

Evaluation of Tacis Country Strategy: Turkmenistan 1996-2000

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The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission, which funded this report.

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List of Abbreviations

| | | |
|---------|---|--|
| AP | - | Action Programme |
| BWI | - | Bretton Woods Institution |
| CAAEF | - | Central Asian American Enterprise Fund |
| CC | - | Counterpart Consortium |
| CIS | - | Community of Independent States |
| CSE | - | Country Strategy Evaluation |
| CSO | - | Civil Society Organisation |
| CU | - | Co-ordination Unit |
| DAC | - | Development Assistance Committee |
| EBRD | - | European Bank for Reconstruction and Development |
| EC | - | European Commission |
| ESAF | - | Enhanced Structural Adjustment Facility |
| EES | - | European Expertise Services |
| EU | - | European Union |
| FEZ | - | Free Economic Zone |
| GDP | - | Gross Domestic Product |
| GoT | - | Government of Turkmenistan |
| ID | - | Infrastructure Development |
| IFI | - | International Financing Institution |
| IFO | - | International Financial Organisation |
| IMF | - | International Monetary Fund |
| Inogate | - | Inter-State Oil and Gas to Europe |
| JEP | - | Joint Environmental Programme |
| IFI | - | International Financial Institution |
| IP | - | Indicative Programme |
| IPA | - | Institute for Public Administration |
| ISP | - | Inter-State Programme |
| LIEN | - | Link Inter-European NGOs Programme |
| MS | - | Member State |
| m | - | million |
| NEAP | - | National Environment Action Plan |
| NGO | - | Non-governmental organisation |
| NIS | - | Newly independent state |
| ODA | - | Official Development Assistance |
| OECD | - | Organisation for Economic Co-operation and Development |
| OSCE | - | Organisation for Security and Co-operation in Europe |
| PAP | - | Policy Advice Programme |
| PCA | - | Partnership and Co-operation Agreement |
| PFP | - | Policy Framework Paper |
| RARP | - | Rural Agricultural Reform Programme |
| SAFI | - | State Agency for Foreign Investment |
| SCR | - | Common Service for External Relations |
| SIR | - | Structural and Institutional Reform |
| SME | - | Small and medium enterprise |
| SMEDA | - | Small and Medium Enterprise Development Agency |

| | | |
|---------|---|--|
| SPPA | - | State Property and Privatisation Agency |
| SPP | - | Small Projects Programme |
| TA | - | Technical Assistance |
| TIPE | - | Tacis Interstate Programme in Environment |
| Tempus | - | Trans-European Co-operation Scheme for Higher Education |
| ToRs | - | Terms of Reference |
| Traceca | - | Transport Corridor – Europe-Caucasus-Asia |
| TSP | - | Turkmenistan Strategy Paper |
| UNDP | - | United Nations Development Programme |
| UNFPA | - | United Nations Populations Funds |
| UNV | - | United Nations Volunteers |
| UNICEF | - | United Nations Children’s Fund |
| USAID | - | US Agency for International Development |
| WARMAP | - | Water resources Management and Agricultural Production in the Central Asian Republic |

Preamble

This Turkmenistan Tacis Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on EC assistance programme worldwide, undertaken on behalf of the Evaluation Unit in the Joint Service for the Management of Community Aid to Non-Member Countries (SCR).¹

The recommendations are built on assessments of both the preparation and the implementation of the EC Tacis strategy in Turkmenistan. The findings and the recommendations of this report were presented in Brussels on the 14th of September, and the draft report for comments was submitted on the 10th of October.

The evaluators carried out an extensive review of project documents, evaluations and Government policy documents, and interviews with Co-ordination Unit staff, Government representatives, representatives of on-going and recently completed projects, representatives of other aid agencies, and representatives of civil society and business community (about 70 interviews in total, Annex D).

The report is based on a mission to Turkmenistan by C. Vellutini (team leader), M. Napodano and M. Phamtan that took place from 17 June to 30 June 2000, under the overall supervision of C. Montes.

The report would not have been possible without the collaboration and assistance of EC staff, of the Co-ordination Unit and of the Turkmenistan Government officials, as well as the generous assistance of members of civil society and the private sector, to all of whom we are extremely grateful.

Evaluation Director EC Country Strategy Evaluations:

Carlos Montes

The following Country Strategy Evaluations have been carried out by the Development Strategies/IDC team: South Africa, Senegal, Azerbaijan, Papua New Guinea, Dominican Republic, Turkmenistan, Mozambique, Uganda, Namibia and Burkina Faso. Copies are available on the evaluation unit website (currently at <http://europa.eu.int/comm/scr/evaluation/program>) and from the evaluation unit, Common Service of External Relations, European Commission.

¹ A CSE is meant to be forward-looking, contributing directly to the preparation of a new strategy.

Executive summary

This is the executive summary of the Evaluation of the EC's Country Strategy in Turkmenistan for the years 1996-1999. It is part of a series of Country Strategy Evaluations of EC aid.

The report is based on a mission to Turkmenistan that took place from 17 to 30 June 2000. The mission involved an extensive review of Commission files, available mid-term reviews and evaluations, and interviews with Delegation staff, other donors, Government officials, and civil society organisations (about 70 interviews in total, see Annex D).

Chap. 1 focuses on the *relevance* of the EC's country strategy in Turkmenistan. Key aspects of the country context are reviewed and used to assess the relevance of the EC's country strategy (before implementation). Ch. 2 looks at the *impact* of the EC's programme in Turkmenistan, focusing principally on its impact with respect to the EC's priority objectives. Ch. 3 looks at the Tacis programming and management procedures in Turkmenistan. Ch. 4 presents *recommendations* for future programming.

1. Relevance of the Tacis strategy

Country analysis

1. *Key economic and social issues.* Although endowed with exceptional natural resources (Turkmenistan is the world's 4th largest producer of gas and among the top 10 producers of cotton), the country has experienced a dramatic economic recession since independence in 1991. The crisis deepened in 1997 and GDP fell a further 25%, reflecting a payments crisis with traditional trading partners (gas) and declining yields (cotton). The impact of the crisis on macroeconomic balances has been strong, with a budget deficit estimated at 11% of GDP in 1998.

2. This situation impacted negatively on population welfare, with 48% of the population estimated to live below the poverty line. In addition, the country was faced with severe environmental problems, principally relating to the Aral sea and Caspian sea, stemming chiefly from water misuse on a large scale.

3. *The reform process.* To a large extent, the continuing vulnerability of the economy, as well as the growing social and environmental concerns, are consequences of inadequate policies. The reforms of the public finance management, public enterprise management and of the regulatory framework have all been limited, reflecting

the government's low commitment to the reform process – and its desire to keep key economic sectors (particularly oil & gas and agriculture) under state control.

4. *The transition to democracy* is blocked and human rights issues are extremely preoccupying. Since independence in late 1991, Turkmenistan has been governed by President Niyazov under a strong presidential system. Turkmenistan is considered one of the most authoritarian countries in the OSCE region – and the Gvt. is not very responsive to international public opinion.

5. *Medium-term prospects* in Turkmenistan are uncertain. Most observers agree that there is little evidence of the commitment of the GoT to structural reforms so far and major changes in this respect should not be expected. Concerning the two main economic sectors, growth will partly depend on Turkmenistan's ability to diversify its export routes and regain access to creditworthy markets for its energy sector. For agriculture, substantial exploitation of land for cotton production has negative medium-term environmental effects but, as cotton remain a major export earner, there is no likelihood of an early reversal of this trend.

6. *International assistance.* Since 1992, Turkmenistan has received the smallest amount of official international aid in support of economic reform of any NIS (2.2% of the total aid to the NIS over 1993-98). The four largest providers of ODA are USAID, the EU and the United Nations (mainly UNICEF).

7. In addition to limiting its overall engagement, USAID has been focusing its assistance on non-state sectors, namely private enterprises and NGOs. The two main programmes of the USAID are, first, the Central Asian American Enterprise Fund, which has provided loan funding to private businesses and, second, support to the NGO sector through its Counterpart Consortium.

8. The relationship with the BWI has been patchy and at times difficult. Limited progress in macro-economic management and structural reforms have strained the relationship with the IMF. Turkmenistan remains the only FSU country which has never agreed to an IMF stabilisation programme. The World Bank's lending program, aimed at the implementation of critical structural reforms, started with a US\$25 million project focusing on privatisation and private sector development, the financial sector, and energy. Two other loans were approved in 1997. However, disbursements were interrupted in March 1998, as the result of procurement problems – together with the slow pace of reforms.

9. The EBRD has been a significant provider of funds to Turkmenistan. As of June 1999, it had signed four investment projects totalling € 144.5 million, of which it is important to distinguish funding to the private sector from support to the GoT – which is being blocked as a result of the lack of key governmental reforms.

10. One key feature of the Turkmen environment is therefore that donors have had little influence over government policies. There is no consensus on a reform programme and donors working with the government have all had to suspend their programmes or to refocus on non-government support.

11. *Overview of the Tacis programme.* Since 1996, national Action Programmes have

concentrated on three focal areas: (i) Structural and Institutional Reforms (including private sector development and reform of public administration); (ii) Agriculture and agro-industry development (including support to farm restructuring); (iii) Infrastructure Development (including management capacity in the energy sector). Over the period 1996-1999, about € 20 million have been allocated to Turkmenistan through national Action Programmes. Allocations through Inter-State programming relevant to Turkmenistan have totalled € 62.5 million between 1996 and 1999, focusing mainly on: (i) the transport corridor Europe-Caucasus-Asia (Traceca) initiative supporting the development of transport links between Central Asia and Europe (ii) Inter-state oil and gas to Europe (Inogate) which aims at promoting the regional integration of the oil and gas pipeline systems; (iii) Environment programmes.

