



Turkmenistan Country Strategy

2019-2024

Approved by the Board of Directors on 10 July 2019



European Bank
for Reconstruction and Development

PUBLIC

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Glossary of Key Terms

ABI	Annual Business Investment	IFRS	International Financial Reporting Standards
ADB	Asian Development Bank	IPO	Initial Public Offering
ASB	Advice for Small Business	IsDB	Islamic Development Bank
ATQ	Assessment of Transition Qualities	LCY	Local Currency
CAREC	Central Asia Regional Economic Co-operation	M&A	Mergers and Acquisitions
CBT	Central Bank of Turkmenistan	M&S	Manufacturing & Services
CoO	Country of Operations	MSME	Micro, Small and Medium Enterprise
COP21	2015 United Nations Climate Change Conference	NDC	Nationally Determined Contribution
EBRD	European Bank for Reconstruction and Development	NPL	Non-Performing Loans
EIB	European Investment Bank	ODA	Official Development Assistance
ETC	Early Transition Country	PPP	Private-Public Partnership
ETI	Expected Transition Impact	PFI	Private Financial Institution
EU	European Union	PTI	Portfolio Transition Impact
E&S	Environmental & Social	RE	Renewable Energy
FDI	Foreign Direct Investment	RSF	Risk Sharing Facility
EITI	Extractive Industries Transparency Initiative	SDGs	Sustainable Development Goals
ETI	Expected Transition Impact	SEFF	Sustainable Energy Financing Framework
FDI	Foreign Direct Investment	SME	Small and Medium Enterprise
FI	Financial Institution	SOE	State-Owned Enterprise
GEFF	Green Economy Financing Facility	TAPI	Turkmenistan-Afghanistan-Pakistan-India Pipeline
GET	Green Economy Transition	TC	Technical Cooperation
GGFR	Global Gas Flaring Reduction Partnership	TFP	Trade Facilitation Programme
GHG	Greenhouse Gas	TRACECA	Transport Corridor Europe-Caucasus-Asia
ICA	Industry, Commerce & Agribusiness	UNDP	United Nations Development Programme
ICT	Information and Communication Technologies		
IFI	International Financial Institution		

Executive Summary

Turkmenistan's commitment to and application of the political principles in Article 1 of the Agreement Establishing the Bank remain the subject of concern by relevant international bodies, despite some efforts by the authorities to improve the constitutional and legislative framework over the period covered by the previous Country Strategy.

Since the previous Country Strategy was approved in 2014, the Turkmen authorities have taken some steps to bring their country's institutions and legislation more into line with international norms. They have also engaged more actively with the United Nations (UN) and Organization for Security and Co-operation in Europe (OSCE), submitted more detailed reports to UN treaty bodies and taken part in some international meetings with civil society representatives. Together with the establishment of a Human Rights Ombudsman, these are positive steps but their impact is not yet clear. Moreover, the Constitution and other laws still fail to provide an adequate framework for the separation of powers and pluralism. Relevant international bodies continue to express deep concern about the actual conditions for democracy and human rights in Turkmenistan. They have frequently concluded that there is a wide gap between the principles set out in official documents and their application in practice, with concerns being raised across the entire range of civil and political rights as well as in the areas of rule of law and corruption.

Despite the high official growth rate of above 6 percent in recent years, the economy faces an array of serious challenges. Weak export proceeds in 2016-17 and ambitious government projects have resulted in a scarcity of foreign exchange and rationing by the central bank, despite a recovery in exports in 2018. The manat is significantly overvalued, inflation has accelerated, and external and fiscal positions are under pressure. Limited progress on structural reforms that could enhance the country's competitiveness and a challenging business environment also continue to dampen much-needed foreign investment.

Overall, Turkmenistan is at a very early stage of transition to a sustainable market economy, with private sector activity severely limited and some of the largest transition gaps in the EBRD region. Consequently, since 2010 the EBRD has focused almost exclusively on private sector development and largely restricted its engagement with the unreformed public sector. In the new strategy period the Bank will continue this primary focus on supporting the fledgling private sector in order to create the basic conditions for it to take root and grow, including by remaining alert to bankable opportunities to promote inclusive growth. It will also consider supporting, in a carefully measured and targeted manner, concrete, well-defined initiatives of the Government to reform the public sector should a credible commitment to reform materialise. The Bank envisages the initial focus will be on sustainable municipal infrastructure and green transition, given Turkmenistan's very high energy and carbon intensity. Only in the event that these initial reforms gain traction would it consider a deeper engagement. In the meantime, as one of the few international actors supporting the private sector in the country, the Bank will continue to assess and monitor developments, closely aligning with other international organisations, such as the UN and the European Union (EU), to jointly promote reform.

With that in mind, the Bank is set to pursue the following strategic priorities in Turkmenistan in 2019-2024:

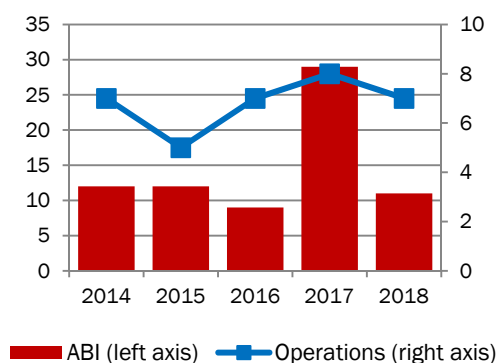
- Nurturing competitiveness of the nascent private sector through investment and promotion of a supportive environment; and
- Promoting step-by-step market-based reforms in the public sector as a pre-requisite to potentially supporting sustainable infrastructure and green economy transition.

Turkmenistan – EBRD Snapshot

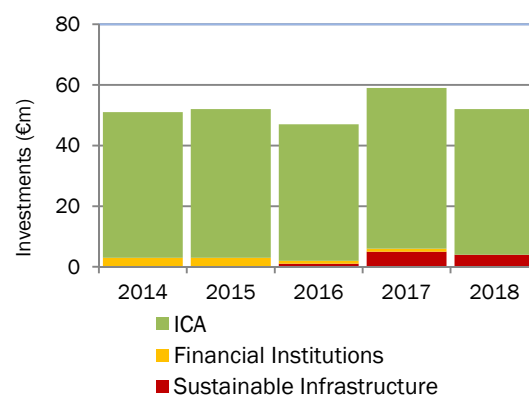
EBRD Investment Activities in Turkmenistan¹

Portfolio	€52m	Active projects	29
Equity share	16%	Operating assets	€52m
Private sector share	100%	Net cum. investment	€282m

