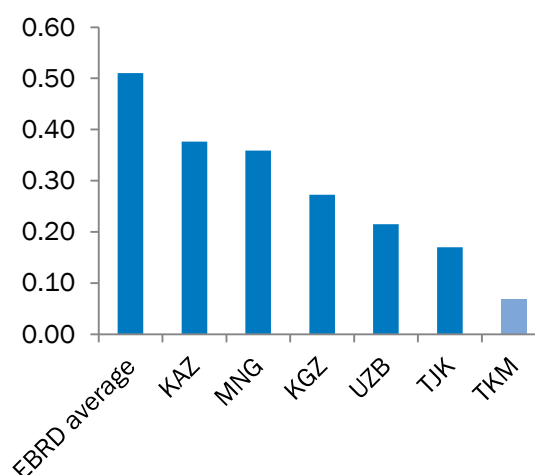
Capacity to generate value added

Turkmenistan has a better transport infrastructure than some other countries in the region, but other key elements for a more dynamic economy (such as internet **access for more knowledge-intensive activities**) are lagging behind competitors.

Although labour productivity is relatively high this is solely driven by the extractive sector. Other sectors appear far less competitive which hampers diversification towards non-extractive activities (including services).

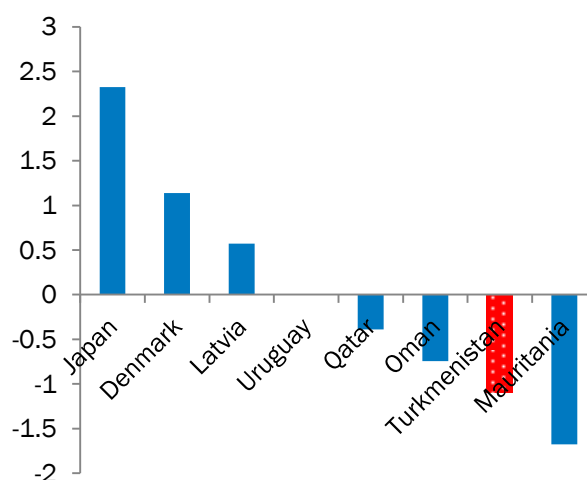
The **complexity of Turkmenistan's economy is low**, leaving it with few areas to compete on international markets

Chart 2: “Competitive” ATQ scores in the region



Source: EBRD.

Chart 3: Economic Complexity Index



Source:
https://atlas.media.mit.edu/en/rankings/country/eci/?year_range=2011-2016.



Source: EBRD.

Note: Visit <https://2018.tr-ebd.com/reform/> for detailed information on the indicators and sources.

Well governed [ATQ = 2.25]

Weak economic governance is a major challenge for Turkmenistan. Heavy state presence, aggravated by over-centralisation, dominates policy- and decision-making. Private sector development only features in the government's strategies; but state-owned enterprises dominate the economy. The public sector lacks capacity, in particular with regard to technical and management/administrative skills. This further undermines regulatory quality and effectiveness, which are assessed to be among the lowest in the EBRD's countries of operations.

Decision-making in the public sphere is highly centralised, with negative impacts on speed and flexibility. All municipal assets are owned by the Ministry of Communal Services, for example, making development of municipal services, in particular through attracting investment, particularly difficult.

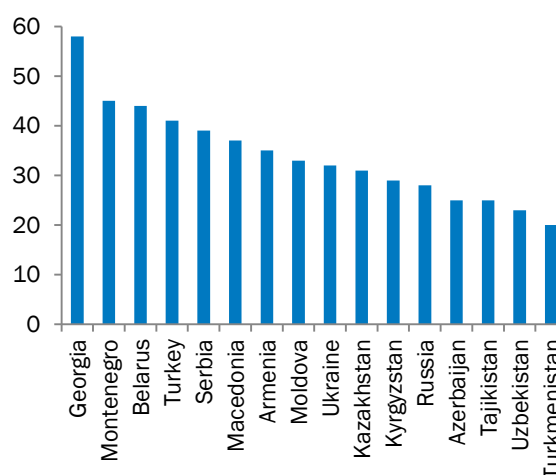
As an overarching issue, lack of reliable data makes any assessment and decision-making, both internally and particularly externally, extremely challenging. Information is highly restricted and data availability is scarce. Notably, Turkmenistan is not covered by some prominent assessments such as the World Bank's Doing Business Report or the World Economic Forum's Competitiveness Report.

Lack of data makes it particularly challenging to assess the firms' practices, such as corporate governance or integrity. Corporate governance is hampered by the insufficient independence of the management, even in private firms, due to the subordination to government programmes. In these circumstances, informality and reliance on informal institutions becomes a necessary safety net. Turkmenistan scored 167th out of 180 countries in Transparency International's Corruption Perception Index.