Relevance of the Tacis strategy

12. One central characteristic of the Tacis programme is that it has been strongly focused on the priority objective of transition to a market economy. Out of a total of 23 projects examined over the period, 18 explicitly pursued the transition to the market. In contrast, the focus on democratisation has been significantly lower, with no projects focusing on the reinforcement of democracy in the successive Action Programmes. However, as stressed above, in many respects the lack of democratisation is central in today's Turkmenistan – both in its own right and as the root cause for many of the country's other social and economic problems. A second key characteristic is that, across the three sectoral areas, the majority of Tacis projects have supported State bodies (GoT ministries, public institutions and 'competent bodies'). Lastly, 5 projects focused on environmental protection. Appropriately, these projects were regional, as the country's environmental problems are regional in scope.

13. *The need to be country-specific.* The Tacis strategy is not as relevant to Turkmenistan's particular situation as it could have been. Limited progress toward

democracy and the absence of a consensual and credible donor-discussed reform agenda – two essential features of the country's situation – do not appear to be fully reflected in Tacis' approach to date. While in recent years the evolution of the country's situation has led other major donors to reduce their support to the government or to shift their co-operation to non-governmental sectors, Tacis has maintained support to the Government. This in turn has come to have a strong influence on its strategy:

- Democratisation as a central Tacis objective has had markedly less weight in the strategy orientations of Tacis than transition to the market, even though the former is a core challenge.
- When pursuing the transition to a market economy, a significant number of projects were based on the assumption that radical economic reforms would be implemented – whereas indications of

actual commitment to reforms were scant.

- In selecting focal areas, the preferences of the authorities have apparently played an important role, even though there is no umbrella reform programme agreed with the donor community, rendering the process of sector selection critical.

14. *The need to adapt the strategy to Tacis institutional set-up.* As noted, a significant number of Tacis projects were dependant on key reforms being implemented, thus the need for close policy monitoring. Tacis has tended to 'go it alone', as other donors shifted away from government support, which appears difficult without adequate in-country authority and monitoring capacity. The strategy chosen by Tacis does not appear to reflect Tacis operational set-up and instruments.

2. Impact of the Tacis programme

Impact analysis

15. The Evaluation undertook an *ex post* analysis of the impact of Tacis activities in Turkmenistan. The analysis covered projects in the 1995 and 1996-97 Action Programmes with some reference to earlier support provided under the previous APs whenever such support played a significant role in a sector programme. It also included the support provided under the Inter-State Programme in the environment, energy and transport sectors.

16. The analysis suggests relatively low impact and sustainability across sectors, including against the programmes' own stated objectives – evidencing the difficulties faced by Tacis programme in a policy environment not conducive to economic reforms. The lowest impact and sustainability appears to be for a majority of initiatives in Structural and Institutional Reforms, as these were conditional on policy and institutional reforms which did not take place. Typically, the medium-term impact of the SMEDA and the

privatisation interventions have been conditional on reforms to be undertaken by the government, and such reforms did not take place. Another example is energy, where the limited scope of reforms is also likely to jeopardise the impact and sustainability of Tacis projects.

17. Second, the analysis shows better impact as measured against the projects' own objectives in a few important areas such as taxation, civil service, energy and environment, particularly in terms of skill transfer and institution building. This was especially true when (i) Tacis technical assistance matched a specific Government demand, e.g. Energy Advisory Group (responsible for drafting the Petroleum Law) and taxation; (ii) or when the assistance had a longer term impact horizon through a skill transfer approach, e.g. the Inter-bank Training Centre.

18. Third, the experience of Tacis with farmers associations, although still limited in scope, is encouraging, as it could be instrumental to promote democratisation at the local level. On the other hand, other

projects in agriculture under the 96/97 AP are ‘pilots’ concerning the meat & milk and livestock sectors, and have proved of overall limited sustainability and replicability.

19. A fourth finding is that the Tacis programme in Turkmenistan, as for most other donors, has failed to influence the reform agenda of the Government. The impact of projects on the reform process appears to be limited even when projects included policy advice components. This has often materialised as a lack of reforming power of the counterpart Tacis ministry. This situation was typical in the privatisation and energy projects, in which policy advice provided by Tacis was hardly taken up by GoT.

Factors affecting Tacis projects outcomes

20. *Strengthening State institutions.* The Evaluation found that Tacis initiatives directed at strengthening State institutions faced significant difficulties during implementation, deriving from the absence of a policy environment conducive to reform. In almost all sectors in which Tacis provided assistance, the Government has backtracked on the implementation of the necessary policy reforms formulated with the assistance of Tacis projects and agreed with Tacis management as a basis for receiving further assistance:

- The impact of both SME and privatisation projects depended on the implementation of macro-economic reforms (for instance, the exchange rate policy), the reform of the banking system and other regulatory reforms to promote competition. These reforms not being completed, both SMEDA and the State Property and Privatisation Agency have remained marginal actors in their sector of competence.
- In the energy sector, the two main achievements of Inogate and of national projects are only preliminary steps toward a more comprehensive sector reform. The actual unwillingness of GoT to start implementing such reforms casts

doubts over the impact of Tacis assistance and is a threat to Tacis future involvement in the area.

- The Centre for Reform in the Ministry of Agriculture, the main beneficiary of a key agriculture Tacis project, suffered a reduction of personnel during the first year of project life; the Regional Rural Development Centres, whose establishment Tacis sponsored, are not fully operational and are not central to the agricultural reform process;
- The Public Administration Capacity Building programme recommended the creation of an Institute for Public Administration (IPA) and of a Central Civil Service Management Agency. To date, the Government has established none of the two institutions.
- The curricula under the project National Capacity Building in the Field of Economics, have not been reformed (as was anticipated originally), *de-facto* limiting impact.

21. *Co-operation with Civil Society.* Working with the civil society in Turkmenistan is a difficult task because of the Government’s reserved stance on democratic reforms and its strong top-down approach to policy-making. Few NGO’s, mainly those active in environment and the ones close to the Government’s circle, are officially registered. For other more independent and pro-reform organisations, the mere act of registration has proven impossible. However, as noted, some major donors (a case in point is USAID) have engaged in supporting the NGO community.

22. The Evaluation found that within the EC there is little strategic thinking on how to engage the Tacis programme into reinforcing democracy in Turkmenistan. Particularly, supporting organisations that perform “watchdog” functions on transparency and democracy could be a direct way to assert Tacis commitment to the fulfilment of its objective. The pros and cons of such an option do not appear to have been evaluated, nor have the

necessary actions been taken to explain to the Government the importance and the value that Tacis attaches to community-based initiatives. The Evaluation found no evidence of projects carried out in Turkmenistan under the Democracy Programme or Lien (helping NIS non-governmental organisations to establish social safety net) although the scope of such programmes appear to be highly relevant to the country's situation.

23. *Donor Co-ordination.* The UNDP has been entrusted with the responsibility of donor co-ordination in Turkmenistan. However, this mechanism, although useful, remains a mere vehicle for information sharing on programme/projects rather than joint decision-making. More generally, donors do not have an established system of strategic co-ordination and shared programme management at neither macro or sector policy levels. In particular, in the absence of a consensual reform agenda, there is no mechanism for co-ordinated conditionality monitoring. The traditional co-operation approach of direct bilateral negotiations with the Government and financing of individual projects appears to be still in place, as opposed to the coordination-enhancing programmatic approach.

24. The Evaluation also found that co-ordination between EC and its Member States needed to be significantly improved in the field. The Embassies of France, Germany and the UK in Turkmenistan were unaware of most Tacis activities. To some extent, this can be viewed as a consequence of the absence of a Tacis in-country representation, together with the relatively low frequency of visits from Headquarters.

25. On the other hand several EC regional programmes have succeeded in institutionalising appropriate donor co-ordination. The Bangkok facility used by the EBRD to fund TA associated to large investment projects is a case in point. This mechanism has been at times further enhanced by good co-ordination with other EC regional projects, particularly Traceca. Similarly, the joint environmental

programmes of the EC and the World Bank are very encouraging.

26. The Evaluation therefore found that the overall impact of the Tacis programme has been limited. This was largely a consequence of the Government's opposition to adopting a comprehensive reform agenda. Tacis sector-based initiatives have consequently suffered from the absence of coherent Government's policies, an unreformed legal and regulatory system, and from weak counterpart institutions with a limited mandate on policy matters.

27. Tacis shares the responsibility of the limited impact of its own programme in as much as it has not succeeded to factor in the lack of Turkmen commitment to reform and to respond with a more flexible approach. The next Tacis programming exercise should be based on the assumption that reform progress in Turkmenistan will continue at a slow place. As long as no consensual reform global reform agenda exists, institution building projects that depend on the introduction of policy and institutional changes should be avoided.

28. The absence of a Tacis strategy to cooperate with NGOs and CSOs to develop community-based initiatives is an issue that should be addressed in future programming. Two criteria could be used to identify the type of intervention in this sensitive area. The first one is sector-specificity, based on which work would be organised to achieve sector-specific objectives (such as provision of clean water). Agriculture and environment are two sectors in which these initiatives are understood and shared by the population as show by the success of the Tacis project supporting farmers' associations. The Government could also be convinced of the important role of community-based services as complements to its own action. The second criterion is decentralisation, that implies the selection of an in-country regional focus where to concentrate Tacis resources.

3. Tacis programming and management

Effectiveness of Tacis Institutional Set-up

29. The Tacis programme for Turkmenistan has been negatively affected by two factors:

- Programme under-management, insufficient to sustain a significant TA programme in the country considering the difficult policy dialogue with the Government;
- Separation of policy and programming functions from implementation functions in the Commission.

30. The institutional set-up for managing the Tacis programme is complex, mostly centralised and involves a series of actors who need to co-ordinate their activities over large geographical and sectoral areas. The pressure on limited EC resources is likely to further increase with the shift decided by the new Council Regulation from a demand-driven to a dialogue-driven programme.

31. Despite the weak Tacis project cycle management in Turkmenistan, informal mechanisms appear to be effectively operating, as the recent reduction in the Tacis overall volume suggests (the 98/99 Action Programme is 27% smaller than the 96/97 Action Programme). Such reduction can be interpreted as an adequate reaction to the lack of impact of the programme.

32. The Evaluation found that the inclusion in the Indicative Programme of a standard Conditionality Clause for all NIS countries was not sufficiently tailored to steer the programme in Turkmenistan towards a more effective intervention over the years. Considering the policy-related difficulties to which most Tacis projects were confronted in the country, the use of a set of conditionalities could have helped Tacis to better measure the Government's commitment to its two key objectives of market transition and democratisation.