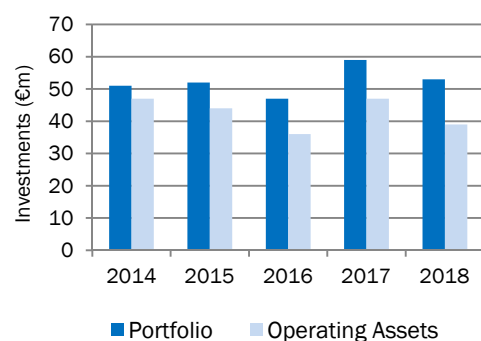
ABI and Operations



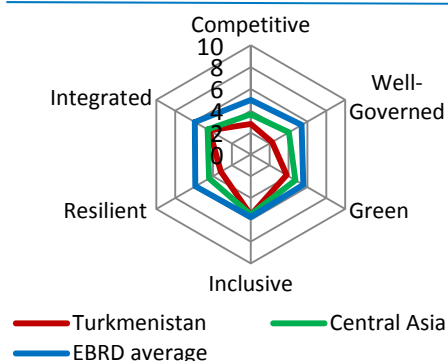
Portfolio Composition



Portfolio Dynamics



Transition Gaps²



Turkmenistan Context Figures

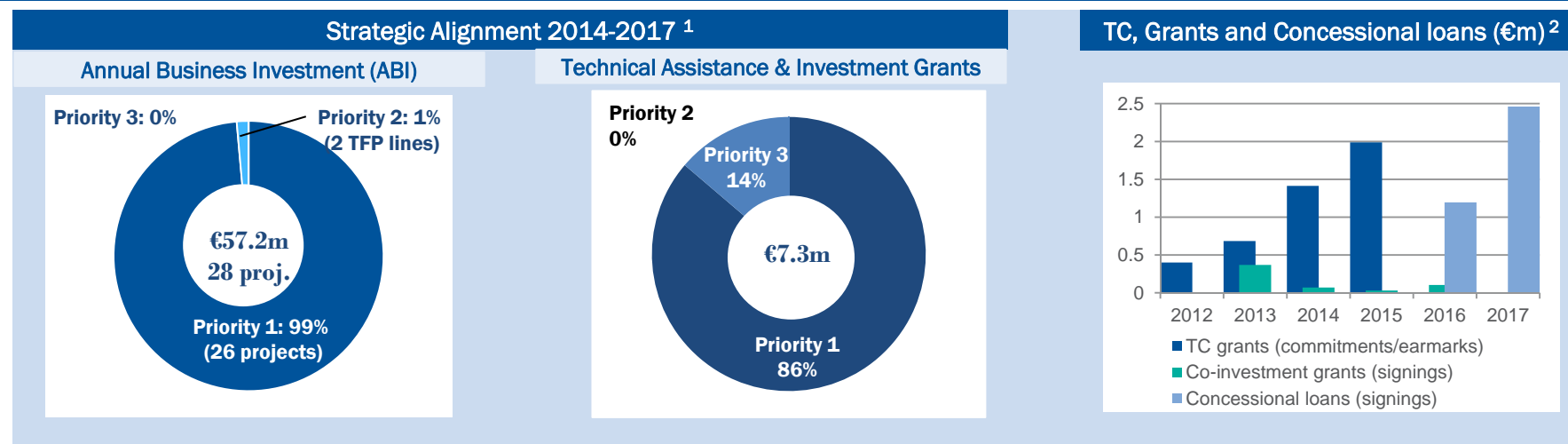
	Turkmenistan	Comparator countries
Population (million) ³	5.8	6.2 (Kyrgyz Rep) 8.9 (Tajikistan) 32.4 (Uzbekistan)
GDP per capita (PPP, USD) ³	17,993	3,726 (Kyrgyz Rep) 3,180 (Tajikistan) 6,865 (Uzbekistan)
Unemployment (%) ⁴	3.8	7.3 (Kyrgyz Rep) 10.3 (Tajikistan) 7.2 (Uzbekistan)
Youth unemployment (%) ⁴	6.5	15.7 (Kyrgyz Rep) 19.2 (Tajikistan) 14.6 (Uzbekistan)
Female labour force part. (%) ⁴	41.9	49 (Kyrgyz Rep) 45.4 (Tajikistan) 53.8 (Uzbekistan)
Energy intensity (TPES/GDP PPP) ⁵	0.3	0.2 (Kyrgyz Rep) 0.1 (Tajikistan) 0.2 (Uzbekistan)
CO2 emissions/GDP (kgCO2/2010 US\$) ⁵	1.7	1.47 (Kyrgyz Rep) 0.56 (Tajikistan) 1.37 (Uzbekistan)

¹ As of May 2019. Cumulative Bank Investment: 5 year rolling basis on portfolio.

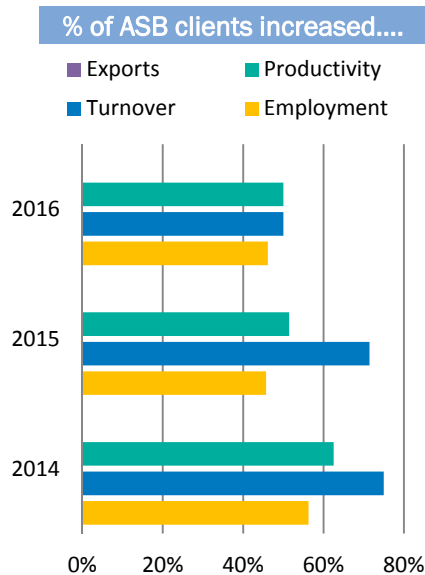
² EBRD Transition Report 2018-19. ³ World Bank WDI (2018). ⁴ International Labour Organisation (2018). ⁵ IEA's Energy Atlas (2016 figure).

1. Implementation of Previous Strategy (2014-2017)

1.1. Key Transition Results



Priority 1: Supporting private sector development



Key Transition Results

Operating within the narrow focus of the Country Strategy, the Bank has devoted its resources completely to private sector development, with over 99% of the portfolio in the corporate sector, helping small businesses and foreign investors keep a foothold in the economy.

- **Provided €42.9m in debt finance to small businesses**, with a focus on agribusiness and manufacturing, both directly through DFF and indirectly through local bank intermediaries. Augmented with advisory services to enhance financial and operational capacity, including a series of seminars targeting female entrepreneurs. Although small, these loans are critical for the country's growing private sector, helping to, for example:
 - ✓ **Establish new industries** (e.g., Turkmen Penjire (PVC profile production), Toprak (first private paper making plant));
 - ✓ **Modernise and expand existing operations** by financing equipment to increase production capacity and product quality (e.g. helping Berk Beer, the leading brewery, become a market leader and Taze Ay Group, a meat and confectionary producer, launch exports); and
 - ✓ **Introduce innovative technologies**, such as implementation of a CO₂ recovery system for Yager Brewery enabling it to capture and recycle emissions generated during the production process.
- **Strengthened MSME lending** by pursuing a new Risk-Sharing Facility with the Central Bank, improving financial reporting (e.g. IFRS at Rysgal Bank), and introducing MSME lending policies at commercial banks.

1. Strategic priorities for 2014-2017: 1) Supporting private sector development; 2) Promoting international integration; 3) Laying the foundations for future reforms.
2. 2012-2015 TC data based on commitments as of March 2016 (latest available data for transition to new Donor Funds System).
2016-2017 TC data based on earmarks at project level.

1. Implementation of Previous Strategy (2014-2017)

1.1. Key Transition Results

Priority 2: Promoting international integration

CAREC transport corridors



Key Transition Results

- **Very limited activity under this priority** in an environment marked by very low FDI outside the extractive sector, continued pressures on foreign currency reserves and heavy state management of infrastructure.
- **Promoted cross-border trade and investment integration despite limited uptake of TFP:**
 - ✓ **Signed two regional TFP transactions** with JSB Rysgal (the only private bank in the country) to purchase food additives from Germany, although a wider uptake will probably require removal of FX restrictions; and
 - ✓ **Provided financing to one of the rare foreign investors outside the extractive sector** (Turkmenistan Coca-Cola Bottlers) to increase the efficiency of its production process and improve distribution systems.
- In the absence of suitable opportunities in **regional transport infrastructure**, the Bank has looked for opportunities to promote:
 - ✓ **Greater international transport integration** in connection with the Central Asia Regional Economic Cooperation (CAREC) transport corridors or the EU's TRACECA programme, including potential railway projects; and
 - ✓ **Increased private sector participation in infrastructure** via e.g., subcontracting, transparent procurement and environmental compliance, incl. engagement on railways (rolling stock), regional bus lines and other maritime (vessel & port) projects, although discussions to date have not yielded concrete results.

Priority 3: Laying the foundations for future reforms

Key Transition Results

- Although the current strategy does not envision wholesale investment in the **energy and municipal sectors**, the Bank has continued to look for **opportunities to promote reform** in these areas, as well as **explore potential investments under two exceptions to the strategy** approved by the Board of Directors in April 2016 in response to certain tentative steps taken towards greater market-oriented reforms:
 - ✓ In light of explicit interest in achieving gradual cost recovery in the municipal sector (in line with recommendations on sector reform from the Turkmen National Advisory Council and the Bank's own mapping study), **ongoing discussions regarding potential MEI projects** in the water/wastewater sector as part of as possible tripartite cooperation with UNDP; and
 - ✓ In light of the Government's renewed commitment to eliminate gas flaring by 2030 at the Paris COP21 and under the World Bank-led "Global Gas Flaring Reduction Initiative", **promoted energy efficiency solutions in the extractive sector**.
- **Limited progress in improving the transparency of oil and gas revenues** and their management, notwithstanding advocacy with partner IFIs to promote compliance with the Extractive Industries Transparency Initiative (EITI) on budget transparency and public financial management.

1. Implementation of Previous Strategy (2014-2017)

1.2. Challenges to Implementation and Key Lessons

Context for implementation: Since 2010, the EBRD has focused almost exclusively on private sector development while largely restricting its engagement with the public sector. Despite the challenging operating conditions, marked by a difficult macroeconomic environment and limited access to foreign exchange, the Bank has still been able to deliver some good results in select areas, notably in support of SMEs and local firms. In other areas, however, including the two Board-approved exceptions to explore potential projects in the municipal sector and reduce gas flaring, progress has been extremely limited. Given the constraints imposed by the current environment, the Bank will continue to primarily concentrate on the private sector. Nonetheless, it will consider supporting, in a cautious and targeted manner, concrete, well defined initiatives of the Government to reform the public sector in the event a credible commitment to reform materialises. Overall Turkmenistan remains at a very early stage of transition, and as one of a few international actors supporting the private sector in the country, the EBRD will continue to assess and monitor developments and look for opportunities where it can play a positive role, including through reform advocacy.