Turkmenistan scores also low in the Natural Resource Governance Institute's Resource Governance Index. It ranked 88th among 89 countries on this index. Given the country's heavy

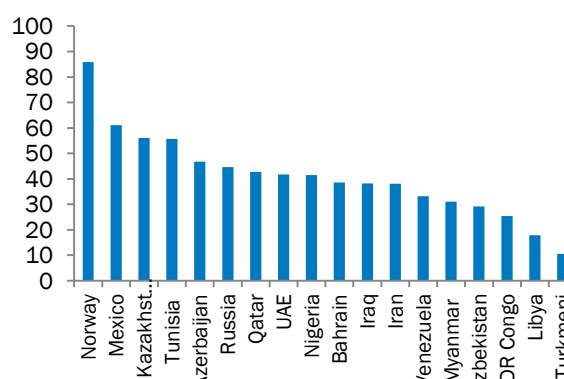
reliance on natural gas, this is particularly negative. Turkmenistan was last in the sub-components "value realisation" and "revenue management" in 2017, and did slightly better in "enabling environment" (74th).¹³

Chart 4: Corruption Perceptions Index 2018



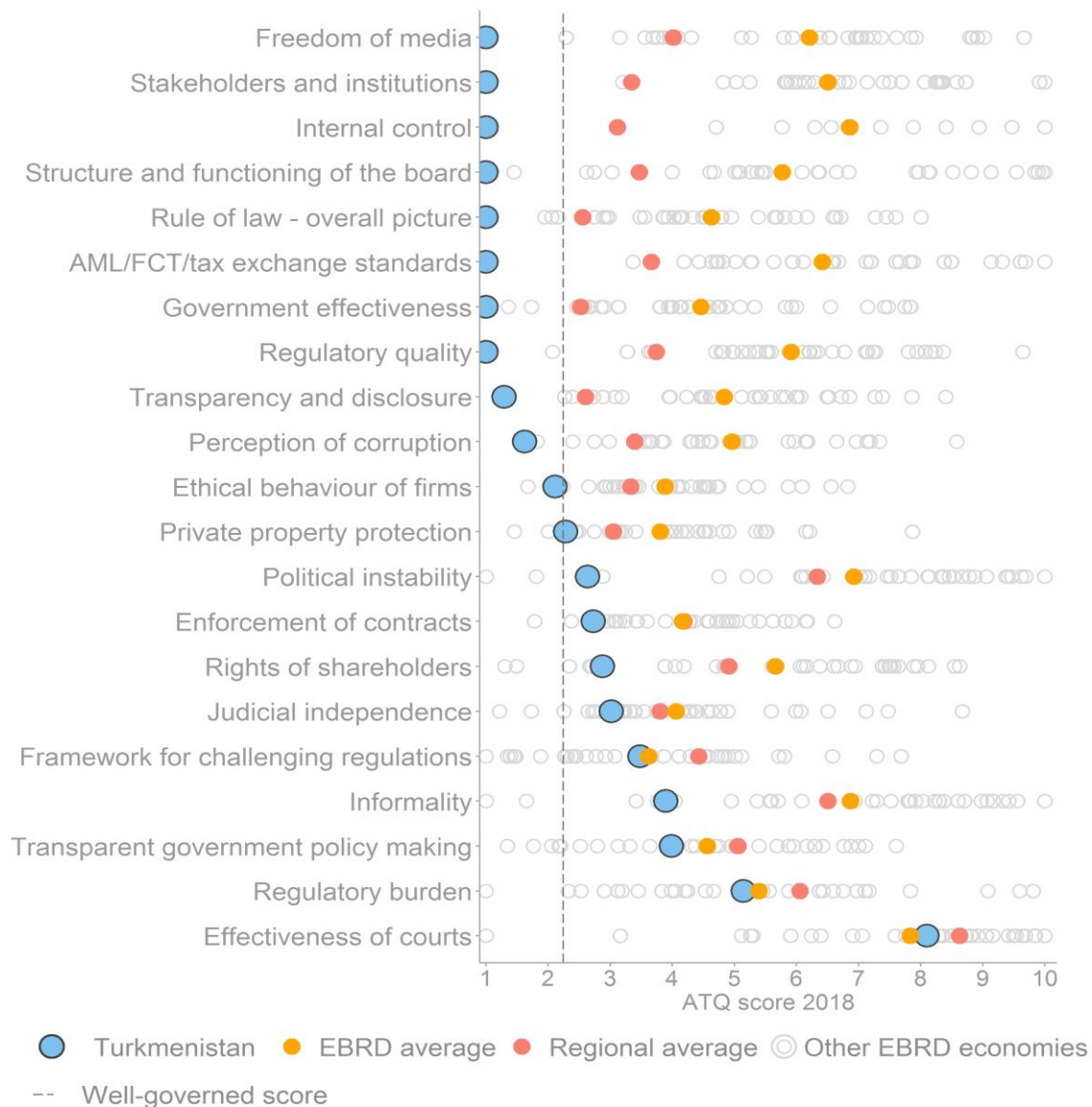
Sources: Transparency International.