33. Interestingly, the standard conditionality, if not sufficient by itself, was nevertheless highly relevant for Turkmenistan, as it made reference to "a respect for democratic

principles and human rights as defined in particular in the Helsinki Final Act and the Charter of Paris for a New Europe". The Government did not respect these principles during the period 1996-1999 in which the IP conditionality was in force. Again, no formal discussion was entered into by Tacis in this respect. The recent revision of the volume of assistance was not based on a formal conditionality process.

Strengths and Weaknesses of the Tacis Cycle Management

34. *Project identification and formulation.* Although project selection procedures follow general Tacis programming guidelines, they appear especially complex and fragmented for Turkmenistan, for which management resources both in Headquarters and in-country are limited.

35. The analysis of the project documentation indeed suggests that projects were often insufficiently investigated before resources were committed. As repeatedly noted, the institutional and policy environment was insufficiently researched – with the inevitable corresponding adverse effect on impact, given the type of assistance provided: support to governmental reforms.

36. *Implementation* The 1996-1999 Indicative Programme aimed at a co-ordinated project implementation within sectors, with specific attention to issues such as project synergies and complementarities, consistency of sector objectives and long-term perspective of TA initiatives. The evaluation team found that the application of this principle was limited. Projects appear to have been implemented in relative isolation and without the necessary sector programme co-ordination. This has particularly applied to agriculture and environment.

37. *M&E and Audit.* The information contained in Monitoring reports is mainly focused on technical supervision of individual projects, comparing contractors' performance with the ToR requirements in terms of project inputs and outputs. This has proved useful for task managers, beneficiary

institutions and contractors to fine-tune project implementation. The assessment of project outcomes within the context of a broader sector programme has been weaker. Monitoring reports failed to produce early warnings on the lack of Government's commitment to implement those reforms.

38. No separate audits of Tacis projects in Turkmenistan were undertaken. This fact

needs to be appreciated in the context of the general weakness of financial management and financial controls in Turkmenistan's public sector. This context, obviously potentially very harmful to the financial management of Tacis projects, has been virtually unchanged since independence and well known all along in the donor community.

4. Recommendations

Improving the relevance and impact of EC assistance

39. *Refocusing on democratisation as a key goal.* Refocusing on democratisation would imply a shift in the Tacis programme in the two following directions:

- Selection of the activities which are conducive to gradual democratisation, albeit in the longer term.
- Entering a dialogue with the authorities on democratisation, in close co-ordination with Member States and other donors, particularly the OSCE.

40. *Adopting a strategy conditional on reforms.* It is recommended that a strategy with two possible scenarios be adopted, with the shift to the high case scenario being conditional on reforms – both economic and political:

- In the low case scenario, Tacis would only assist in activities for which impact is not dependant on hard reforms being implemented. One guiding principle for the selection of those activities is that their usefulness should be felt over the long term, regardless of short-term developments in governmental reforms. Co-operation with the civil society and the private sector should be a prominent part of the low case scenario. This scenario implies a further reduction in the overall volume of Tacis assistance. Should the government reject this reorientation, even the low case scenario could not be possible and the Commission may envisage closing down the Turkmenistan programme altogether.

- In the high case scenario, Tacis would also, together with other major donors, support the governmental reform agenda. The implementation of the high case scenario should be conditional on both (i) the existence of a programme of reforms discussed and agreed with the donor community; ideally, such programme could be formalised in the form of BWI-sponsored PFP. (ii) genuine progress towards a more democratic form of public life. Should either of these two conditions not be met, it is recommended that Tacis adhere to the low case scenario. At the time of this evaluation, none of these two conditions was met.

41. *Ensuring strategic co-ordination with other donors.* Given the constraint of the Tacis institutional set-up, close co-ordination with other major donors is needed, as well as with the Member States. Particularly, the set of conditionalities triggering the shift to the high case scenario above should not be Tacis-specific, but should rather be a joint exercise with other major agencies.

Areas for future Co-operation

42. The low case scenario implies a reduction of the current volume of assistance and a shift in the balance of Tacis assistance towards civil society and the private sector, and away from direct support to the government. The above analysis suggests that areas for future Tacis assistance could be as follows:

- In *agriculture*, Tacis' correct emphasis on co-operation with local-level associations should be maintained as it

provides adequate assistance to community-based CSOs. In time, this experience could be used to push for a bottom-up approach of policy change in agriculture.

- *Support to CSOs and the private sector.* The EC could consider providing financing to existing intermediary institutions, such as the NGO resource centre currently supported by USAID. The focus of existing intermediary institutions being mostly environmental, this would fit the EC's strategy of regional support in this area. Tacis could also consider using instruments such as LIEN and the Democracy Programme for supporting *democracy-oriented educational programmes*. Finally, Tacis could envisage building on its SMEDA experience to support entrepreneurs advocacy groups in the private sector.
- The higher education-related activities of the *Support project to the Inter-Bank Training Centre* could be maintained, as they do not depend on the immediate implementation of reforms.

43. Sectors in which national Tacis assistance has in the past proved less effective and for which the EC should reconsider its involvement include:

- The energy sector, as it is adversely susceptible to the present slow pace of reforms and has a limited direct impact on democratisation.
- The Structural and Institutional Reforms focal area, for similar reasons.
- The new project of Tacis in support of the governmental reform in the cotton sector, which is adversely affected by the lack of reforming will of the GoT.

44. The high case scenario could eventually expend the above activities based on a consensual reform program. Other sectors which met some of the criteria and which could be considered for future support include:

- Policy advice in agriculture, within the framework of a sector-wide policy dialog co-ordinated with other key donors in the sector, particularly the World Bank.

- Environmental protection, building on and developing the existing multi-donor initiatives and complementing the existing EC support to regional initiatives.

Strengthening programme management

45. Improving the performance of EC-supported activities, the new emphasis on policy and political dialogue through the PCA mechanism, the need to improve management feedback mechanism and to strengthen controls over the use of funds will require substantial strengthening of capacities for the management of the EC assistance programme in Turkmenistan:

- *Financial auditing.* It is strongly recommended to submit projects to a systematic audit procedure.
- *Better programme and project design.* Programme and project design will need to be focused more towards the achievement of sector objectives and outcomes and less on project outputs and inputs.
- *Operational co-ordination among aid agencies.* In addition to strategic co-ordination, EC sector managers could participate, when relevant, in joint missions with other aid agencies. In the low-case scenario, there should be particularly strong operational co-ordination with USAID.
- *Strengthening of feedback mechanisms.* Feedback links between the different elements of the project cycle management need to be strengthened in order to ensure that lessons learnt from previous Tacis activities are fed into the design of new projects.

Table of evaluators' recommendations

A) Improving the relevance and impact of EC assistance would imply:

(i) Refocusing on democratisation as a key goal, particularly through selecting activities that are directly conducive to democratisation and by entering a formal dialogue with the government on democratisation.

(ii) Adopting a programme conditional on reforms, with the shift to the high case scenario being conditional on reforms – both economic and political. At the time of evaluation, the conditions were not met for shifting to the high case. In the low case scenario, which implies a further reduction of the overall volume of the Turkmenistan programme, it is recommended to shift assistance away from government support to support of civil society and the private sector. Should the government reject this approach, the CE could consider closing down the Turkmenistan programme altogether.

B) Areas for future co-operation stem from the recommended emphasis on democratisation. In the low-case scenario, the EC could refocus on:

(ii) *Agriculture*, pursuing Tacis' correct emphasis on co-operation at the local level.

(iii) Support to CSOs and the private sector in the area of environmental protection, democracy-oriented educational programmes and support to advocacy groups in the business community. Co-operation and joint financing with active donors in this field are recommended.

(iv) As a successful project not dependant on key reforms being implemented, the *Support project to the Inter-Bank Training Centre* could be maintained.

In the high-case scenario, the CE could, in time, consider expand the above activities through:

(v) *Policy advice in agriculture*, within the framework of a sector-wide policy dialog co-ordinated with other key donors in the sector.

(vi) *Environmental protection*, building on and developing the existing multi-donor initiatives and complementing the existing EC support to regional initiatives.

C) Strengthening programme management implies:

(i) *Financial auditing*. It is strongly recommended to submit projects to a systematic audit procedure.

(ii) *Better programme and project design*. Programme and project design will need to be focused more towards the achievement of sector objectives and outcomes and less on project outputs and inputs.

(iii) *Co-ordination among aid agencies*. Co-ordination should, at least initially, be particularly focused on strategic issues such as the general stance of international co-operation with Turkmenistan and the monitoring thereof. In the low-case scenario, there should be particularly strong co-ordination, the BWI for economic reforms, the MS & the OSCE for political aspects, and, finally, with USAID for operational aspects.

(iv) *Strengthening feedback mechanisms*. Feedback links between the different elements of the project cycle management need to be strengthened in order to ensure that lessons learnt from previous Tacis activities are fed into the design of new projects.

1. Relevance of the Tacis strategy

1. This chapter provides an assessment of the strategy of Tacis in Turkmenistan. This analysis has been conducted on an *ex ante* basis. The primary concern of this chapter will therefore be the *design* of the strategy. The two following chapters will examine the impact of the *implementation* of the strategy. Because it is particularly important that this assessment be conducted in light of the specific situation of Turkmenistan, we first present the context in which the EC must prepare its strategy, concentrating on the main social and economic issues facing the country. We then analyse the contributions of other donors, another key element of the strategic context.

A. The context in which the EC must prepare its strategy

Turkmenistan's key economic and social issues

2. Slow progress of structural reforms, macroeconomics imbalances, vulnerability to external shocks, extreme centralisation of the decision process and the continuation of key economic sectors under state control are issues of critical relevance to the Tacis strategy in Turkmenistan.

3. Turkmenistan is endowed with exceptional *natural resources* in oil and gas. With an estimated 2.7 trillion cubic meters (tcm) in proven and probable gas reserves and additional indicative reserves estimated at 14 tcm, it is the second largest natural gas producer in the FSU after Russia and the fourth largest producer in the world. The country also has an estimated 1.1 billion tons of oil reserves and is the fourth largest oil producer in the region. This compares to a relatively small population of 4.7 million. The second largest economic activity is irrigated cotton growing, for which the country is among the top 10 producers world-wide.