Implementation Challenges

- Extensive state interference in economy and control of resources, including near monopoly of banking sector, leads to heavy distortions (e.g., directed lending, subsidised loans)
- Increased FX risk from lower energy prices & related regulation of access to hard currency for a broad spectrum of activities
- MSME credit lines generally too small to be attractive for local banks and efforts to conclude a larger facility with CBT to date unsuccessful. Limited TFP uptake, largely due to FX restrictions
- Foreign trade and investment have been inhibited by the poor business environment, regulatory uncertainty, lack of transparency and reliable data, and rationed foreign exchange
- Limited reform appetite to date has hindered previous advocacy efforts, although decline in gas exports could open new opportunities

Key Lessons & Way Forward

- Focus on channelling resources to fledgling private sector by continuing to provide long term finance and advisory to promising SMEs and corporates, with preference for those with export potential to mitigate the risk of an FX shock
- As concluding an MSME facility will partly require financial sector reform, continue to promote greater commercialisation of banking sector, as well as easing of FX regime, which should boost trade and investment
- Additional efforts to enhance governance, build institutions and improve the business environment may need to be opportunistic
- Test commitment by directing public sector investments and policy engagement to select areas subject to meaningful reform or where the EBRD is well equipped to initiate the process, and employ conditionality
- Where possible align advocacy with trusted partners such as UNDP (including to promote compliance with the SDGs) and the EU
- Should initial efforts gain traction, consider deeper engagement, particularly in areas with positive spill-over effects (e.g., environmental improvements, regional connectivity)

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

Turkmenistan: Main macroeconomic indicators

	2015	2016	2017	2018
GDP growth (% y-o-y)	6.5	6.2	6.5	6.2
CPI inflation (% avg.)	7.4	3.6	8.0	13.6
Government balance (% of GDP)	-0.7	-1.3	-2.8	0.6
Current account balance (% of GDP)	-14.0	-21.0	-11.5	3.1
Net FDI (% of GDP)	8.5	6.2	5.5	n.a.
External debt (% of GDP)	21.8	23.1	25.1	25.9
Gross reserves (% of GDP)	n.a.	n.a.	n.a.	n.a.
General government gross debt (% of GDP)	21.8	24.1	28.8	29.3
Unemployment (% eop)	3.8	3.8	3.7	3.8
Nominal GDP (\$bn)	35.8	36.2	37.9	44.1

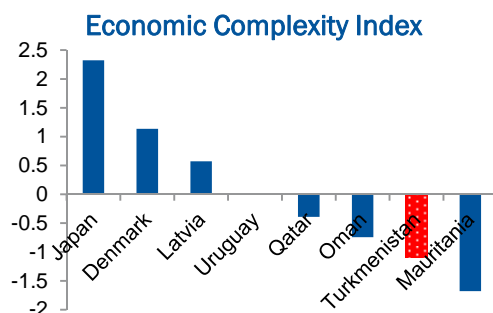
- **Despite the high official growth rate of above 6 per cent in the past years, the economy faces an array of serious challenges.** Weak export proceeds in 2016-17 and ambitious government projects have resulted in a scarcity of foreign exchange and rationing by the central bank, despite a recovery in exports in 2018. The authorities are trying to overcome this by building new gas routes, diversifying exports destinations and increasing import substitution. However, resilience against energy commodity price volatility remains low.
- **External and fiscal positions are under pressure.** The halt of gas exports to Russia and a gas dispute with Iran in 2016 left China as the only major gas recipient until recently. In April 2019, the resumption of exports to Russia was announced. Total exports increased by roughly 44 per cent in 2018 after a deep slump the previous two years, but are still below 2015 levels. High spending by extra-budgetary funds weakened public finances over the previous two years.
- **Severe economic distress cannot be excluded.** Consumer prices have risen drastically and the manat is significantly overvalued. In June 2019 the parallel market rate stood at 18.5 manats per US dollar versus an official rate of 3.5 manats. A potential correction brought about by a sharp devaluation of the official exchange remains possible.
- **Real GDP growth is projected to be 6.3% in 2019 and 6.0% in 2020,** based on the official data, provided the external demand for gas remains favourable. The resumption of gas exports to Russia following a three-year interruption is expected to improve growth prospects. However, in the short term, growth will be weighed down by fiscal restraint, restricted access to foreign exchange except for priority projects, a difficult business environment and limited FDI inflows. The forecast risk is high due partly to the difficult access to reliable data.

2. Economic Context

2.2 . Key Transition Challenges

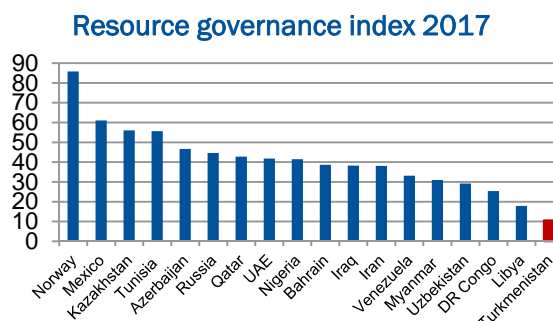
Competitive (2.79)

- **Turkmenistan is the least competitive economy among EBRD's countries of operations.** Although the country possesses abundant natural resources, it faces numerous structural challenges, including the poor quality of the business environment, a shallow financial sector and limited role of SMEs.
- **Key elements for a dynamic economy lag its competitors** (e.g. internet access). Turkmenistan has a better trade and transport infrastructure than some other countries in the region but is still far behind advanced countries.
- **Relatively high labour productivity is driven by the extractive industries,** with other sectors far less competitive.
- **The low complexity of the economy,** leaves Turkmenistan with few areas to compete on international markets¹.



Well-Governed (2.25)

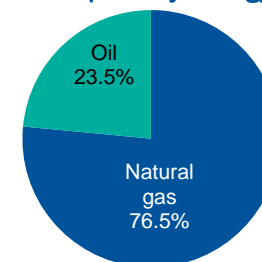
- **A heavy state presence dominates economic decision-making.** Public sector capacity is also low, which further undermines regulatory quality and effectiveness.
- **Poor data availability makes internal and external assessment and decision-making challenging.** Notably, the World Bank's Doing Business Report and World Economic Forum's Competitiveness Report do not cover Turkmenistan.
- **Corporate governance is hampered by a lack of managerial independence,** even in private firms, due to subordination to government programmes.
- Turkmenistan ranks **88th out of 89 countries** in the **Resource Governance Index** of the Natural Resource Governance Institute due to a lack of transparency, poor revenue management and low regulatory quality.



Green (3.80)

- **Energy production is dominated by natural gas and oil.** Solar and wind potential are high, but unexploited. There is no legislative framework for energy efficiency and renewable energy.
- **Water scarcity is a serious issue with deserts covering 80% of the territory.** 94% of total withdrawn water is used for irrigation (compared to an average of 69% in Central Asia) and irrigation facilities are inefficient and outdated.
- **Turkmenistan is highly vulnerable to climate change impacts,** with a rate of warming much higher than the global average. While national strategies address some of these concerns, there is no specific road map and investment strategy.

Share of total primary energy supply



¹ Economic complexity reflects the product range a country produces competitively

Source: https://atlas.media.mit.edu/en/rankings/country/eci/?year_range=2011-2016, Natural Resource Governance Institute, IEA 2015

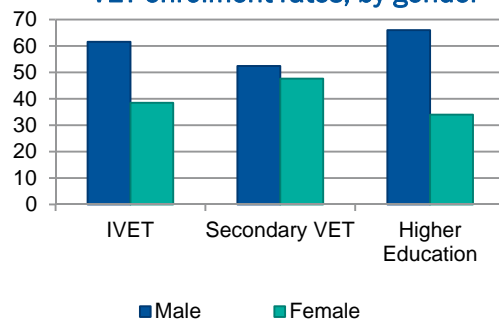
2. Economic Context

2.2 . Key Transition Challenges

Inclusive (5.56)

- The UN estimates that 49% of the population in Turkmenistan was younger than 25 in 2015, underscoring the importance of providing high-quality education and training as well as job creation.
- While anti-discrimination laws and policies exist in Turkmenistan, problems in implementation contribute to differences in employment between men and women. Female labour force participation is 41.9%.
- Opportunities for vocational training and work-based learning for young people are nascent but emerging. The development of a certification methodology as part of skills evaluation and the introduction of a quality assurance system are underway.

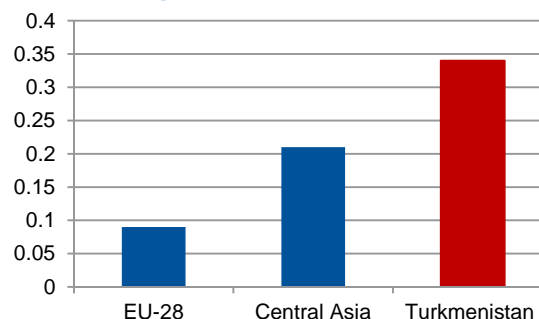
VET enrolment rates, by gender



Resilient (3.17)

- Turkmenistan is highly exposed to commodity price shocks, as gas and oil exports account for approximately 80% of Turkmenistan's total exports and amount to about one third of GDP.
- Banking sector risks are considerable. The manat loan-to-deposit ratio was 159% at end-2017. Overdue loans of 4.3% as of January 2018 are likely understated.
- Energy infrastructure is outdated and inefficient, with high losses. The virtually free supply of electricity, heat and gas to consumers until recently has discouraged investment in energy efficiency and renewable energy.
- Turkmenistan's energy intensity is very high. Since 2002, energy intensity has declined by 52.9%. However, at 0.3 toe/USD per thousand 2010 GDP (PPP), it was still the highest among EBRD CoOs in 2016.