Chart 5: Resource governance index 2017



Sources: Natural Resource Governance Institute.

¹³ The first component, "value realisation" covers the governance of allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises. The second, "revenue management" covers national budgeting, subnational resource revenue sharing and sovereign wealth funds. The index's third component assesses draws on pre-existing research to measure the broader governance context.



Source: EBRD.

Note: Visit <https://2018.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

Green [ATQ = 3.80]

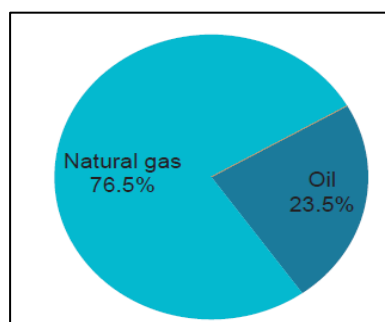
Energy exports make up 25% of GDP – the bulk going to China (WRI, 2016)

The country is ranked **26 out of 153 in the WRI projected water stress ranking for 2040**. 94% of total withdrawn water is used for irrigation compared to an average of 69% in Central Asia (Aquastat, 2003-2007).

Residential and commercial building sector and the energy generation and supply sector emitted 29% and 24% of the energy-related GHG emissions respectively (WRI, 2016).

Turkmenistan has the highest energy and carbon intensity in the EBRD region. Energy production is dominated by natural gas and oil.¹⁴ Significant CO₂ emissions reductions could be achieved by reducing energy losses in electricity and gas networks, and by tackling venting and flaring. The solar and wind potential is very high but has close to no share in electricity production. A decree approved in 2017 introduced for the first time a price for energy, which in the past was freely provided. However, the price signal is weak, and does not sufficiently encourage energy efficiency projects in the residential or corporate sectors.

Chart 6: Resource governance index 2017



Source: IEA, 2015.

Water scarcity is a major issue as 80 per cent of territory is desert, and water resources are fully drawn from transboundary water sources.

Agriculture depends entirely on irrigation (94 per cent of total withdrawn water), but irrigation facilities are often inefficient and outdated and there are no financial mechanisms or incentives to stimulate modern water-saving technologies and practices. This threatens to become a major impediment to private sector growth in agriculture and the agribusiness sector. This is compounded by rising demand as the government promotes certain water intensive crops such as cotton and wheat¹⁵ as part of its import substitution programme, which is contributing to the salination of available water resources and to accelerated degradation of arable land.¹⁶ While the “National Strategy of Turkmenistan on Climate Change” mentions improving water quality, a comprehensive water management strategy is not described. Degradation of the Caspian Sea and water scarcity are cited by the authorities as key environmental challenges, but there is no clear strategy how to overcome them.

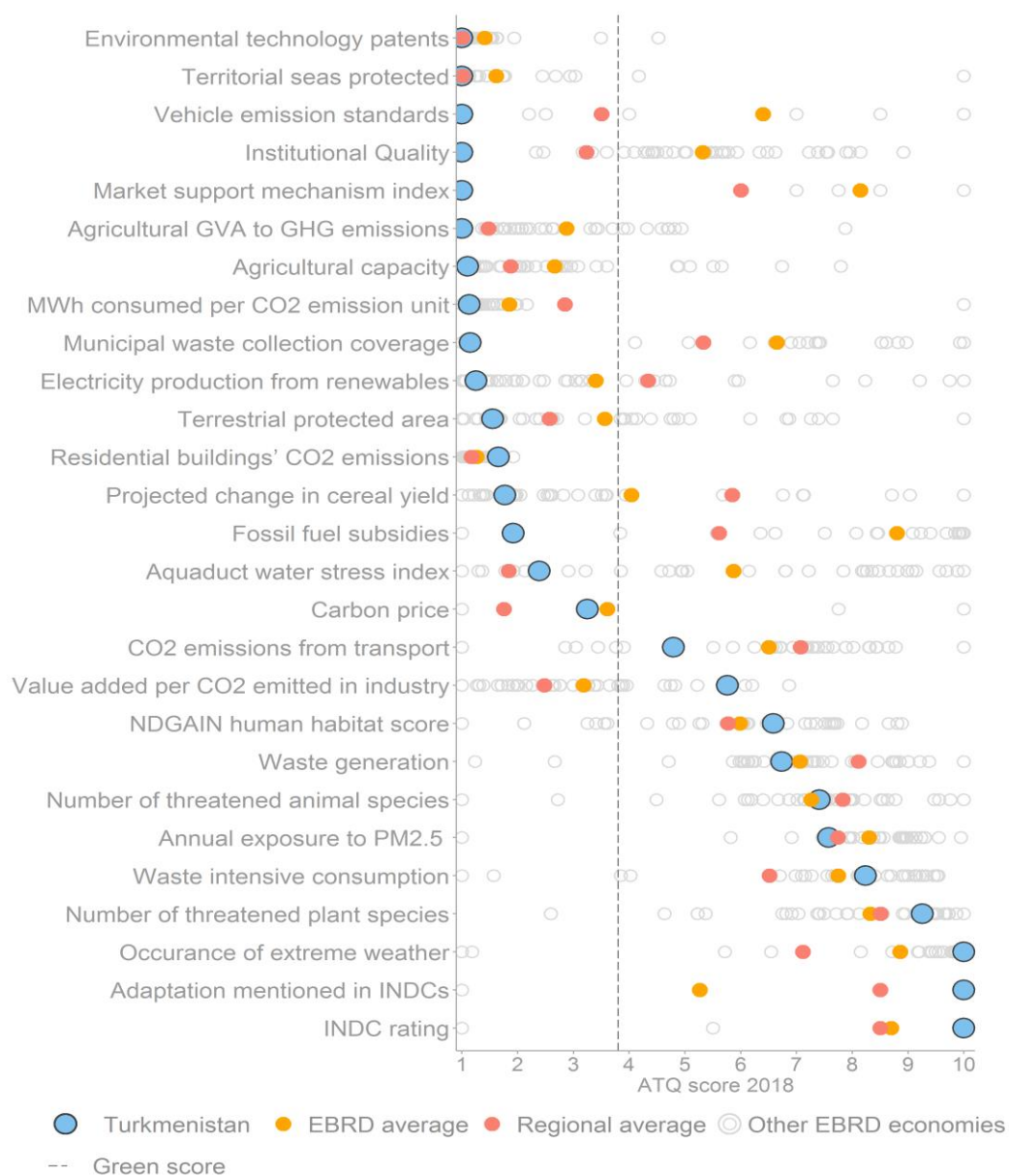
Turkmenistan is highly vulnerable to the impacts of climate change, with a rate of warming much higher than the global average and projected to intensify after 2040. Calculations show the rise of temperature from 2-3 °C to 6-7 °C by 2100¹⁷, accompanied by decreased rainfall, which will lead to further desertification, heat waves and extreme droughts. Some of these concerns are addressed in the “National Strategy of Social and Economic Transformation of Turkmenistan until 2030” and the “National Strategy of Turkmenistan on Climate Change”, but they do not describe a specific road map and investment strategy.