4. Yet, as many NIS, Turkmenistan has undergone a dramatic *economic recession* since independence. Real GDP declined by 30% in 1993-95 and 3% in 1996. In 1997, the crisis deepened and GDP fell a further 25%, reflecting the combined effect of sharp declines in exports of gas (73%) and cotton fibre (52%). Economic activity grew again, by 5%, in 1998, reflecting favourable harvests of wheat and cotton, as well as increased oil production. The 1997 crisis was due in large part to the loss of access to European gas markets through Russia pipelines, combined with payments arrears from the main importers of Turkmen gas (particularly Ukraine). Gas exports resumed in early 1999 but were stopped again after a few months due to payment problems. As for cotton, declining yields due to water and land misuses, together with constraints on the import of inputs, have also reduced export earnings. More fundamentally, the recent economic difficulties have also reflected the failure to diversify from energy and cotton exports. Natural gas, oil products, and cotton still account for 84% of exports.

5. The impact of the crisis on *public finance* has been strong. In 1998, the deficit of the consolidated budget was an estimated 11% of GDP, with an external debt equivalent to approximately 65% of GDP². The deterioration of public finances has been aggravated by tax arrears and depressed tax revenue collections, which have continued well into 1999³. These developments have resulted in increased external borrowing and inflationary pressures.

² Valued at the official rate, see *Turkmenistan: Recent Economic Developments*, IMF, 1999.

³ *Turkmenistan: Recent Economic Developments*, IMF, 1999.

Inflation, which had declined from mid-1996 until late 1998 increased in 1999 and is again an issue, mainly due to deficit financing by the Central Bank and large credits to the agriculture sector⁴.

6. This situation has had adverse consequences on the *population welfare*. According to the World Bank⁵, 48% of the population is estimated to be living at or below the poverty level. However, this figure is likely to overstates the decline in living standards since housing and related utilities (e.g., electricity, water, gas, sanitation, heating, and hot water) are free and key consumer goods (e.g., bread, flour, and baby food) are heavily subsidised. Nevertheless, a recent Social Needs Assessment in Dashkhovuz area⁶ provided examples of unmet urgent expenditures for basic public service (water supply, health care and sanitation) and evidenced extensive poverty in the region. Also, although public sector wages were doubled in March 1998, wages in Turkmenistan remain among the lowest in the CIS. Private enterprises are theoretically free to set their own wage scales but are submitted to discouraging excess wage taxes which act as an effective wage control.

7. Full employment is guaranteed by the Government and official unemployment figures remain nominally marginal. Public enterprises, farmers' organisations (previously State farms) and public administration still accounted for 80% of total employment in 1998. According to a joint World Bank-government household survey conducted in 1998, the average per capita income was about 90,000 Manats (the official average wage being 200,000 Manats) with large inequalities (the 20% wealthiest accounted for almost 56% of total income, while the poorest 20% for less than 4%). According to the UNDP, the real GDP per capita in PPP\$ has decreased from 3728 in 1995 to 3162 in 1998.⁷ The country's infant mortality rate (39.6 per 1,000 live births) is the highest and life expectancy (63.9 years) is the lowest in the region. Average family size is 5.6, compared to 3.5 in the FSU, and population growth is high at 4.2% a year.

8. Turkmenistan is also facing serious *environmental problems* and bears a shared responsibility in regional environment issues, principally in the Aral Sea and the Caspian Sea. Turkmenistan is the second consumer of water of the region after Uzbekistan, directly affecting the flow of fresh water to the Aral sea. Water misuse has become a major concern as a result of inadequate pricing – water is provided free of charge to agriculture – together with water waste spillage. With the irrigation system in very poor condition, an estimated 50% of the volume of water flowing through the canal network is simply lost⁸. Other basic environment problems are the increase in land and water salinisation owing to poor irrigation methods, over-utilisation of agricultural land, industrial contamination associated with oil and gas production and chemical contamination of soil and groundwater.



⁴ Furthermore, inflation pressures may be underestimated for two reasons: (i) the sharp deterioration of the exchange rate in the black market and (ii) the existence of direct and indirect price controls, including administered prices for basic staples.

⁵ *World Bank Country Brief*, August 1999.

⁶ *Dashkhovuz: Regional Development Priorities*, The World Bank, April 1998.

⁷ Other estimates are more pessimistic: the World Bank reports the 1998 GDP at US\$640 (World Bank Country Brief, August 1999).

⁸ *WARMAP Project, Formulation and Analysis of Regional Strategies on Land and Water resources*, July 1997.

The reform process

Limited progress to date

9. To a large extent, the continuing vulnerability of the economy, as well as the growing social and environmental concerns are consequences of inadequate policies. The reforms of the public finance management, public enterprise management and of the regulatory framework have all been limited, reflecting the government's low commitment to the reform process – and its desire to keep key economic sectors under state control. In each key area, progress has so far been limited:

- *Macro-economic management* suffers from poor budgetary practices, including a lack of transparency in budget allocations, inadequate profitability of key large public investments and the associated growing external public debt. In addition to the global fiscal imbalance noted above, public expenditures allocation remain non transparent. Undocumented off-budget transfers are an estimated 60% of all total public expenditures⁹. Extra-budgetary funds have financed large government investment projects in agriculture and energy sectors and prestige constructions (Government buildings, hotels or Stalinian-style infrastructure projects), while some necessary domestic expenditures remain under funded (including maintenance of important infrastructure such as the irrigation system). Some key line ministries, including in social sectors, are reported not to have enough resources to function adequately¹⁰.
- *Public enterprise* reform remains limited. Enterprise privatisation has been slow since 1997; divested enterprises are mainly small-scale and their relevance to the economic reforms has been limited. Crucial sectors such as oil and gas, transportation and communications were excluded from the privatisation programme.
- *The establishment of an appropriate regulatory framework* has progressed in recent years, with the introduction of the basic laws needed for private sector development, such as bankruptcy, enterprises and foreign investment laws. However, the global regulatory framework continues with the difficulties typical of the country in an early transition process: lack of transparency and consistency; multiplication of regulatory bodies and conflicting policy concerns in key sectors. While estimations differ according to sources, the economic weight of the private sector remains marginal: more than 30% of GDP in 1998 according to official estimates, around 20% according to the EBRD and less than 10% of GDP according to World Bank.
- *Agricultural reform* is marginal. The two main crop production, cotton and wheat, remain subjected to State orders at low fixed prices, which are partially compensated for by subsidised inputs and credits. Land reform remains precarious, as the development of a land leasing system to private farmers is constrained by the government ability to cancel leases if production targets are not met. Recent analyses suggest that the current agricultural policies impose a heavy burden on farmers growing cotton and wheat under the state order system.¹¹

10. The *transition to democracy* is blocked and human rights issues are extremely preoccupying. Since independence in late 1991, Turkmenistan has been governed by President Niyazov under a strong presidential system. Turkmenistan is considered one of the most authoritarian countries in the OSCE region – and is not very responsive to international

⁹ *Turkmenistan: Improving the management of public expenditures*. The World Bank, June 1998.

¹⁰ *Turkmenistan: Improving the management of public expenditures*. The World Bank, June 1998.

¹¹ *Turkmenistan – The Burden of Current Agricultural Policies*. Gonzalo Pastor and Ron van Rooden, IMF Working Paper 00/98, June 2000.

public opinion¹². Freedom of press, religion, association and assembly are restricted; opposition groups are prohibited – Turkmenistan is the last former Soviet block country with one-party state. Means of supporting the development of a civil society are severely controlled: private Internet providers were recently prohibited and NGOs registration is extremely difficult¹³. According to the OSCE, there is no reason to expect any liberalisation in Turkmenistan while President Nyazov is in power¹⁴.

Medium-term outlook

11. Medium-term economic prospects in Turkmenistan are uncertain. Growth will partly depend on Turkmenistan's ability to diversify its export routes and regain access to creditworthy markets for its energy sector. For agriculture, substantial exploitation of land for cotton production has negative medium-term effects in terms of environment but, as cotton remain a major export earner, there is no evidence that such trend should be reversed in a near future. The recent governmental project¹⁵ of an estimated 4.5 billion dollars artificial lake in the Karakumy Desert within twenty years to prevent the lowlands from being flooded and return them to use for crop growing, appears to confirm this trend.

Box 1: Turkmenistan: a bright future ahead?

Hydrocarbon wealth is often simultaneously a country's greatest blessing and curse. It can be a "curse" because it cements dependence on external sources for fiscal stability, thereby deferring fundamental market-oriented institutional reforms. Such has been the case with Turkmenistan. The "blessing" of the vast reserves of natural gas, initially considered by many to promise a bright future for Turkmenistan, has proven hollow. Constrained by pipeline politics and payment problems, Turkmenistan stands on the brink of economic collapse while its mineral poorer neighbours have seemingly turned the economic corner after years of painful reforms.

Source: Cooley, A., Department of Political Science, Columbia University, "Institutions-building and decay in post-Soviet Turkmenistan, Dec. 1997.

12. Many analysts (see for example Box 1) have related the status quo of the political and economic structure to the existence of a large source of income from natural resources. Just like external aid in many developing countries, vast natural resources have arguably enabled the country to postpone much needed reforms. This also explains why donors have had only little influence on the pace of reforms, not being essential to the financing of the present economic and political structure. This situation is not likely to change in the years to come. Most observers agree that there is little evidence of the commitment of the GoT to structural reforms so far and major changes in this respect should not be expected.

International Assistance

13. Since 1992, Turkmenistan has received the smallest amount of the international official aid to support the economic reform in the New independent States of the Former

¹² *Human Rights and democratization in Uzbekistan and Turkmenistan*, Commission on Security and Co-operation in Europe, Washington, March 2000, p. 12.

¹³ Out of the only 5 registered NGOs in the country, 4 are directly government-supported.