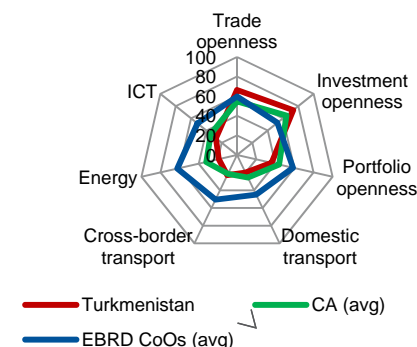
Energy Intensity (TPES/GDP PPP)



Integrated (4.39)

- Turkmenistan has a high share of trade and FDI relative to GDP (concentrated in the hydrocarbons sector) compared to the OECD average, but portfolio inflows are significantly lower largely due to institutional weaknesses.
- Turkmenistan is among the EBRD countries with the highest transport infrastructure needs. While infrastructure in the main cities is on par with developed countries, the quality is lower outside economic centres.
- International logistics remain poor, reflecting inefficiencies in customs and border clearance, quality of trade and transport related infrastructure, and difficulties in arranging competitively priced shipments.

ATQ Indicators (Integration)



3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

Approved in 2010, the **National Programme for Socio-Economic Development of Turkmenistan for 2011-2030 (NPSED)** aims to achieve sustainable economic growth, including through diversification of the economy, improve infrastructure and increase the role of the private sector; strengthen regional development and integration; and improve the population's living conditions. In 2015-16, the Government formally integrated the **UN SDGs** into the NPSED, and formed a working group to monitor their implementation under the auspices of the Ministry of Finance and Economy and the State Statistics Committee.

The NPSED is in part implemented through medium-term strategies, the latest of which is the **Presidential Programme for Socio-Economic development (2018-2024)**, which sets forth the following strategic priorities:

- **Increasing living standards, social policy and human capital development:** e.g., by improving labour resources and social protections, enhancing wages and health, education, housing and communal services, and promoting science, sports and tourism;
- **Ensuring dynamic and balanced development of economic sectors, with a focus on import substitution and encouragement of the private sector (especially SMEs):** including oil and gas, electricity, petrochemical, light industry, pharmaceutical, construction, agriculture, transport, communications and services;
- **Addressing climate change** through the rational use of natural resources and environmental protection, **and food security** through targeted financing and incentives for agribusiness investment; and
- **Strengthening the role and participation of the regions** in the country's development, by opening tourism, mining and oil sectors to domestic private investors and establishing special economic zones.

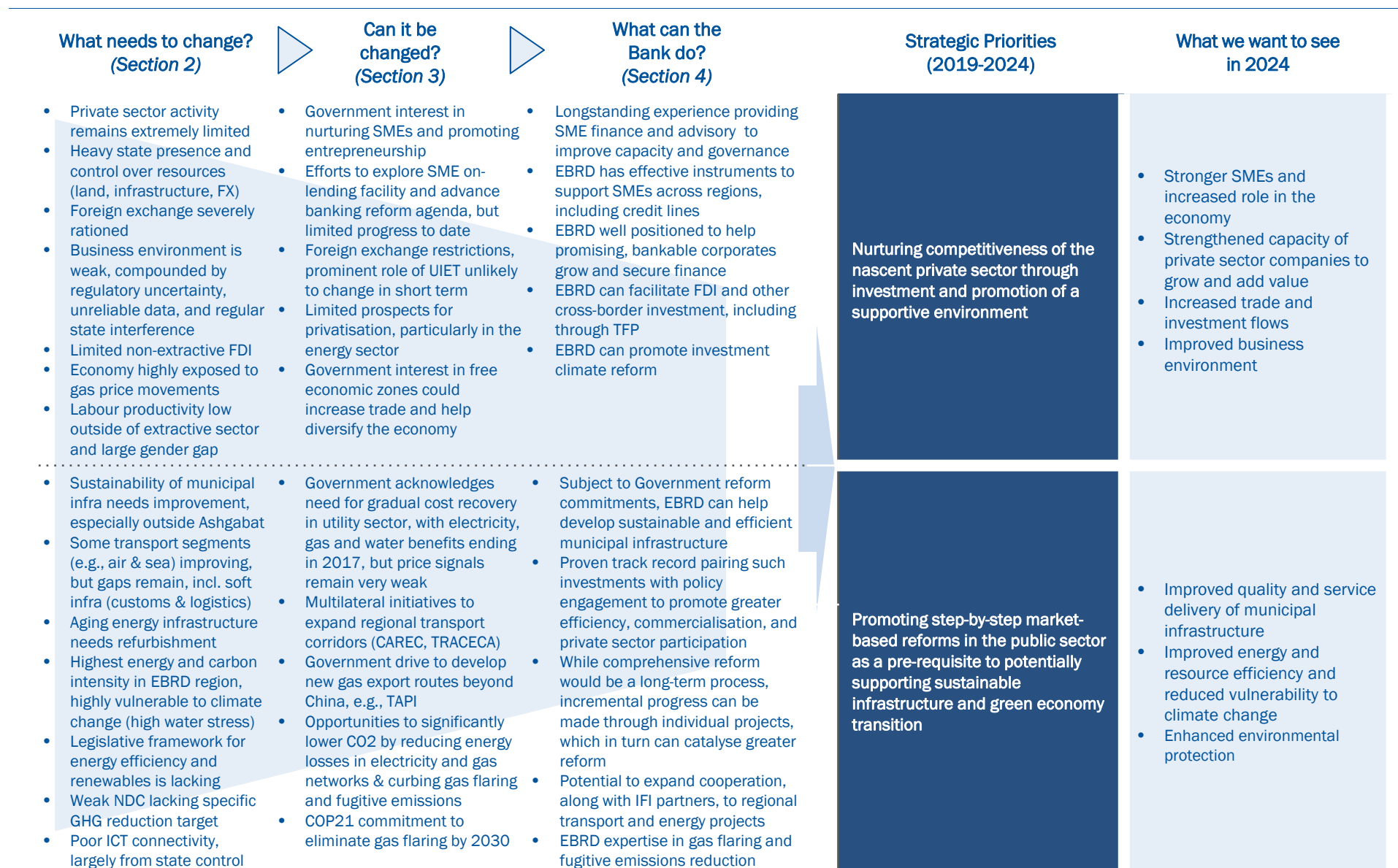
3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Continued focus on **private sector development as the key growth engine** for a market-oriented economy
- **Development of SMEs and promising corporates**, including in the regions and with an eye to export markets
- Further **tariff reform and capacity building in the municipal sector**, building on the recent decision to end free utilities for gas, petrol, electricity and water
- Support for selective **SOE commercialisation** and/or privatisation of state assets across sectors, where feasible.

3.3. Key Messages from Civil Society to EBRD

- Despite some legislative changes which strengthen formal human rights protections, CSOs have expressed concerns about: a general deterioration of democracy, separation of powers and rule of law (e.g., 2016 and 2017 constitutional changes that strengthened the powers of the presidency); systematic violations of civil and political rights, and freedoms of movement and media; forced labour in the cotton harvest; gender equality; and systemic corruption.
- Particular concern was expressed about prisoners allegedly held for political reasons, conditions of detention, and enforced disappearances.
- CSOs also raised significant concerns about the conditions for civil society (compulsory state registration, administrative penalties for unregistered associations, restrictions on freedom of assembly, and persecution of independent journalists and activists).
- Some CSOs advocate for the use of benchmarks and conditionalities to track reform progress/regress, and urge the Bank to exclude any investments in the sovereign and oil and gas sector (including private natural gas infrastructure).

4. Defining EBRD Turkmenistan Country Strategy Priorities



5. Activities and Results Framework

Priority 1: Nurturing competitiveness of the nascent private sector through investment and promotion of a supportive environment

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Stronger role of SMEs in the economy via enhanced access to finance	<ul style="list-style-type: none"> Provide direct finance to SMEs and other promising corporates, primarily in the manufacturing and services, agribusiness and logistics sectors, including women-led businesses and those located in underserved regions, backed by advisory support to enhance capacity, strengthen operational performance and/or improve energy and resource efficiency or occupational health and safety 	<ul style="list-style-type: none"> Number of clients reporting increased productivity or turnover
Strengthened capacity of private sector companies to grow and add value	<ul style="list-style-type: none"> Provide intermediated finance to private companies through MSME credit lines, including via state-owned banks, where applicable coupled with technical assistance to improve partner banks' lending capacity Technical assistance to help develop capital market infrastructure (e.g. potentially to the Ashgabat Stock Exchange in the first instance) 	<ul style="list-style-type: none"> Total number/volume of MSME sub-loans provided by partner banks
Increased trade and investment flows	<ul style="list-style-type: none"> Facilitate cross-border trade through TFP lines and seek opportunities to support cross-border investments Support quality FDI (e.g., to strengthen value chains and boost skills transfer), including from the private oil and gas sector <i>provided that</i> any such investments conform with the Bank's Energy Sector Strategy and comply with its environmental safeguards, and proceeds are ring-fenced so that no project revenues flow into the Turkmenistan Foreign Exchange Reserve Fund 	<ul style="list-style-type: none"> Total number/volume of TFP transactions supported by the Bank Total volume of FDI facilitated by projects supported by the Bank
Improved business environment	<ul style="list-style-type: none"> Support modalities for strengthening governance and the business climate (e.g., by advocating for development of a regional enterprise survey, promoting greater data transparency or supporting free economic zones) and assist with institution building efforts where opportunities arise 	<ul style="list-style-type: none"> Legal, institutional and regulatory changes targeting business environment improvements