¹⁵ Wheat is a thirsty crop. A kilogramme takes an average of 1,200 litres of water to grow, compared with 100-150 litres for 1kg of potatoes

¹⁶ http://sdwebx.worldbank.org/climateportalb/home.cfm?page=country_profile&CCode=TKM&ThisTab=RiskOverview

¹⁷ http://sdwebx.worldbank.org/climateportalb/home.cfm?page=country_profile&CCode=TKM&ThisTab=RiskOverview

¹⁴ <http://www.eurasia.undp.org/content/dam/rbec/docs/Turkmenistan.pdf?download>



Source: EBRD.

Note: Visit <https://2018.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

Inclusive [ATQ = 5.56]

Turkmenistan has a young and growing population where almost 50 per cent of the population are under the age of 25.¹⁸ This indicates the need to dedicate significant attention and resources towards the provision of quality training and education as well as job creation.

Female labour force participation is significantly lower than that of men at 41.9 per cent for women versus 78.2 per cent for men (ILO, 2017). This is the largest gender gap in labour force participation of Central Asia. Non-discrimination and equal remuneration policies are hardly enforced, and the degree of gender-based occupational segregation is high. Women predominate in sectors with low pay such as education, health care and social services, as well as hospitality and trade, where they are more likely to be employed than men.¹⁹ This is partly the result of gender gaps and segregation in the education system.

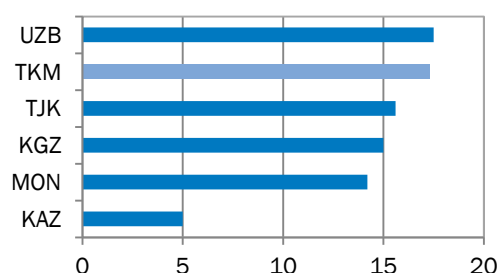
While women are granted equal rights and opportunities under the law, the Labour Code limits the working time, overtime work and night work for women, and restricts women's economic opportunities in a number of areas²⁰. This is reinforced by strong stereotypes about women's traditional role in society and limited care provision, making it difficult for women to pursue paid employment. The Committee on the Elimination of Discrimination against Women (CEDAW, 2012) indicated the prevalence of gender-based violence. Adequate enforcement of legislation to protect women from gender-based violence is largely lacking.