¹⁴ *Human Rights and democratization in Uzbekistan and Turkmenistan*, Commission on Security and Co-operation in Europe, Washington, March 2000 p. 13 « more than any other CIS leader, Nyazov seems indifferent to international public opinion. Apparently convinced that Western desire for Turkmenistan's natural gas and oil protects him from any consequences (...) President Niyazov contends that his program of long-term democratization accords with Turkmen national traditions and is primarily intended to maintain Turkmenistan's stability during a difficult transition period which will last until 2010 ».

¹⁵ BBC World Service, 29 June 2000

Soviet Union. From 1993 to 1998, the total official aid from bilateral and multilateral sources for Turkmenistan totalled US\$ 126.8 million (Table 1), or 2.2% of the total aid for the NIS for the same period. During this period, technical co-operation accounted for 35% of the total external assistance and food security for 18%. In 1999, technical co-operation accounted for 85% of the total external aid, the rest being investment project assistance.

| | US\$ million | | | | | | Total |
|---------------------------|--------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | |
| Total Multilateral | 0.5 | 11.5 | 9.1 | 10 | 8.3 | 8.4 | 47.8 |
| UNICEF | 0.3 | 1.9 | 1.8 | 2.6 | 1.5 | 1.2 | 9.3 |
| UNDP | | | 0.1 | 1.2 | 1.3 | 0.5 | 3.1 |
| EC | | 9.5 | 6.7 | 5.9 | 3.8 | 5.7 | 31.6 |
| Other | 0.2 | 0.1 | 0.5 | 0.3 | 1.7 | 1 | 3.8 |
| Total Bilateral | 24.1 | 13.5 | 17.2 | 13.8 | 2.2 | 8.2 | 79 |
| EU Member States | - | - | - | - | - | - | - |
| United States | 9 | 11 | 14 | 11 | | 0 | 45 |
| Other | 15.1 | 2.5 | 3.2 | 2.8 | 2.2 | 8.2 | 34 |
| Total ODA | 24.6 | 25 | 26.3 | 23.8 | 10.5 | 16.6 | 126.8 |

Source: OECD (DAC)

14. The four largest providers of ODA are USAID, the EU and the United Nations¹⁶. According to UNDP estimates, in 1999 the external assistance amounted to around US\$ 20.7 million: US\$ 7 million from the EC, 9.7 million from USAID and 4 million from the UN. EC support between 1993 and 1999 totalled US\$ 38.6 million. As will be detailed below, most of it consists of technical co-operation; the EC also provided the country with an € 45 million credit facility in 1992 for purchasing food and medicines, which was entirely repaid at the end of 1996. A small food aid operation (€ 3 million) was also carried out in 1996. As noted in Table 1, the ODA from EU Member States is marginal.

15. In addition to limiting its overall engagement, USAID has been focusing its assistance on non-state sectors, namely private enterprises and NGOs. The reasons for this approach are made explicit in the latest (draft) Strategic Assistance Plan for 2001-2005: "US assistance to Turkmenistan will be limited throughout the plan because of the authoritarian regime, lack of commitment to any reform, and limited absorptive capacity." The two main programmes of the US in the country are therefore, first, the Central Asian American Enterprise Fund (CAAEF), which has provided loan funding to private businesses since it began operations in 1996, up to a maximum of US\$0.5 per operation. Total loans distributed as of March 2000 amount to US\$6.3 million. Second, USAID has been providing support the NGO sector through its Counterpart Consortium (Box 2). The CC has provided training, equipment and telecommunications facilities to about 25 local NGOs since 1996, with a focus on ecology-oriented organisations. Total assistance for a period 1997-99, excluding the running costs of the CC itself, amounted to US\$0.25 million.

¹⁶ Mainly UNICEF.

Box 2: Counterpart Consortium

Counterpart Consortium's (CC) Central Asian NGO Support Initiative is funded by USAID and began operations in 1995. The Turkmenistan country office was established in late 1997.

CC's first effort to identify the needs of the NGO community in Turkmenistan resulted in a jointly-funded conference co-sponsored by the UNDP in December 1997. Counterpart's training program came on-line in Turkmenistan in March 1998 with the launch of their first training module "NGO and Community". Their strategy for the first half of the year was to launch two training modules, carry out 'training of trainer' workshops to solidify a diverse and qualified pool of trainers, and to establish a database of relevant information related to NGOs they were working with.

Between February and August of 1998 15 training sessions had been carried out in Turkmenistan. As a result, 198 "certificates of aptitude" had been awarded to 109 individuals from 67 NGOs. Twelve of these NGO representatives were from outside of Ashgabad. In addition to training, CC's Central Asian Regional program also includes a grant program for NGOs. These include three types of grant categories: 1. Support Grants; 2. Partnership Grants; and 3. Corporate Challenge Grants. Eight grants had been approved as of August 1998 in Turkmenistan in the areas of civic education, ecology, women's psychological support, English language training, disabled and agriculture, for a total of US\$49,881.

Source: Counterpart Consortium.

16. The relationship with the BWI has been patchy and at times difficult. Limited progress in macro-economic management and structural reforms have strained the relationship with the IMF, and the latter withdrew its resident representative in September 1999. It is important to stress that Turkmenistan remains the only FSU country which has never agreed to an IMF stabilisation programme. The World Bank's lending program, designed to provide impetus to the implementation of critical structural reforms through the provision of technical assistance and institution building, started with a US\$25 million Institution Building Technical Assistance Loan, approved in 1994. The project finances the implementation of a privatisation and private sector development program, the modernisation of financial sector infrastructure and training for commercial bankers, and joint venture administration and training in the energy sector. Two other loans (US\$30 million for Water Supply/Sanitation to improve water hygiene in the Dashkovuz region near the Aral Sea disaster zone and US\$34 million for Urban Transport improvements in three cities) were approved in 1997. The World Bank also maintains an ongoing dialogue with the Government on the status of macroeconomic and structural reforms. However, disbursements were interrupted in March 1998, reportedly as the result of procurement difficulties – together with the slow pace of reforms. The lending programme was resumed in June 1999 and the World Bank is now in the process of updating its Country Assistance Strategy.

17. The EBRD has also been a significant provider of funds to Turkmenistan¹⁷. As of June 1999, it had signed four investment projects totalling € 144.5 million, of which it is important to distinguish funding to the private sector from support to the GoT. Financing to the private sector includes a € 31 million credit line for SMEs¹⁸; and a financing facility of € 29 million to expand the textile plant set up by the Gap-Turkmen joint venture. Support to GoT consists of a loan of € 55.7 for the development of the offshore hydrocarbon reserves in the Caspian Sea; and a loan of € 29 million for the reconstruction of the Turkmenbashi sea port. In addition to these investment projects, the EBRD has also sought to maintain a dialog with the country to encourage transition towards economic and democratic reform. In addition, the EBRD has set up the Direct Investment Facility (DIF), under which it can provide equity and limited debt financing to private ventures, for an amount between US\$0.5 and 2.5 million. No projects have been financed yet under the DIF programme. Lastly, the EBRD has been implementing the Bangkok Facility, which is funded by the EC. In 1998, this facility was used to fund the Turkmenbashi Port in an amount of about € 1.3 million. In 1999,

¹⁷ EBRD's contributions are not considered as ODA by the OECD.

¹⁸ This facility is an APEX line of credit distributed by local commercial banks.

€ 0.7 million were allocated to the Gas Bank institutional support. Like for the BWI, the implementation of the EBRD's programme has been affected by the lack of key reforms. As a result, EBRD projects with the state have often suffered long delays or have been suspended indefinitely, as is currently the case. For example, an increase of the gasoline prices was a precondition to an EBRD for a road project in the Mary region. Turkmenistan refused to increase prices even in phases and the project was suspended. The two investments projects for the state currently in EBRD's portfolio¹⁹, which jointly represent 59% of the total, are currently suspended for similar reasons. It is worth stressing that Turkmenistan is the only country in all of CIS countries where the bank ever resorted to the complete suspension of funding of governmental projects.

18. One key feature of the Turkmen environment is therefore that donors have had little influence in terms of government policy changes. There is no consensus reform programme and donors working with the government have all had to suspend their programmes or to refocus on non-government support. In this context, as we now detail, the Tacis appears somewhat of an exception, as it has relied on direct support to the government more than other major donors.

B. The Tacis programme in Turkmenistan

19. The Tacis programme was established in 1992 following Turkmenistan's independence. Over the period 1992-1995, € 20.8 million have been allocated to the country through Tacis national programmes, with a strong concentration on: agriculture; enterprise restructuring; and human resources. The country also benefited from projects under regional (Inter-State) programmes, principally in the area of transport infrastructure (Traceca) and energy (Working Group on Petrol and Gas in the Caspian Sea). Net contribution to the country under Inter-State programmes for the period 1992-95 is estimated at € 30 million. In addition, a number of high-level policy advice projects were carried out under the Policy Advice Programme²⁰. These projects were small in size but ambitious in the scope of the contemplated reforms; they included broad reform strategy advice (1993), advice on social and labour market policy (1995), the reform of capital markets (1996).

Overview of the Tacis programme

National programmes

20. Annex A lists all Tacis projects implemented under the Action Programmes (AP) from 1995 to 1999 and the main regional projects implemented under the inter-state projects 1996-1999 which have benefited Turkmenistan. Table 2 provides an overview of fund allocation under national programming. Agriculture has received the highest allocation with € 15.4 m followed by enterprise restructuring and development (€ 9 m) and energy (€ 9 m). Grants allocated through national programming have strongly decreased (-27%) between 96/97 and 98/99, affecting mainly the area of enterprise restructuring and development and, to a lesser extent, agriculture and energy. Since 1996, the Tacis national programme has been centred on three focal areas:

- Structural and institutional reform, including consolidation of democracy; reform of public administration and key government institutions; enterprise reforms; and education.

¹⁹ Including, therefore, the contribution to the Turkmenbashi Port from the Bangkok facility.

²⁰ The PAP is implemented by a special unit, the European Expertise Services.