5. Activities and Results Framework

Priority 2: Promoting step-by-step market-based reforms in the public sector as a pre-requisite to potentially supporting sustainable infrastructure and green economy transition

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Improved quality and service delivery of municipal infrastructure	<ul style="list-style-type: none"> Subject to a credible and meaningful reform commitment, which may nonetheless be incremental in nature, consider financial support for select projects to: <ul style="list-style-type: none"> improve the quality and sustainability of municipal infrastructure services, with an initial focus on water, potentially to include irrigation networks; and promote development of renewable energy, in particular wind and solar, including support for an appropriate legislative framework, <i>in each instance</i> combined with technical assistance to promote commercial solutions, improve corporate governance, introduce private sector participation, and/or advance legal, regulatory and tariff reform In the event of tangible progress on the above, select projects in other sectors (e.g., transport, energy) with a strong regional connectivity component (e.g., integrated into CAREC corridors) may be considered on a case-by-case basis, subject to similarly robust reform conditionality 	<ul style="list-style-type: none"> Expanded access to or improved quality of municipal infrastructure Legal, regulatory and institutional changes (e.g., tariff reform) and/or operational improvements as targeted
Increased energy and resource efficiency and reduced vulnerability to climate change Enhanced environmental protection	<ul style="list-style-type: none"> Pursue investments and related policy engagement to promote climate change mitigation and adaptation measures (e.g. energy efficiency in buildings, integrated district-heating and cooling projects) Continue to pursue selective investments and advisory targeting associated petroleum gas flaring and fugitive emissions reduction in line with the Global Gas Flaring Reduction Partnership (GGFR) <i>provided that</i> proceeds are ring-fenced so that no project revenues flow into the Turkmenistan Foreign Exchange Reserve Fund Support remediation services in the oil and gas sector 	<ul style="list-style-type: none"> Total CO2 reduced/avoided (ton/yr) Total energy saved (GJ/y)

6. Mapping of International Partners' Complementarity in EBRD Business Areas

European Bank
for Reconstruction and Development

EBRD BUSINESS AREAS																						
		Sectors														Cross-Cutting Themes						
		Corporate				Energy		Infrastructure				Financial				Green Economy			Inclusion			
Indicative average annual investment/ grants (2014-2017, € million, excl. budget support)*		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Regions
IsDB	207				€	€																
ADB	175					€	€				€			€								€
UNDP	16				P			P	P			P					P		P		P	
EU	3																		P		€	€
JBIC	N/A					€																
USAID	N/A	P	P																			
WB	0.8																					
EBRD	15.5	€	€					€						€			€		€	€		€
€ Area of significant investments		P Area of significant policy dialogue				● Focus mostly on private sector				○ Focus mostly on public sector												

Areas for future cooperation



Green

- Align with UNDP as trusted partner to co-finance MEI projects and/or support sector-related reforms

















Integrated

- Pursue opportunities with ADB to co-finance transport and/or energy infrastructure projects (railway or electricity networks).

* IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investment signed between 2014-2017.

7. Implementation Risks and Environmental & Social Implications

Risks to Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> Continued state interference in the economy may constrain private sector projects and dampen entrepreneurship, particularly outside the established extractive sector 			<ul style="list-style-type: none"> Assessment and Management of Environmental and Social Impacts, Stakeholder Engagement: Ensure that direct, indirect and cumulative impacts of projects are appropriately assessed and mitigated, and work with clients to ensure adequate E&S implementation capacity. The Bank will work to improve clients' knowledge and practice of CSR and stakeholder engagement.
<ul style="list-style-type: none"> Non-commercial practices in the banking sector, including state-directed and heavily subsidised lending, may continue to limit demand for and the viability of the Bank's intermediary MSME finance 			<ul style="list-style-type: none"> Labour and Working Conditions: Ensure client HR policies and labour practices comply with EBRD requirements, address freedom of association & supply chain risks, internal migrant labour and potential work place discrimination, and promote equal opportunities.
<ul style="list-style-type: none"> Difficulty in accessing foreign exchange and FX volatility should commodity prices fall further could adversely affect company financial statements, complicate repayment and limit bankable deals 			<ul style="list-style-type: none"> Resource Efficiency and Pollution Prevention and Control: EBRD's investment priorities aim to reduce water, soil contamination and resource degradation, air pollution and use of harmful chemicals impacting environment and human health. EBRD will promote GET-related projects to support a less energy intensive economy, and provide TC support for capacity building on relevant directives, industry-specific processes and best practices.
<ul style="list-style-type: none"> A weak business environment and limited appetite for reform may inhibit investment flows (and the hard currency and skills transfer those flows can generate) 			<ul style="list-style-type: none"> Health and Safety: EBRD will aim to improve occupational health & safety standards by supporting both businesses and government departments with developing knowledge and skills to improve risk management and prevent work-related injuries. EBRD will work with relevant international organisations to support safe and secure working environments in line with the SDGs. Road safety and fleet management initiatives will be considered. Public access to clean drinking water and overall food safety are priorities.
<ul style="list-style-type: none"> Insufficient political reform progress, transparency and governance challenges could negatively impact investment activities. 			<ul style="list-style-type: none"> Land Acquisition, Involuntary Resettlement and Economic Displacement: EBRD will encourage clients to improve consultation and information provision with affected people. The valuation of lost assets and business loss needs to be improved. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with EBRD requirements.
<ul style="list-style-type: none"> Data availability and quality remain poor, necessitating additional resources to monitor and assess projects, and could affect the pace of projects requiring sovereign support in particular 			<ul style="list-style-type: none"> Biodiversity Conservation and Sustainable Management of Living Natural Resources: Energy, transport and infrastructure projects may impact sensitive habitats, protected areas, natural reserves or proposed or existing Ramsar sites. EBRD will ensure robust biodiversity impact assessments of sensitive projects are carried out, and assist with capacity building to assess & monitor the biodiversity impact of industrial activities (esp. the Hazar Natural Reserve vis-a-vis petroleum and shipping industries in the Caspian).
<ul style="list-style-type: none"> Energy price increases could adversely affect already weak incentives for implementing energy efficiency initiatives and sector reform, including revenue transparency 			<ul style="list-style-type: none"> Cultural Heritage: Ensure appropriate assessment processes to identify and consult with key stakeholders to protect cultural heritage. Financial Intermediaries: Ensure that FI partners have adequate E&S capacity and risk management procedures in place and diligently apply relevant E&S requirements to projects financed under EBRD credit lines. Monitoring and supervision: Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio. Use TC funds to support capacity building and awareness improvement.

8. Donor Co-Financing Assessment

8.1. Grant Needs Assessment

Donor funding will be required to achieve the strategic objectives of the Country Strategy, including support for:

- Boosting SME competitiveness through advisory for small businesses and capacity building for PFIs on MSME on-lending;
- Improving service delivery through select municipal infrastructure projects;
- Green Economy Transition projects, including (1) reducing greenhouse gas emissions from gas flaring & fugitive emissions; (2) renewables demonstration projects; and (3) water efficiency;
- Policy engagement & legal reforms; e.g. related to capital market development;
- Advisory services for partner banks under the Trade Facilitation Programme; and
- Assuming a supportive reform environment, improving interconnectivity through select transport and energy projects.

Selected Affordability Indicators

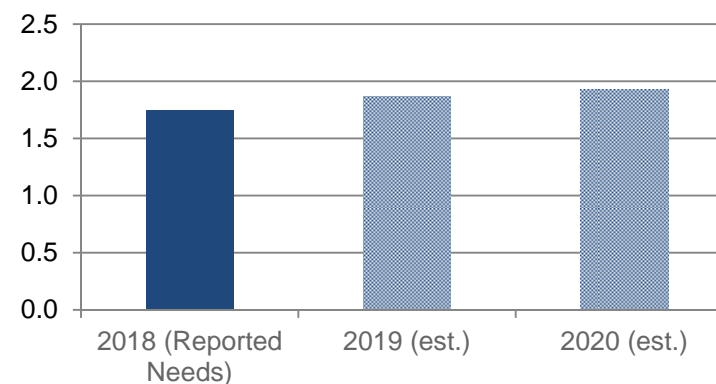
		EBRD regional percentile rank ¹
GDP per capita (PPP, current int. \$) ²	17,993	53 rd
ODA Country	YES	N/A
ODA as share of Gross National Income (%) ³	0.1	8 th
ODA disb. per capita (USD - current prices) ³	5.83	8 th

Sources: ² World Bank WDI (2017), ³ OECD (2016)

8.2. Potential Sources for Grant Funds

- Bilateral donor support may be channelled through The EBRD **Small Business Impact Fund (SBIF)** and **EBRD Early Transition Countries Fund**.
- The **EU** provides funding under the Investment Facility for Central Asia (IFCA) to support EBRD's small business initiative and MSME finance framework. In addition, the EU has expressed interest in supporting municipal infrastructure projects.
- The **EBRD Shareholder Special Fund** will remain an important grant provider.
- Funding may also be available from the **Global Environment Facility** to support projects under the Bank's Green Economy Transition Initiative.
- Turkmenistan is also eligible for loan co-financing from the **Financial Intermediary and Private Enterprises Investment Special Fund**.