Fee-based provision of VET inhibits access for rural populations and students from low income families. VET programmes suffer from a high level of specialisation and fragmentation, leaving graduates

with little opportunity for mobility in the labour market. This leads to unfavourable labour market outcomes for young people, as 59 per cent of job seekers registered with the national employment services were under the age of 30.²¹ In a nation-wide survey, urban respondents named vocational training (61 per cent) and retraining (77 per cent) as crucial pre-requisites for employment.²²

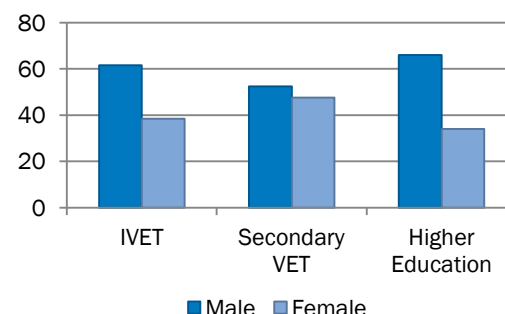
At only 12 per cent, Turkmenistan's internet penetration is lowest among Central Asian countries²³ and location remains one of the strongest predictors of educational attainment, with noticeable differences between urban and rural areas.

Chart 7: Youth unemployment (% of total labour force ages 15-24)



Source: ILOSTAT 2017.

Chart 8: VET enrolment rates by gender (% of enrolled students)



Source: ETF 2015.

¹⁸United Nations Population Fund (UNFPA), Turkmenistan Population Statistics, 2017.

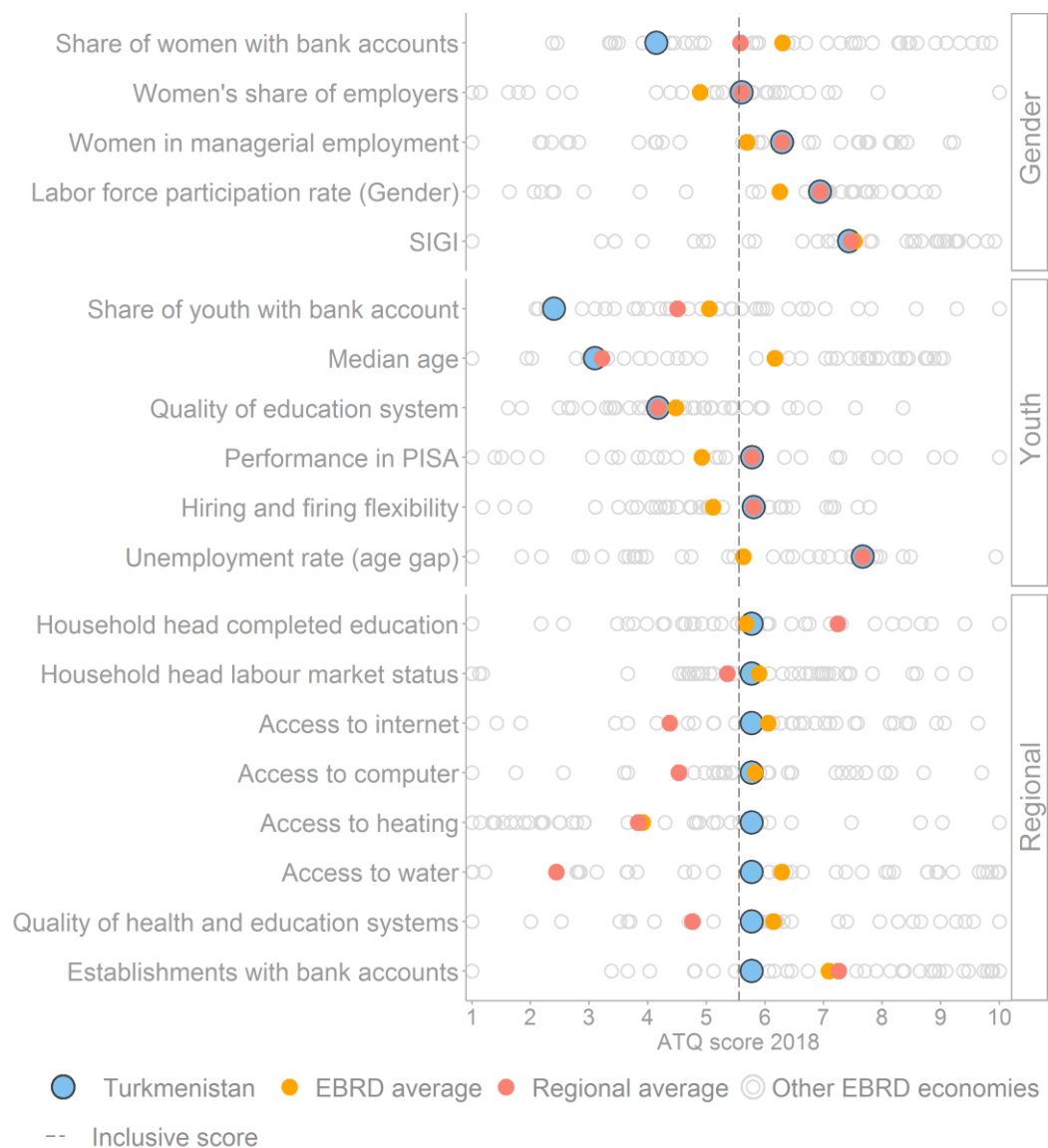
¹⁹European Training Foundation (ETF), Turkmenistan VET & Labour Market Update, 2015.