- Agriculture and agro-industry development, including support to Turkmen authorities in the formulation of policies; support to farm restructuring.
- Infrastructure development, including the development of the regulatory framework in the energy sector; the strengthening of the government's management capacity in the energy sector.

| Sector | Action Programme | | | | | Total |
|--|------------------|------------|----------|-------------|------------|-------------|
| | 1992 | 1993-94 | 1995 | 1996-97 | 1998-99 | |
| Energy | 1 | | | 3 | 2.5 | 6.5 |
| Government Advice | 2.5 | | | | | 2.5 |
| Enterprise Restructuring and Dev. | 0.6 | 1.8 | 1 | 2.7 | 1 | 7.1 |
| Agriculture | 3.6 | 3.6 | 1.5 | 3.7 | 3 | 15.4 |
| Human Resources Development | 1.1 | 1.8 | 1 | | | 3.9 |
| Small Projects Programmes ³ | | | | 1.4 | 1.8 | 3.2 |
| Contingencies | | 0.8 | 0.5 | 0.7 | 0.2 | 2.2 |
| Total | 8.8 | 8.0 | 4 | 11.5 | 8.5 | 40.8 |

¹ Excludes ISP allocations.
² SPPs include: European Expertise Services, Statistics, Tempus and Customs
Source: Tacis Action Programmes

Inter State Programmes (ISP)

21. Since 1996, ISP have continued to be significant to Turkmenistan, both in scope and in volume. Allocations through Inter-State programming relevant to Turkmenistan have totalled € 62.5 million between 1996 and 1999. The main initiatives supported by the inter state programming are as follows:

- The transport corridor Europe-Caucasus-Asia (Traceca) initiative supporting the development of transport links between Central Asia and Europe.
- Inter-state oil and gas to Europe (Inogate) which aims at promoting the regional integration of the oil and gas pipeline systems and facilitate oil and gas transport both within the region and towards the export markets of Europe.
- Environment programmes supporting the development of NIS environmental policies based on common approaches, promoting scientific regional co-operation and concrete actions towards the resolution of regional environment disasters.
- Agriculture programme (Rural Agricultural Reform Programme – RARP) launched following the food aid programme operating in the Central Asia Republics in 1995/96 in order to follow on the related counterpart funds disbursements and assist the reform process.
- Justice and Home affairs for the NIS promoting regional co-operation in fighting against drugs production and trafficking, smuggling of nuclear material, illegal immigration, money laundering and organised crime.

Other interventions

22. As shown in Table 3, other Tacis instruments have continued to be used in Turkmenistan. A number of SPPs projects were carried out. The Bangkok facility, funded by the EC but managed by the EBRD, also benefited Turkmenistan, as noted above.

| Table 3: Tacis Instruments | | |
|--|---|----------|
| Instrument | AP/ISP Allocation | |
| | 1996-97 | 1998-99 |
| A. General Technical Assistance Projects | | |
| <p>Action Programme 3 main types of projects: (i) technical, advisory and training services, (ii) investment projects; (iii) technical and feasibility studies. Projects of up to 36 months. Average size of projects is € 1.3 million and remain stable from AP 1996-97 (7 projects) to AP 1998-99 (5 projects).</p> | € 9.4 m | € 6.5m |
| <p>Inter-State Programme Yearly programming; operates in development of infrastructure networks (energy and transport), environment, agriculture and democracy / rule of law (Justice and home affairs)</p> | € 100 m since 1996 for projects relevant to Turkmenistan. | |
| B. Small Projects Programmes | | |
| <p>Policy Advice Programme Provide high-level European expertise through short to medium term assignments. In Turkmenistan, provided advice on key economic reforms such as capital markets reform, general development strategy or reform of the social security net.</p> | € 1.30 m | € 1.80 m |
| <p>International Standards and Commitments <u>Statistics and Customs Programmes</u>: multi-country programme for statistical co-operation and support of customs services (legislation, modernisation, training). Maximum length 39 months.</p> | € 0.50 m | € 0.30 m |
| <p>Education and Training <u>Trans-European Co-operation Scheme for Higher Education (TEMPUS)</u>: supports the restructuring of NIS higher education systems. Provide grants for 1 to 2 years to finance co-operative projects between European and NIS higher education institutes.</p> | | € 1.0 m |
| <p>Education and Training <u>Trans-European Co-operation Scheme for Higher Education (TEMPUS)</u>: supports the restructuring of NIS higher education systems. Provide grants for 1 to 2 years to finance co-operative projects between European and NIS higher education institutes.</p> | € 0.80 m | € 0.50 m |
| C. EBRD Bangkok Facility | | |
| <p>Finances TA aimed at improving the quality of selection, appraisal, design and implementation of investments supported by EBRD. Funds allocated on a project-by-project basis with no predetermined programme allocation for Turkmenistan.</p> | Total of € 2 million committed for projects in Turkmenistan in 1998- 99 ²¹ | |

Formalisation of the Tacis strategy in Turkmenistan

23. The EC strategy for Turkmenistan for the period 1996-2000 is weakly formalised²². There is not a single comprehensive document setting it out. Instead, elements of the strategy should be gathered from the following EU policy documents and Tacis programming tools for Turkmenistan. These are:

- The Tacis regulation approved by the EU Council in 1996, which sets out the general objectives, the policy framework and the basic guidelines for the whole programme.
- The initialled Partnership and Co-operation Agreement (PCA) for Turkmenistan.
- A (draft) Strategy Paper covering the period 1996-1999 establishing the context in which Tacis is operating and its sectoral priorities.
- The national Indicative Programme (IP) for 1996-1999, agreed upon by the EU and Turkmenistan, which includes general policy statements, priority areas of co-operation, focal areas and a global budget.

²¹ Of which € 1.3 million currently suspended. See above.

²² This is a common characteristic of all Tacis country strategies, deriving from Tacis general procedures. As such, this point will not be addressed in the country-specific recommendations of Chap. 4.

- Action Programmes for one or two years²³, which detail the projects to be financed during the period covered and corresponding budgets allocations.

| Table 4: Comparison of EC Strategy Documents for Turkmenistan | | |
|---|---|--|
| Strategic Document | Objectives | Strategies/Activities |
| Tacis Regulation for 1996-1999 | <ul style="list-style-type: none"> - Transition to market economy - Reinforcement of democracy. | Priority activities are: <ul style="list-style-type: none"> - Restructuring of state enterprises and private sector development, - Building an effective food production, processing and distribution system, - Developing infrastructures for energy, transport and telecommunications, - Nuclear safety and environment, - Public administration reform, - Social services and education. |
| PCA | <ul style="list-style-type: none"> - Consolidation of Turkmenistan democracy, its economic development and transition to a market economy; - Establishment of regular political dialogue; - Strengthening of trade and investments in particular in the energy sector and the promotion of sustainable development; - Search for a global co-operation: legislative, economic, social, scientific and cultural. | <ul style="list-style-type: none"> - Institutionalisation of a political dialogue at regional level; - Establishment of the most favoured nation clause, - Progressive agreements on free trade, investment, employment, - Progressive closeness of legislation; - Economic co-operation preferably at regional level; - Co-operation in the fields of science, education, agriculture and agri-industry, environment, transports, communications, financial services, fiscal institutions, privatisation, social issues, tourism, SME, customs, statistics, human rights and democracy, fights against illegal activities, culture, technical assistance and grants (Tacis) |
| Strategy Paper 1996-1999 (draft) | <i>(No specific objectives stated)</i> | Sectoral priorities are the following: <ul style="list-style-type: none"> - Private sector development and restructuring of state enterprises, - Agriculture and food production, - Energy. |
| Indicative Programme 1996-1999 | Purpose is to agree on the areas of co-operation and define operational, specific and measurable objectives of the EU assistance ²⁴ . | Programmes in the following areas: <ul style="list-style-type: none"> - Structural and institutional reform, - Agriculture and agro-industry, - Development infrastructure. |
| Inter State Indicative Programme | To assist the NIS and Mongolia to identify and pursue solutions to problems which are of an inter-state nature. | Areas of concentration for the ISP 99 relevant for Turkmenistan were: networks (energy, transport), environment and justice and home affairs. |

24. The Tacis Regulation for 1996-1999²⁵ indicates that EC support will mainly take the form of technical assistance in support of the economic reforms aimed at bringing about the transition to a market economy and reinforcing democracy. Compared with the previous Tacis

²³ AP 1995, AP 1996-97, AP 1998-99.

²⁴ In parallel, the yearly AP purpose is to provide an update on the execution of the targets set out in the IP and on the political and economic conditions affecting their implementation

²⁵ Council Regulation N° 1279/96, dated 25 June 1996.

Regulations, the 1996 Regulation introduced various important changes: (i) reinforcement of democracy as an objective is given the same weight than the transition to a market economy; (ii) due attention paid to gender and environmental issues; (iii) supporting role to the PCA process; and (iv) flexibility to allocate 10% of total funds to investment. It also stresses the need for establishing regular – including in-country – co-ordination with Member States, during both the programming and the implementation phases.

25. The political framework governing the relationship between the EU and the beneficiary country normally provides another set of objectives in which Tacis strategy is deployed. In the case of Turkmenistan however, the Partnership and Co-operation Agreement (PCA) has not yet been ratified by the Member States. Nevertheless, due to its importance for future programming, the key PCA objectives of particular importance for Tacis are listed in Table 4. The PCA is based on the following guiding principles: the respect of democracy and fundamental human rights, the principles of a market economy and the development of NIS regional co-operation.

26. The 1996 Regulation and the PCA are careful to distinguish the reinforcement of democracy from mere ‘governance’ improvement. Efficient and transparent public institutions – good governance – are needed to support the workings of a market economy. However, what is implied is the notion of democracy and human rights used by the Tacis Regulation is the accountability of political leaders to the population and, more generally, appropriate mechanisms to ensure that the government’s policies reflect the public’s preferences and constraints. It is also this notion of democracy that has been used in this evaluation.

27. The Strategy Paper 1996-1999 for Turkmenistan²⁶ presents the general context in which Tacis operates, including: Turkmenistan general political situation, its social and economic performance and the state of reforms and give some general prospects for the future of the country. It identified three sectoral priorities for Tacis assistance: (i) private sector development and restructuring and state enterprises, (ii) agriculture and food production and (iii) energy, including oil and gas. Nevertheless, the document remains uncompleted and at a draft level. No mention is made of Tacis objectives in the Turkmen context and in its draft version the document is less comprehensive than the multi-year Indicative Programme for the same period.