Projected Grant Needs (€m)



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Turkmenistan. 2. World Bank WDI. 3. OECD.

ANNEXES

Annex 1 – Political Assessment in the Context of Article 1

Turkmenistan's commitment to and application of the political principles in Article 1 of the Agreement Establishing the Bank remain the subject of concern by relevant international bodies, despite some efforts by the authorities to improve the constitutional and legislative framework over the period covered by the previous Country Strategy.

Since the previous Country Strategy was approved in 2014, the Turkmen authorities have taken some steps to bring their country's institutions and legislation more into line with international norms. Amendments to the Constitution in 2016 strengthened the provisions relating to human rights. The appointment of a Human Rights Ombudsman in 2017 was a positive step. The Turkmen authorities have also engaged more actively with the United Nations (UN) and Organization for Security and Co-operation in Europe (OSCE), submitted more detailed reports to UN treaty bodies and taken part in some international meetings with civil society representatives.¹ The Turkmen authorities' acceptance of many of the recommendations made during their Third Cycle of Universal Periodic Review in 2018 has been widely welcomed.

However, international bodies which seek to promote democracy and human rights continue to express deep concern about Turkmenistan. The Final Report of the Election Assessment Mission of the OSCE Office of Democratic Institutions and Human Rights (ODIHR) on the February 2017 presidential election concluded that, "[Since 2012] Turkmenistan has adopted a number of laws related to elections and fundamental freedoms... [which] may provide some additional guarantees that were previously absent [but] the political environment is so restrictive that there is no scope for the full exercise of the freedoms and rights elaborated in these laws".² In its annual human rights report for 2017, the EU concluded that there was "widespread disregard for civil liberties including restrictions on freedom of speech, press, assembly, movement and religion. Arbitrary arrest and torture, as well as denial of due process and fair trial persisted".³ The restoration of the Halk Maslahaty (People's Assembly) in October 2017, which undermined the separation of powers, was a regressive step.

Free Elections and Representative Government

Free, fair and competitive elections

The Turkmen Constitution, adopted in 1992 and amended several times, most recently in 2017, sets out the legal basis for the conduct of free elections and a representative Government. Article 45 states that, "Citizens of Turkmenistan shall have the right to participate in managing the affairs of society, either directly or through their freely elected representatives". Section VIII of the Constitution sets out the basic provisions for the holding of elections for President, the *Mejlis* (parliament) and for referendums, including universal and direct suffrage and the secret ballot.

However, the legal framework for holding democratic elections is inadequate. According to Article 71(12) of the Constitution, the President is responsible for forming the Central Commission for Elections and Referendums (CEC) and can change its composition. The ODIHR Final Report on the 2017 presidential election noted that, "The excessive power of the president in appointing CEC members limits the commission's independence and impartiality and is

1. The Turkmen authorities sent delegations to the OSCE Human Dimension Implementation meetings for the first time in 2015. They were represented again in 2016 but not in 2017 and 2018.
2. Turkmenistan. Presidential Election, 12 February, 2017. OSCE/ODIHR Election Assessment Mission Final Report, May 2017, p 5.
3. The EU Annual Report on Human Rights and Democracy in the World in 2016, October 2017, p 92.

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contrary to international obligations and standards”.⁴ The ODIHR Final Report on the 2018 *Mejlis* election concluded that “further legal reforms are necessary to address prior ODIHR recommendations in key areas, including suffrage rights, election administration, voter registration, campaign and campaign financing and election day procedures.” The Report also criticised the CEC’s administration of the election and reported arbitrary interference in the running of the election by the executive.⁵

The manner in which elections in Turkmenistan is conducted has been the subject of long-standing concern. The ODIHR decision not to send an election observation mission to the February 2017 presidential election and the March 2018 *Mejlis* election was consistent with their approach to every election in Turkmenistan since the late 1990s: they sent a less comprehensive Election Assessment Mission (EAM) instead. The 2017 presidential election was the first election in which candidates nominated by alternative political parties were included on the ballot paper and the EAM acknowledged “an inclusive process”, but its final report was highly critical.⁶ Although, the EAM report on the 2018 *Mejlis* elections noted that the legal framework for holding the election had been improved, it concluded that, “The political environment is only nominally pluralist and does not offer voters political alternatives. Exercise of fundamental freedoms is severely curtailed, inhibiting free expression of the voters’ will. Despite measures to demonstrate transparency, the integrity of elections was not ensured, leaving veracity of results in doubt.”⁷

Separation of powers and effective checks and balances

Since independence, the Turkmen state has been dominated by the presidency with constitutional and legal provisions inadequate to ensure the separation of powers. Article 6 of the Constitution states, “State power in Turkmenistan shall be divided into the legislative, executive and judicial branches. They shall operate independently, balancing each other.” However, other articles of the Constitution establish the preeminent role of the presidency.⁸ Article 72 gives the President the power to “issue decrees, regulations and orders binding on the whole territory of Turkmenistan”. Article 71 of the Constitution grants the President wide-ranging powers with few checks or balances. For example, Article 71 (19) and supporting legislation grants the President the right to order a state of emergency and martial law without adequate safeguards.⁹ The President is effectively the head of the Government (the post of prime minister does not formally exist). Article 91 stipulates that the President acts as Chairman of the Cabinet, unless he delegates the task to a deputy prime minister. The President appoints and dismisses deputy prime ministers and most ministers without reference to the *Mejlis*.¹⁰

4. The ODIHR Report concluded that “The role of the President in the adoption of amendments [to the Electoral Code] further raised concerns about the lack of separation of powers”. According to the ODIHR assessment, the current method of forming the CEC contravenes, *inter alia*, Turkmenistan’s obligations under the UN International Covenant on Civil and Political Rights (ICCPR). Turkmenistan. Presidential Election, 12 February, 2017. OSCE/ODIHR Election Assessment Mission Final Report, May 2017, pp 1 and 5. A senior representative of the Turkmen authorities told the Bank in February 2018 that the CEC Chairman is confirmed by the *Mejlis*.

5. Turkmenistan. Parliamentary Elections, 25 March, 2018. OSCE/ODIHR Election Assessment Mission Final Report, May 2018, p 1.

6. Turkmenistan. Presidential Election, 12 February, 2017. OSCE/ODIHR Election Assessment Mission Final Report, May 2017, p 1.

7. Turkmenistan. Parliamentary Elections, 25 March, 2018. OSCE/ODIHR Election Assessment Mission Final Report, May 2018, p 1.

8. Article 75 sets out conditions for removing the President in case of medical incapacity or if he violates the Constitution and laws. ODIHR has recommended the conditions for impeachment be made less onerous. The President’s powers under Article 71 were also expanded to include the right to appoint and dismiss the human rights ombudsman. Comments on the Draft Constitution of Turkmenistan, ODIHR, July 2016.

9. Comments on the Draft Constitution of Turkmenistan, ODIHR, July 2016.

10. According to Article 71 (16) the appointment and removal of the ministers of internal affairs and justice, the Chairman of the Supreme Court and General Prosecutor are carried out with the consent of the *Mejlis*.

Annex 1 – Political Assessment in the Context of Article 1

Under Turkmenistan's first President Niyazov, the preeminent role of the presidency was reinforced by his status, from 1996, as President for Life. After Gurbanguly Berdimuhamedov took over the leadership at the end of 2006, there were a number of positive steps. Presidential elections were restored and constitutional amendments in 2008 abolished the *Halk Maslahaty* (People's Assembly), a non-elected overarching national assembly, and strengthened the powers and increased the membership of the elected *Mejlis* from 65 to 125. After 2008, the *Mejlis* became more active in passing legislation. However, constitutional amendments in 2016, the extension of the term of the president from five to seven years and the abolition of an upper age limit (70) for presidential candidates, strengthened the powers of the presidency again.

The restoration of the *Halk Maslahaty* in October 2017 as the "highest representative body, representing the interests of the people of Turkmenistan" undermined the principle of the separation of powers. The relevant constitutional law stipulates that the President is *ex officio* Chairman of the *Halk Maslahaty* and that its membership is composed of leading elected officials and public figures and other representatives from the country's national life. The powers of the *Halk Maslahaty* are wide-ranging, including approving amendments to the Constitution and adopting decrees that have the force of law.

Effective power to govern of elected officials

The Constitution sets out some of the elements for elected officials to have effective power to govern. Article 3, establishing a clear break with the country's Communist past, states, "No part (group) of the people, organisation or individuals, shall have the right to arrogate to themselves state power".

The President and *Mejlis*, which have constitutional responsibility for the country's executive and legislative branches respectively, are both selected by elections. Neither the armed forces nor the domestic security services can operate independently of the elected president. The President is Commander-in-Chief of the Armed Forces and exercises direct control over the military. He also exercises direct control over the Ministry of National Security, which is responsible for ensuring domestic security. Religious, corporate or other non-elected entities do not possess excessive power over elected officials, although the restoration of the unelected *Halk Maslahaty* undermines that principle.