²⁰ADC Memorial, Gender Discrimination – Jobs Banned for Women, 2018.

²¹Ibd.

²²United Nations Children's Fund (UNICEF), Family Welfare in Turkmenistan, 2001.

²³ITU, World Telecommunication/ICT Development Report and database, Turkmenistan, 2015.



Source: EBRD.

Note: Visit <https://2018.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

Resilient [ATQ = 3.17]

External integration

Turkmenistan is highly exposed to gas price shocks. Gas and oil exports account for approximately 80 per cent of Turkmenistan's total exports, and equal about one-third of GDP. The country's fixed exchange rate regime leaves Turkmenistan with little flexibility to absorb external shocks.

There are no official figures on foreign debt and foreign exchange reserves. The State bank for Foreign Economic Affairs of Turkmenistan's financial statement shows debt to Japanese, Korean and Chinese Exim and development banks in the amount of manat 9.9 billion (US\$ 2.2 billion) as of 31 December 2016, roughly 30 per cent of annual exports. However, there might be also different lenders and borrowers. The BIS reports liabilities of international banks to Turkmenistan of US\$ 25.0 billion as of Q2 2017, of which US\$ 22.7 billion of German banks. It is, however, not clear how liquid these liabilities are and whether they would qualify as international reserves. If so, reserves would amount to about 30 month of goods imports, which however seems to stand in sharp contrast to the central bank's foreign exchange rationing.

Banking sector risks appear to be considerable. Credit in local currency was 45.8 billion manat (US\$ 13 billion, 31 per cent of GDP) as of 1st January 2018, an increase of 8.8 per cent from a year earlier. The loan/deposit ratio in national currency stood at a high 159 per cent. Overdue loans increased to 4.3 per cent as of 1st January 2018 from 1.5 per cent a year earlier, almost all of them on loans to the state sector. They are likely to be understated.

Internal integration

Free supply, or at extremely low pricing, of electricity, heat and gas to consumers over a long period has discouraged investment in energy

efficiency and renewable energy. As a result, the electricity and heat sector has suffered from lack of investment.²⁴ The infrastructure is aged and inefficient, with high losses. Outages are common. However, since January 2019 tariffs were introduced. How details work out remain to be seen. While some climate-related concerns are described in the "National Strategy of Social and Economic Transformation of Turkmenistan until 2030" (Strategy 2030) and the "National Strategy of Turkmenistan on Climate Change" (NSCC), the documents don't provide renewable energy targets or investor incentives, despite Turkmenistan's significant potential for solar and wind.²⁵

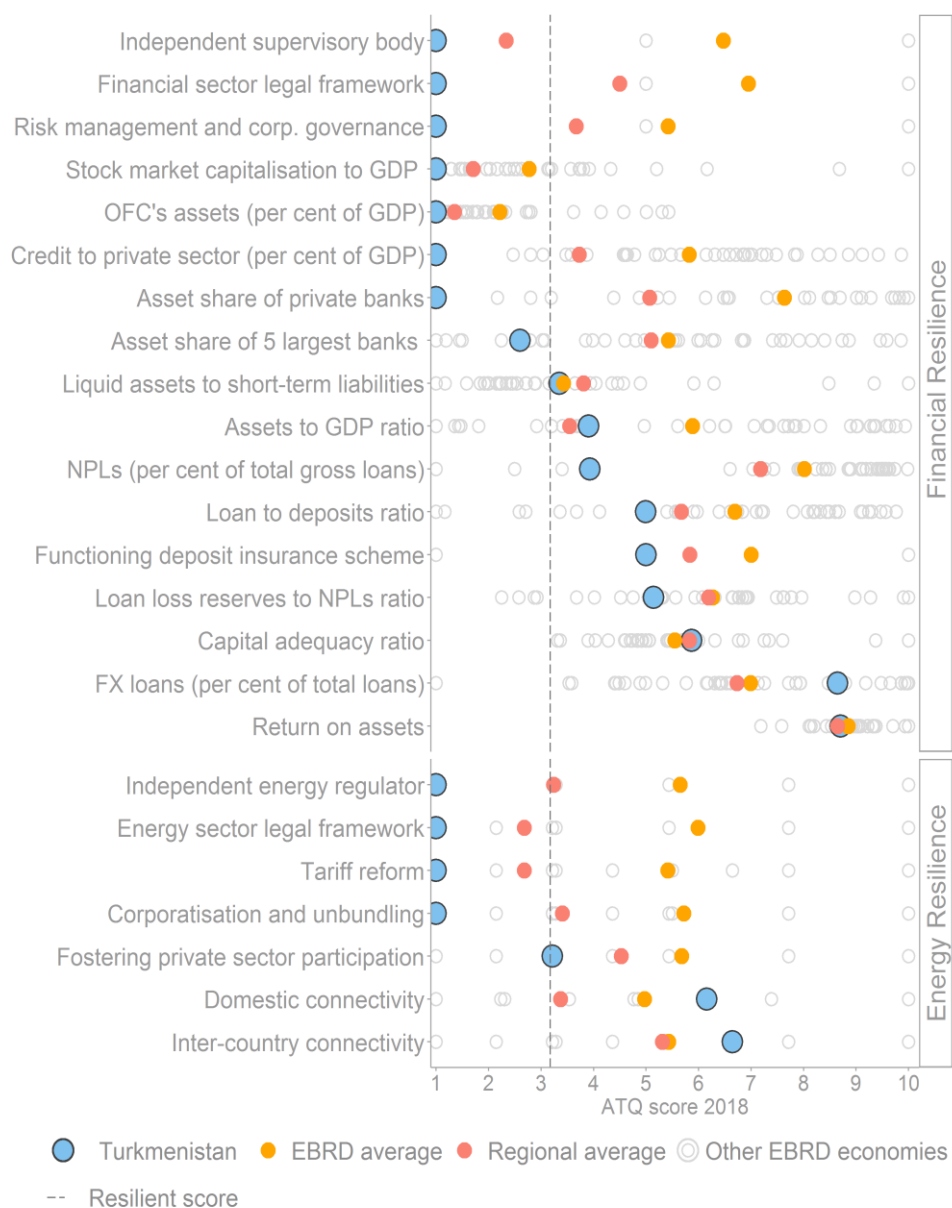
Turkmenistan's energy intensity is very high. Since 2002, energy intensity in Turkmenistan has declined by 52.9%.²⁶ However, energy intensity was at 0.33 toe/USD 1 000 GDP PPP, still the highest among EECCA countries in 2015. In order to enhance energy resilience, while setting out the premises for a green economy transition, the establishment of a legislative framework for energy efficiency and renewable energy²⁷ is required, including the modification of pricing and the regulatory structure. Significant CO2 emissions reductions could be achieved by reducing energy losses in electricity and gas networks, and by tackling venting and flaring. A decree approved in 2017 introduced for the first time prices for energy, which was freely provided in the past. However, due to limits set the price signal is still weak, and thus not sufficiently encouraging energy efficiency projects in the residential or corporate sectors.