28. The Indicative Programme 1996-1999 (IP) introduces differences with the Strategy Paper in the specification of the prioritised areas of intervention, which became: (i) structural and institutional reforms (SIR), (ii) agriculture and agro-industry and (iii) infrastructure development (ID). The IP indicates that the selection of these three areas is based on: (i) the stage of the reform process, (ii) the Tacis assistance granted to date and (iii) particular interest of the President. Describing EU policy, the IP stresses the importance of EU economic interests in Turkmenistan which could require major investments mainly in the energy sector in order to maintain its production capacity. The overall objective of Tacis assistance as stated in the IP slightly differs from Tacis Regulation as it is « to support the transformation of the political, social and economic situation of Turkmenistan in order to raise the living standards and the quality of life of its people ». The guiding principle underlying Tacis assistance in Turkmenistan is to *support the macroeconomic and sectoral policies of the authorities* in achieving this objective. Consolidation of democracy is mentioned as a specific sub-area of intervention within the structural and institutional reforms area.

29. One formalised element of conditionality contained in the Tacis documents concerns democracy and human rights: “When an essential element for the continuation of co-operation through assistance is missing, in particular in cases of violation of democratic principles and human rights, the Council may, on a proposal from the Commission, acting by a qualified majority, decide upon appropriate measures concerning assistance to a partner

²⁶ Draft, Turkmenistan 1996-1999, Strategy Paper, input from the CU, dated 12 February 1996.

State.” (last paragraph of Article 3, Tacis Regulation 1996-1999). The Tacis Regulation for 2000-2006²⁷ is even more careful in stressing democratisation and human rights as an “essential element”, as this paragraph is now isolated as a specific Article (Article 16). It will be argued below, however, that – given the human rights situation in the country – the actual *implementation* of this conditionality has been particularly soft.

30. Other types of conditionality, in particular policy-related conditionality, are entirely absent from the Tacis documents, including in the APs and in the ‘Statements of Endorsement’²⁸. The lack of clear policy-related conditionality is not specific to Turkmenistan and stems to a large degree from the TA nature of Tacis (as opposed to investment funding). However, in the specific context of Turkmenistan, where other donors have repeatedly used their own conditionality mechanisms to suspend or cut their contributions, this absence has contributed to maintain a focus of Tacis assistance on government support, as the next sections will also argue.

C. Is the Tacis country strategy in Turkmenistan relevant?

31. In contrast with most Tacis countries, there is no consensus on the reform agenda among the government and international donors, including the IMF, the World Bank – and Tacis itself. The government’s pace of reform has been slow and has lacked both transparency and predictability. The country’s poor record in human rights and, more generally, the very limited progress towards a more democratic form of public life have put into question the degree to which the policies of the government reflect the preferences and constraints of the population. Major donors – the EBRD, the BWI and USAID – appear to share the pessimistic view that the potential for changes under the present political structure is low. In addition, the PCA was not in force during the design (and implementation) of the strategy – and it is not effective yet at the time of writing. As a result, using the degree of support to the government’s reform programme as an evaluation criterion – as other CSEs correctly did in other Tacis countries²⁹ – could potentially be misleading in the specific case of Turkmenistan. This evaluation needs to recognise the special situation in the country and go back to first principles, that is, Tacis priority objectives³⁰.

32. The criteria used therefore were (i) whether the EC’s strategy was internally consistent, consistent over time and consistent with available Tacis instruments and institutions; (ii) whether the strategy *effectively* pursued Tacis key objectives; (iii) whether it was co-ordinated with other aid agencies. In addition, a central consideration is to make use of the analysis of the country context to assess the degree to which the strategy adopted by Tacis took stock of Turkmenistan’s specific situation. In doing so, the evaluation will primarily make use of the country analysis presented in section 1.A.

²⁷ Council Regulation (EURATOM, EC) n°99/2000 of 29 December 1999 concerning the provision of assistance to the partner states in Easter Europe and Central Asia.

²⁸ A Statement of Endorsement is a brief (generally one page) document signed by the Authorities, represented by the Coordinating Unit, describing the undertakings of the government during the implementation of a specific project (see Chapter 3).

²⁹ Including in the CSE of Tacis in Azerbaijan, also prepared by IDC.

³⁰ It is interesting to note that the Tacis Regulation of 1996 (Article 3) makes it clear that the recipients’ programmes and preferences are only relevant to Tacis strategy inasmuch they are conducive to Tacis priority objectives: “Operations to be financed pursuant to this Regulation shall be selected taking account, inter alia, of the recipients’ preferences and on the basis of an assessment of their effectiveness in achieving the objectives aimed at by the Community assistance”.

Was the Tacis strategy consistent?

The goals and objectives were broadly consistent

33. In spite of the multiplicity of strategic documents, four key Tacis objectives come out clearly (see Table 4): (i) Transition to a market economy; (ii) Reinforcement of democracy; (iii) Environmental protection; (iv) gender equality. In spite of the lack of formalisation noted above, there appears to be an adequate degree of consistency among the different strategic documents, particularly the PCA and the IP 1996-1999, in the selection of goals and objectives. Transition to the market is consistently given as a major objective of the Tacis programme in Turkmenistan, following the Tacis regulation 1996-1999. *As a goal*, reinforcement of democracy is also strongly emphasised in the PCA and, albeit to a lesser extent, in the IP 1996-1999, again following the Tacis Regulation 1996-1999. Going further back, the strategic documents also show consistency over time, with both the IP 1993-1995 and the IP 1996-1999 stressing support for the transition to a market economy and consolidation of democracy.

34. Arguably, as was repeatedly mentioned to the evaluation team, another objective of the Tacis presence in Turkmenistan was to monitor the developments of the oil and gas sector, which has possible strategic relevance to bilateral European interests. Again applying the Tacis key objectives as evaluation criteria, this approach would be difficult to justify. However, this implicit objective appears to have had little weight in the orientations of Tacis activities, as will become clear below.

35. Another element of consistency can be found at the regional level. One goal explicitly stated by the IP 1996-99 is the ‘promotion of regional stability and sustainable development through co-operation among countries embracing Central Asia countries and Caucasus countries’, making environmental protection an explicit goal and establishing an appropriate link with the Interstate Programmes – of which a key goal is precisely environmental protection.

36. A third element of consistency worth mentioning – although it is arguably an ambiguous one in the specific Turkmen context, as we will argue below – has been the concentration of the Tacis strategy on support to the government. A majority of projects, except in the agriculture sector and recently in the SIR, have brought support to the authorities’ reform programme (see below). As observed, this support has been brought unconditionally, except for the formal conditionality concerning democracy and human rights.

But strategic orientations and activities were weakly linked to objectives

37. The logic of the selection of the three focal areas (SIR, agriculture, ID) is not apparent in the strategic documents. While the relationship between the selection of SIR and the transition to market is understandable enough, the contribution of ID to priority objectives could have been better justified. Specifically, the (draft) Strategy Paper does not provide any indication on the analytical process through which these three sectors were chosen – and why, particularly, the ID area replaced Human Resource Development in 1996. The IP 1996-1999 is more informative, suggesting that the strategic option to ‘support the macroeconomic and sectoral policies of the authorities’ (IP 1996-1999, page 5) has implied that the ‘Turkmenistan Authorities were to play a key role in identifying priority sectors’ (page 1). Here again, however, the specificities of the country should be borne in mind. An important pre-condition for supporting governmental programmes key options is normally the existence of a broad agreement on a general reform agenda, for example in the form of a PFP, like in a number of other Tacis countries. Such global reform agenda is needed to ensure consistency across the different sectoral reforms. In Turkmenistan, a central consideration is that such agenda is not

in place. In the absence of a convincing explanation on the choice of the focal sectors in Tacis documents, the appropriateness of such choice is therefore unclear.

The strategy was weakly consistent with Tacis institutional set-up

38. A significant number of projects have critically depended on key government reforms. However, the institutional set-up of Tacis in Turkmenistan has not been conducive to adequate policy monitoring and analysis. Chapter 3 on procedures and resources provides a detailed analysis of this point. In summary, the lack of a full in-country representation with adequate authority has hampered policy dialog and monitoring, while the strategy of Tacis was highly depend on critical reforms being implemented. Donor co-ordination is normally instrumental in compensating low internal monitoring capacity. Yet Chapter 3 will argue that Tacis has co-ordinated less closely with other major donors as the country context would have warranted.

Was the Tacis strategy co-ordinated?

The strategy was weakly co-ordinated with the assistance of other aid agencies

39. The objectives pursued by Tacis are entirely consistent with, and indeed often identical to other major donors' in the country. The four key objectives are undoubtedly shared by other donors. The transition to a market economy is a central objective of the BWI, the EBRD and UNDP. USAID explicitly shares the EC's focus on democratisation as a critical goal. However, at the broader strategic level, a natural option for any donor without adequate policy monitoring capacity is to rely on other donors – often BWI – for reform analysis and monitoring. In difficult policy environments, co-ordination on the general stance of international co-operation is often required to push necessary policy changes. Yet during the period under analysis, Tacis was somewhat isolated in maintaining a relatively large programme in support of the government. The suspension of the World Bank's and, more recently, of the EBRD' programmes with the government was not the result of a joint donor decision. The recent reduction in the volume of the Tacis programme in the country was not formally linked to the World Bank's and the EBRD's decisions. The absence of an IMF agreement – an therefore of a PFP, an efficient instrument for joint policy dialogue and monitoring, also rendered the strategy of support to the government adopted by Tacis more difficult.

40. In particular, strategic co-ordination with Member States³¹ has been weak, as evidenced by the interviews conducted during the evaluation mission. In-country, the Member States report that they have not been consulted by the EC on the stance of the Tacis support during the last round of programming and that they receive scant information, if any, from Tacis on its programme. This situation is paradoxical, since the key Tacis objective of democratisation could potentially benefit from the political support of the Member States active in the country.

³¹ Three Member States maintain in-country presence: France, Germany and the UK.