Civil Society, Media and Participation

Scale and independence of civil society

The Constitution sets out the legal basis for a free and active civil society. Article 17 states, "The state shall ensure an enabling environment for the development of civil society. Public associations shall be equal before the law." Recent legislation, a law On Volunteering, which came into effect in early 2016, and a law On Charitable Activity, which came into effect in September 2017, should support the development of civil society. The number of officially registered voluntary associations – 120 – is modest.

However, international bodies responsible for promoting democracy and monitoring and upholding human rights have expressed concern about the application of these principles in practice. The ODIHR Final Report on the 2017 presidential election noted that, "Despite the existence of the legal

Annex 1 – Political Assessment in the Context of Article 1

framework, there is a lack of genuine civil society”.¹¹ The UN Human Rights Committee expressed its “concern about the restrictions on freedom of association, including under the 2014 Voluntary Association Act, such as the compulsory registration of associations, provisions allowing wide monitoring powers of the authorities over the activities and finances of associations and the broad legal grounds for closing them down...” It also expressed concern about the small number of civil society organisations working on human rights issues.¹²

Independent, pluralistic media that operates without censorship

The Constitution sets out the legal basis for free media. Article 42 states that, “Everyone shall be guaranteed freedom of opinion and expression. No one shall have the right to prohibit an individual to express freely his/her opinion as well as prevent its dissemination in accordance with the law”. It continues that, “Everyone shall have the right to search freely for information and to receive and disseminate information in ways not prohibited by law...” The Law on the Mass Media which was adopted in 2012, and subsequently amended, sets out in extensive detail the rights, freedoms and responsibilities of media organisations and journalists. A law On the Legal Regulation of the Internet and the Provision of Internet Services came into force in 2014 and the number of internet users has grown rapidly in recent years. The OSCE Representative on Freedom of the Media welcomed some aspects of the 2018 law On Television and Radio Broadcasting but called for improvements to ensure that it met international standards.¹³

The UN Human Rights Committee has expressed concern about a series of “laws and practices” which “severely” restrict freedom of opinion and expression. These include: the absence of a genuine independent media and undue restrictions on access to the Internet and disproportionate limitations on online content.¹⁴ The UN Country Team, in its comments in the OHCHR report to the Human Rights Council in March 2018, noted that, “self-censorship was widespread in local media and that the importation and sale of foreign newspapers were restricted.”¹⁵ The ODIHR Final Report on the 2018 *Mejlis* election noted that, “The media landscape is characterized by the state’s monopoly... absence of alternative or critical views points to strict control of all news and information services... The lack of media pluralism and independence deprives voters of the variety of views necessary to make informed choices and contradicts OSCE commitments and other international standards.”¹⁶

Freedom to form political parties and existence of organised opposition

The Constitution sets out the legal basis for independent political parties to participate in the political life of the country. Article 17 states that, “Political diversity and a multi-party system shall be recognised in Turkmenistan.” Article 44 states that, “Citizens shall have the right to form political parties and other public associations operating within the framework of the Constitution and laws”. But it also states that, “The establishment and activity of political

11. Turkmenistan. Presidential Election, 12 February, 2017. OSCE/ODIHR Election Assessment Mission Final Report, May 2017, p 3.

12. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 46.

13. Statement by the OSCE Special Representative on Freedom of the Media, Vienna, March 2018.

14. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 42.

15. Report of the Office of the United Nations High Commissioner for Human Rights to the Human Rights Council. Compilation on Turkmenistan, March 2018, para 39.

16. Turkmenistan. Parliamentary Elections, 25 March, 2018. OSCE/ODIHR Election Assessment Mission Final Report, May 2018, p 11. Concerns have also been expressed that recent pressure on public finances may prove an additional impediment to access to information. Commentary on the Law of the Republic of Turkmenistan “On Television and Radio Broadcasting”, OSCE, February 2018.

Annex 1 – Political Assessment in the Context of Article 1

parties and other public associations aimed at bringing violent change to the constitutional order, introducing violence in their activity, opposing the constitutional rights and freedoms of individuals, advocating war, hatred on the basis of colour, national or religious hatred, encroaching on the health and morality of the people, as well as political parties with ethnic or religious attributes, shall be prohibited”.

Until 2012, the only political party in Turkmenistan was the Democratic Party. In that year a Law on Political Parties established the legal framework for the formation of political parties. The Party of Industrialists and Entrepreneurs was formed in 2012 and the Agrarian Party in 2014.¹⁷ The UN Human Rights Committee noted that while it welcomed the “legislative framework for providing for a multiparty system”, it was concerned about “excessive restrictions on the establishment and functioning of political parties, as well as provisions permitting representatives of the Central Electoral Commission and the Ministry of Justice to monitor meetings of political parties”.¹⁸ The ODIHR Final Report on the 2018 *Mejlis* election concluded that, “While nominally pluralist, the political landscape lacks diversity of views, as all three political parties align themselves with President Berdymuhamedov’s policies and differ only in their professed support base.”¹⁹

Rule of Law and Access to Justice

Supremacy of the law

The Constitution sets out the legal basis for the rule of law based on judicial process. Article 8 states, “The rule of law shall be established in Turkmenistan”. Article 96 states that, “The judicial power in Turkmenistan shall belong solely to the courts”. Article 33 states that, “A person can be arrested by a court only on grounds precisely established by law or with the approval of a prosecutor”. Article 35 continues that, “A person may be subject to criminal punishment only if he is found guilty and convicted by a court in a manner prescribed by law”. As a result of the increased legislative activity of the *Mejlis* since 2008, a more comprehensive legal and regulatory framework for the country’s economy and civil society has been created.

Assessments by international bodies suggest that, in practice, the rule of law is not observed. The World Bank gave Turkmenistan a poor percentile ranking against the rule of law indicator in its Worldwide Governance Indicators report for 2017.²⁰ The UN Human Rights Committee has expressed its concern about the length of time persons can be detained and the lack of judicial oversight. It also expressed concern about “violations in practice of the presumption of innocence and the unavailability of interpretation for Russian speaking defendants...”²¹

Independence of the judiciary

The Constitution does not set out an effective legal basis for the independence of the judiciary. Chapter V of the Constitution sets out the powers of the judicial branch. Article 99 states that, “The immunity of judges shall be guaranteed by law”. Article 98 states that, “Judges shall be independent. They shall be subject only to the Constitution and law. Interference in the work of judges, by whatever party, shall be unacceptable and punishable by law”.

17. Turkmenistan. Presidential Election, 12 February, 2017. OSCE/ODIHR Election Assessment Mission Final Report, May 2017, p 3.

18. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017.

19. Turkmenistan. Parliamentary Elections, 25 March, 2018. OSCE/ODIHR Election Assessment Mission Final Report, May 2018, p 4.

20. World Bank. Worldwide Governance Indicators. It scored 6.25, where zero is the lowest possible score and 100, the best which was an improvement on the 2.82 figure for 2011.

21. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, paras 24 and 30.

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However, these principles are undermined by Article 100, which sets out that the President appoints judges, although the candidates from which he makes his selection are chosen by groups of judges.²² The UN Human Rights Committee has expressed concern about a series of issues that have compromised the independence of the judiciary. These include: alleged corruption of the judiciary; the President's exclusive authority to appoint and dismiss judges; the lack of judges' security of tenure; and the lack of an independent body charged with the promotion and discipline of judges.²³

In March 2017, the President approved a State Conception for the Development of the Judicial System, 2017-21, which sets out proposals to ensure transparent, impartial and independent court decisions, including measures to enhance the independence and status of judges. It is too early to judge the impact of this programme but the holding of the first Conference of Judges in January 2019 was a positive step.

Government and citizens equally subject to the law

The Constitution sets out the legal basis on which citizens should be able to enjoy equality before the law. Article 28 states that, "Turkmenistan guarantees... the equality of the person and citizen before the law and court independently of nationality, colour of skin, sex, origin, economic or official status, residence, language, attitude to religion, political convictions or other circumstances". However, most relevant international bodies have serious concerns about the implementation of these principles in practice.

Mechanisms for preventing abuse of authority are weak. The establishment of a Human Rights Ombudsman at the beginning of 2017 was a welcome step. She reported on her first year in office to the *Mejlis* in June 2018. During 2017, she had dealt with several hundred complaints, almost all of which concerned social and administrative rather than human rights issues. International bodies have noted that the procedures for selecting the ombudsman were too restrictive and breached the principles established internationally to ensure the independence of such institutions.²⁴ The UN Economic and Social Council noted in October 2018 that Turkmen Ombudsman had still not secured accreditation from the Global Alliance of National Human Rights Institutions.²⁵

Effective policies and institutions to prevent corruption

Turkmenistan is widely regarded as having a serious problem with corruption. The World Bank gave Turkmenistan a poor percentile ranking against the control of corruption indicator in its Worldwide Governance Indicators report for 2016.²⁶ Transparency International rated Turkmenistan 161st out of 180 countries in its 2018 Corruption Perceptions Index. This represented a deterioration from its ranking of 154th in 2016 but was a small improvement on its 2017 ranking. Turkmenistan has acceded to the UN Convention against Corruption but it is the only country in Central Asia that has not acceded to the OECD Istanbul Anti-Corruption Action Plan.