²⁴ Electricity (around 5.5 GW installed as of 2017) is mostly produced with gas, with a small participation of hydro. The country is a net exporter to Afghanistan, a position that could be reinforced in the future, as the 2013-2030 plan for the sector foresees the commissioning of 14 new gas power plants and a five-fold increase of power export to neighbouring countries.

²⁵ <https://www.adb.org/sites/default/files/publication/365701/ado2017-update.pdf>

²⁶ <https://www.iea.org/publications/freepublications/publication/KeyWorld2017.pdf>.

²⁷ [WB Country Strategy Framework 2016-2020](#).



Source: EBRD.

Note: Visit <https://2018.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

Integrated [ATQ = 4.39]

Trade as a share of GDP: 117.9 per cent, compared to OECD average of 75.3 per cent.

FDI inflows as a share of GDP: 10.1 per cent, compared to OECD average of 4.2 per cent

Portfolio inflows as a share of GDP: 0 per cent, compared to OECD average of 3.8 per cent.

Logistics performance (international) index: ranked 140th out of 160 countries

External integration

Turkmenistan ranks 34th among the 37 EBRD countries in the integrated dimension. Missing data make a thorough assessment difficult, however.

While Turkmenistan performs relatively better in terms of trade and FDI, mostly on the back of oil and gas sectors, its performance compared to OECD average is worse in terms of portfolio inflows, which is mostly explained by institutional inefficiencies.

While trade is impeded by the **small number of trade agreements** (5, compared to 17 on average in the EBRD and 31 in the OECD countries), the country's vast energy resources positively impact the outcome.

The 5-year average of **FDI inflows** is significantly higher than the EBRD average of 3.6 per cent of GDP. However, the country is part of only 27 bilateral investment agreements, compared to the much higher averages of Central Asia (36), EBRD (63), and OECD (95) countries. The Non-FDI capital account openness is low, lagging behind Central Asia, EBRD and OECD countries, which is constraining the further development of capital markets.

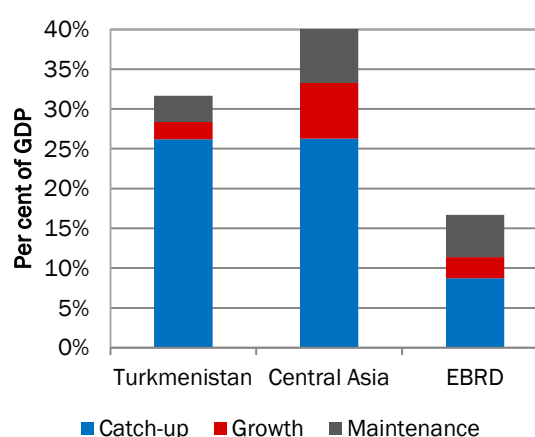
Internal integration

Turkmenistan is among the EBRD countries with the **highest infrastructure investment needs**. While infrastructure in the main cities is at par with developed countries, the quality is lower outside the economic centres. The EBRD Transition Report 2017-2018 forecasted that Turkmenistan would need to spend 31.7 per cent of its annual GDP over 2018-22 to catch-up with advanced countries, maintain the infrastructure stock and build new infrastructure. The required catch-up investments are in line with the Central Asia average, but overall infrastructure needs are much higher than the EBRD average of 16.7 per cent, and are most pronounced in the transport sector.

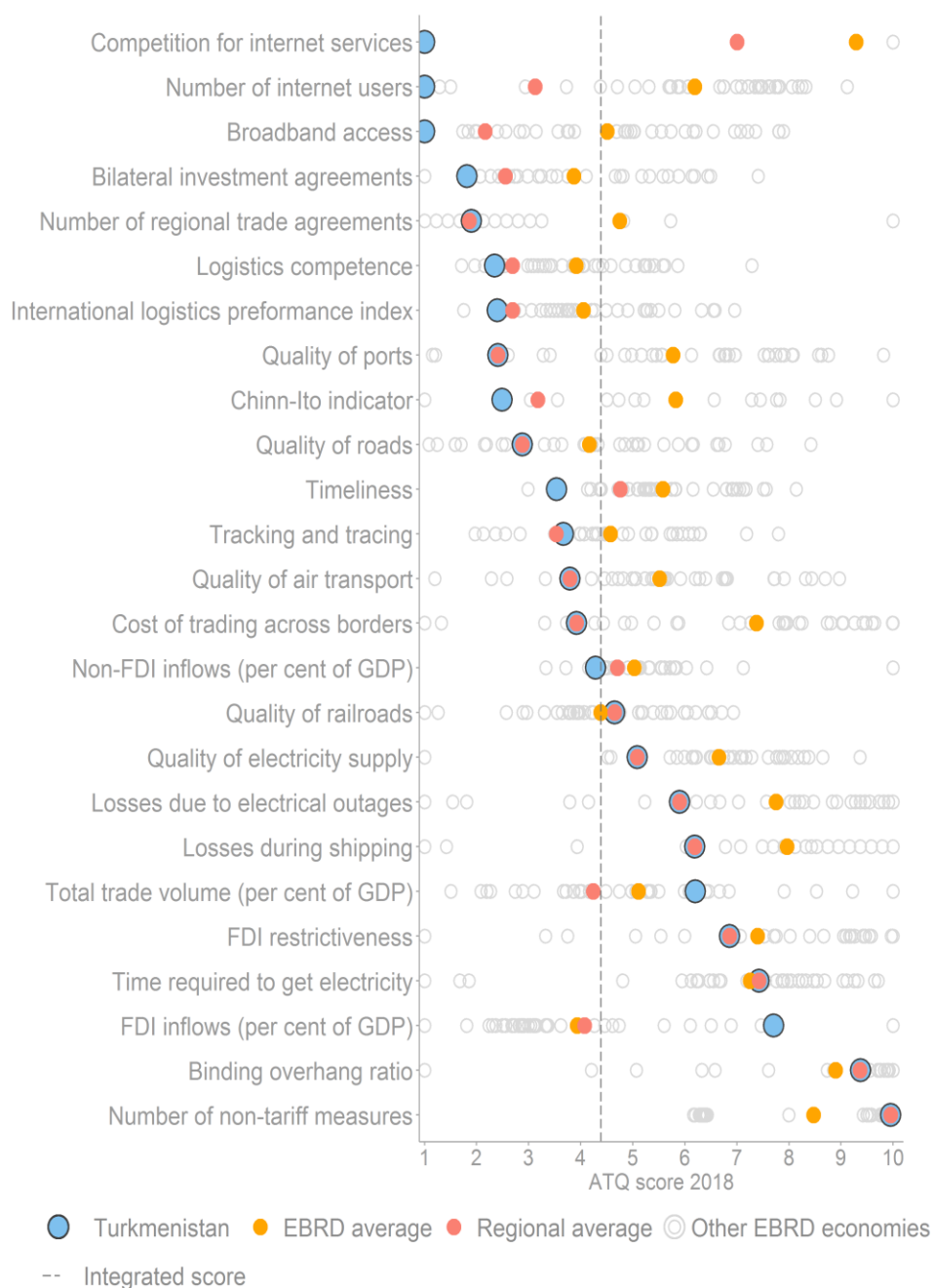
Cross-border integration

Turkmenistan suffers from the **low quality of international logistics sector performance** due to inefficiencies in customs and border clearance, quality of trade and transport related infrastructure, and difficulties in arranging competitively priced shipments.

Chart 9: Infrastructure investment needs 2018-22



Source: EBRD.



Source: EBRD.

Note: Visit <https://2018.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

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