22. According to the Constitution, the President appoints or removes of the Chairperson of the Supreme Court with the consent the *Mejlis*.

23. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 30.

24. Report of the Office of the United Nations High Commissioner for Human Rights, March 2018.

25. UN Economic and Social Committee. Concluding Observations on the second periodic report of Turkmenistan, October 2018.

26. World Bank. Worldwide Governance Indicators. It scored 4.32 where zero is the lowest possible score and 100 the best. The 2016 figure represented an improvement on the 1.42 figure for 2011 but still left Turkmenistan with a very low score.

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An anti-corruption law was adopted in 2014 and a State Programme for Combating Corruption and an Action Plan for its implementation was adopted in 2017. In June 2017, the President ordered the establishment of a State Service for Combating Economic Crimes, which would, in principle, be consistent with international best practice. It shortly thereafter announced a series of investigations into government departments that led to sackings and arrests. The merging of the State Service with the Ministry of Internal Affairs in January 2019 may mark a weakening in its authority.

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The Constitution sets out the legal basis on which citizens should be able to enjoy political and civil rights. Article 26 states that, “The rights and freedoms of an individual shall be inviolable and inalienable. No one has the right to restrict the rights and freedoms of individuals, except in accordance with the Constitution and laws. The enumeration in the Constitution and laws of certain rights and freedoms of people and citizens shall not be used to deny or diminish their other rights and freedoms”. But Article 30 also states that, “The exercise of rights and freedoms must not violate the rights and freedoms of others as well as the requirements of morality, law and public order nor cause damage to national security”. The provisions in the Constitution regarding human rights were strengthened considerably in amendments made in September 2016.

In April 2017, the UN Human Rights Committee welcomed a series of legislative and policy measures. These included: the 2013 Citizenship Act; the January 2016 National Human Rights Action Plan for 2016-20; the 2015 National Action Plan on Gender Equality for 2015-20 and accompanying legislation; and the March 2016 National Action Plan to Combat Trafficking in Persons for 2016-18. A law on a Human Rights Ombudsman came into effect in January 2017 with powers to carry out investigations into citizens’ complaints against state bodies.²⁷ In 2018, the Turkmen authorities engaged comprehensively with its Third Cycle of Universal Periodic Review at the UN Human Rights Council. Their acceptance of many of its recommendations was welcomed by relevant bodies.

However, international bodies that monitor and seek to uphold human rights have continued to express deep concern about violations of political and civil rights in practice in Turkmenistan. International human rights bodies have expressed concern about the large number of prisoners allegedly held for political reasons and the conditions in which they are detained. The UN Human Rights Committee remained “concerned about reports of secret detention and enforced disappearance of a large number of convicted and imprisoned persons, including those convicted for alleged involvement in the assassination attempt on the former President”. It also expressed concern about, “Continuous use of harassment, intimidation, torture and arbitrary arrests, detention and convictions on reportedly politically motivated charges as a retaliation tool against journalists, human rights activists, dissidents, members of religious groups and ethnic minorities and members of non-governmental organisations...”²⁸ The Turkmen authorities have been engaging with the UN Working Group on Enforced or Involuntary Disappearances which holds out the prospect of progress in the future.

The UN Human Rights Committee has also expressed concern about the reportedly poor conditions in which prisoners were being held and has called on the Turkmen authorities to grant unhindered access to independent organizations and the International Committee of the Red Cross to places of detention.²⁹ At the 9th round of its Human Rights Dialogue with Turkmenistan in May 2017, the EU welcomed the new willingness of the Turkmen

27. UN Human Rights Committee. *Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 3.*

28. UN Human Rights Committee. *Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, paras 16 and 42(d).*

29. UN Human Rights Committee. *Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, paras 22 and 23.*

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authorities to facilitate visits by foreign diplomats to its prisons. However the impact of this move on the conditions in places of detention is unclear.³⁰

In March 2016, a revised law on freedom of belief and religious organisations reinforcing the legal framework in that area came into force. However, in April 2017, the UN Human Rights Committee expressed concern that the “legal framework... retains undue restrictions on freedom of religious belief, such as the mandatory registration of religious organisations and obstacles to registration, and restrictions on religious education and importation and distribution of religious literature”.³¹ In February 2017, the UN Committee on the Elimination of Racial Discrimination noted that it was “alarmed” by the difficulties faced by certain minorities in freely practicing their right to freedom of thought, conscience and religion, which included cases of harassment, verbal abuse, arrests, detentions, fines and confiscation of religious literature.”³²

The legal framework for eliminating forced and child labour has been strengthened in recent years but in 2017 the UN Human Rights Committee expressed its concern about the “reported widespread use of forced labour of farmers, students, public and private sector workers during the cotton harvest...”³³ In June 2017, the ILO welcomed the indications provided by the Turkmen authorities of their willingness to receive technical assistance in connection with a potential national action plan to eliminate forced labour in the cotton harvest.³⁴ In May 2018, the US Government banned the importation of all cotton and cotton goods from Turkmenistan reportedly because of concerns about the use of forced labour in the cotton harvest.

Political inclusiveness for women, ethnic and other minorities

The Constitution sets out the legal basis for equality of citizens regardless of their gender, race and ethnicity. Article 28 states, “Turkmenistan shall guarantee the equality of rights and freedoms of a person and a citizen and also the equality of a person and a citizen before the law regardless of their nationality, skin colour, gender, origin, property and official status, place of residence, language, religion, political beliefs and other circumstances”. Article 29 states that, “Men and women in Turkmenistan shall have equal rights and freedoms and equal opportunities for their realisation. Violation of equality on the basis of gender shall be punishable according to the law”. In January 2015, Turkmenistan adopted a National Action Plan on Gender Equality for 2015-20. These provisions were reinforced by the law On State Guarantees for Ensuring the Equal Rights and Equal Opportunities of Women and Men which came into force in August of the same year.

However international human rights bodies have expressed concern about both the adequacy of the legislative framework and its application in practice. The UN Country Team expressed concern in March 2018 about the absence of comprehensive anti-discrimination legislation in Turkmenistan.³⁵ The UN Human Rights Committee has remained “concerned about the continued under-representation of women in the public and private sectors, particularly in decision-making positions and about the prevalence of stereotypes regarding the role and responsibility of women, including in the Labour Code”.³⁶ The UN Committee on the Elimination of Discrimination against Women has also noted that Turkmenistan has failed to adopt a comprehensive law addressing all

30. EEAS. 9th Annual EU-Turkmenistan Human Rights Dialogue, May 2017.

31. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 38.

32. UN Committee on the Elimination of Racial Discrimination. Concluding observations on the eighth to eleventh periodic reports of Turkmenistan. February 2017, para 12.

33. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 26.

34. Follow-up to the conclusions of the Committee on the Application of Standards, ILO, June 2017.

35. Report of the Office of the United Nations High Commissioner for Human Rights to the Human Rights Council. Compilation on Turkmenistan, March 2018, para 11.

36. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 10. None of the nine candidates in the 2017 Presidential Elections were female.

Annex 1 – Political Assessment in the Context of Article 1

forms of violence against women, as well as a national action plan in that area.³⁷

Freedom from harassment, intimidation and torture

The Constitution sets out the legal basis for citizens to be free from harassment, intimidation and torture. Article 32 states that, “Each individual has the right to life and liberty and the exercise of this right. No one can be deprived of the right to life. The right of each person to free life shall be protected by the state on the basis of law”. It continues that, “No one shall be subjected to torture, cruel, inhuman or degrading treatment or punishment and, without their consent, to medical, scientific or other experiments”. This provision was reinforced by the inclusion of a separate criminal offence of torture into the Criminal Code in 2012.

The UN Committee against Torture set out its concerns in a January 2017 report. Whilst it welcomed amendments to the Constitution and Criminal Code that enhanced safeguards against torture, it expressed concern about the independence of the judiciary and that legal safeguards against torture were not in practice enforced. It also expressed serious concern about impunity for acts of torture, enforced disappearances, arbitrary arrest and ill-treatment of human rights defenders, deaths in custody due to torture, and bad prison conditions.³⁸

The UN Human Rights Committee has also remained “concerned about consistent reports of torture and ill-treatment of persons deprived of their liberty”. The Committee went on to detail instances of the types of ill-treatment it was concerned about.³⁹ These concerns were repeated in the report of the OHCHR to the Human Rights Council in March 2018. In that report, the UN Country Team noted that the “courts had not examined any cases of torture since the adoption of the 2012 amendment to the Criminal Code establishing torture as a separate criminal offence.” The report set out a series of recommendations by the Human Rights Committee of measures the Turkmen authorities should take to eliminate torture and ill-treatment of detainees and impunity for such crimes.⁴⁰

37. Report of the Office of the United Nations High Commissioner for Human Rights to the Human Rights Council. Compilation on Turkmenistan, March 2018, para 65.

38. UN Committee against Torture. Concluding Observations on the Second Periodic Report of Turkmenistan, January 2017.

39. UN Human Rights Committee. Concluding Observations on the Second Periodic Report of Turkmenistan, April 2017, para 20.

40. Report of the Office of the United Nations High Commissioner for Human Rights to the Human Rights Council. Compilation on Turkmenistan, March 2018, para 21-22.