Were Tacis key objectives pursued?

In pursuing the transition to a market economy, Tacis has concentrated on support to the Government

41. The strategic option of the Tacis programme to support the government programmes strongly influenced the actions designed to facilitate the transition to the market economy. GoT ministries, public institutions and ‘competent bodies’ are the main beneficiaries of Tacis projects in Turkmenistan. For each Tacis focal area, the second and third columns of Table 5 show how many projects have supported the government reform programme and how many have concentrated on non-government co-operation. In the SIR area, out of a total of 7, only 2 projects³² have not been in direct support of the government reforms. In the ID environmental protection areas, the majority of projects have again supported government reforms. In agriculture, in contrast, most of Tacis interventions have been pilot projects not directly linked to the government reform programme in the sector.

Box 3: Institutional Reform Indicators

Governmental institutional reform is essential in the transformation of economies from being based on Soviet-style planning to operating under free market rules. An appropriate legal and regulatory framework, smaller government ministries/ agencies focused on supporting and facilitating a private market economy, and appropriately trained staff are essential ingredients in building a strong institutional structure for making the transition to a market economy.

The sequencing of these institutional reforms is very important. It is difficult, for example, to undertake appropriate capacity building for an institutional structure that has not yet been established. This has implications for project assistance: if the right inputs are delivered at the wrong time, then they will have no impact.

The following categories have been used to determine the relevance of the methodology of each project:

- **Stage A:** is the foundation of institutional reform and refers to *defining the appropriate policy framework* consistent with a market economy. Such policy can concern economy-wide aspects such as macro-economic management, privatisation, foreign investment promotion, or be at the sector level (energy, agriculture, etc.). This stage involves:
 - Defining the goals and principles for government action;
 - Defining the appropriate role of government in the sector;
 - Drafting new legislation appropriate for a market economy and conforming to international (European) legislative standards;
 - Defining and setting up appropriate regulatory framework.
- **Stage B:** builds on the foundation established in Stage A, focusing on *institutional building*. Activities in this stage can only take place once those in Stage A have been completed. This stage involves:
 - Defining regulatory institutions;
 - Defining the appropriate (public) institutional structure, i.e. the appropriate ministries/agencies required to supervise, facilitate and undertake policymaking in a market economy;
- **Stage C:** is the final stage in institutional reform and refers to *implementation of the reformed institutional framework*. It can only take place when Stages A and B have been carried out. This stage involves:
 - Setting up the appropriate institutional structure defined in the previous step.
 - Developing terms of reference and work plans for staff in the redefined institutional structure;
 - Identifying what staff and what skills are required, including managerial staff;
 - Training staff to help them develop the required skills.
 - Implementing the reformed agenda identified in Stages A and B.
- **Stage 0:** projects in this stage are not related to helping to build the institutional framework.

In this section of the report (Chapter 3, Section D), each project has been categorised into stages of institutional reform according to the above criteria. These are used to determine whether Tacis activities were assisting with fundamental (first stage) institutional reforms, with those that should take place later or were not assisting institutional reforms at all.

Source: Evaluation Team.

³² SMEDA and Interbank Training. These two projects were the only on-going interventions in the SIR area at the time of the mission.

42. Reforming the legal and institutional government framework is indeed needed to make the transition to market possible. However, Box 3 argues that appropriate sequencing of reforms is essential. Setting clear adequate policy principles and directions is required before committing resources to institutional building. The low commitment of the government to key reforms such as privatisation (including in agriculture), price liberalisation, and budget management reform has been a central feature of the Turkmen environment. At the sectoral level, as a consequence of the lack of consensus on a global reform agenda, the sector-wide programmatic approach is yet to be introduced. The visibility of the intentions of the government is reduced and uncertainty of policy options is high. In the energy sector, for example, although the Ministry of Energy is nominally in charge of policy-making, decision-making is still centralised with the President and there is no comprehensive reform process in the sector. Similarly, private sector development still depends on critical policy decisions on privatisation – by and large stalled – , deregulation and adequate macro-economic management.

43. In this context, one finding of this evaluation is that there has been a mismatch between the reform agenda implied by Tacis' strategic options and the actual pace of reform in the country³³. Table 5 reports a review of the degree of matching between the Tacis projects and the Government's own reform agenda. This analysis relies on the classification of reform stages presented in Box 3. In the SIR area, 4 projects³⁴ have concentrated on Stages B or C of the reform sequence (institutional building and training), while the government appears to be still in the initial stage – policy decisions. Box 4 provides more detail for the key energy sector. In the energy sector, two projects have concentrated on the Stage B, while again the Government is still in the early stage of policy-making. Indeed, the following chapters will confirm that whenever the implementation of these projects has depended on significant economic reforming from the government, impact has been limited.

Box 4: Reform steps in the Upstream Oil and Gas Industry.

Based on empirical evidence in countries that have successfully completed their reform process, there appears to be a logical sequence of reform steps towards private sector participation and competition in the upstream oil and gas industry. The sequence may be summarised as follows:

- a) Consolidation of the institutional framework and corporatisation of energy state concerns;
- b) Introduction of a comprehensive package of energy laws and regulations, to liberalise the sector and permit private entry;
- c) Creation of a regulatory body on energy to supervise the activities of national and foreign energy companies and to set prices of energy utilities (petrol, gas and electricity for both industrial and domestic use, etc.);
- d) Corporate restructuring of State enterprises through vertical and horizontal separation;
- e) Private concessions or greenfield investment allowed;
- f) Gradual privatisation of national assets.

A survey of 115 developing countries has shown that in upstream oil and gas a large percentage of countries have permitted private investment without introducing formal regulation or restructuring the industry, in this way short-circuiting the reform process. Turkmenistan is among the most conservative countries of this group. Only step e) of the reform sequence has been partially introduced, by allowing Production Sharing Agreements (PSA's) with private oil companies. The Government appears not to be prepared to accept privatisation and the creation of competitive markets but simply interested in increasing the exploitation of existing and new sites.

Source: Energy Sector Management Assistance Programme, World Bank/UNDP.

³³ The *ex post* analysis presented in the following chapters will furnish further evidence of this mismatch.

³⁴ Public Administration Capacity Building, Foreign Investment Promotion, Privatisation.

44. In short, many of Tacis projects in support of the Government have been based on the working assumption that the government would go ahead with critical reforms – while the overall environment of the country, including the structure of political power, had rendered the visibility of such reforms low (see section 1.A). It is interesting to note that this pattern has been spread over a relatively large number of years, in fact since the inception of Tacis in the country in 1992. While other donors have significantly reduced their support to the government (the IMF, the World Bank, the EBRD) or moved to non-government co-operation (USAID), Tacis has continued to base a large number of programmes on critical reforms not likely to be implemented, especially in view of the relative short average duration of the Tacis projects³⁵. However, the evolution of the type of projects under APs since the inception of the Tacis programme in 1992, which in part reflects the gradual integration of the above considerations, should be noted. Allocations have been mainly directed towards policy advice and institution building during the first years of Tacis assistance, but progressively shifted towards more pilot projects, feasibility studies (including pre-investment studies) and training in some key sectors (structural and institutional reform, agriculture) in recent years. To some extent, this and the recent reduction of the volume of Tacis assistance, reflect a reaction of Tacis to the difficulties of supporting a slow governmental reform programme.

Table 5: Analysis of Sequencing, Tacis Projects 1995-999¹

| Sector | Project Objectives | | Project Type/Methodology | | | | Total Project: | |
|---|------------------------------|----------------------------------|--------------------------|---------|---------|---------|----------------|----|
| | Related to Gov't Reform Prog | Not Related to Gov't Reform Prog | Stage A | Stage B | Stage C | Stage 0 | | |
| Structural and Institutional Reform | 5 | 2 | Gov't Tacis | X 1 | 3 | 1 | 2 | 7 |
| Agriculture | 1 | 4 | Gov't Tacis | X | 1 | | 4 | 5 |
| Infrastructure development ² | 6 | 0 | Gov't Tacis | X 1 | 4 | | 1 | 6 |
| Interstate environment programmes | 3 | 2 | Gov't Tacis | X 2 | 1 | | 2 | 5 |
| Total | 15 | 8 | | 4 | 9 | 1 | 9 | 23 |

¹ Full results are contained in Annex B.
² Including Interstate programmes (Traceca and Inogate)
Source: Evaluation Team

Low focus on democratisation

45. Possibly as a result of Tacis' unconditional support to the Authorities, Tacis strategic objectives have not been granted equal status. Reinforcement of democracy, while quoted in the strategy documents, has received markedly less attention and effort than the transition to a market economy. The IP 1996-1999 does list "consolidation of democracy" under the activities to be undertaken under SIR. As summarised in Table 6, out of a total of 23 projects examined, 18 explicitly pursued the transition to a market economy, while 5 (regional)

³⁵ The average duration of the Tacis projects in Turkmenistan over the evaluation period is about two years.

projects focused on environmental protection. No projects have been focused on reinforcement of democracy in the successive Action Programmes, nor were planned to do so at the time of the evaluation. However, as stressed above, in many respects the lack of democratisation is central in today's Turkmenistan – both in its own right and as the root cause for many of the country's other social and economic problems.

| | Transition to Market | Reinforcement of Democracy | Protection of Environment | Gender |
|---|----------------------|----------------------------|---------------------------|--------|
| <i>Structural and Institutional Reform</i> | 7 | 0 | 0 | 1 |
| <i>Agriculture</i> | 5 | 2 | 0 | 0 |
| <i>Infrastructure development¹</i> | 6 | 0 | 0 | 0 |
| <i>Interstate Environment Programmes</i> | 0 | 0 | 5 | |
| Total | 18 | 2 | 5 | 25 |

¹ Including Interstate programmes

Environmental protection correctly addressed at the regional level

46. In view of their regional nature, Tacis' strategy has correctly been to deal with environmental issues through Interstate Programmes. Five large regional environmental projects have concerned Turkmenistan (see annex A). Further, in this area, Tacis has managed to adequately institutionalise co-ordination with other important donors in the sector. Particularly, the Joint Environmental Programme (JEP)³⁶ is a joint programme with the World Bank designed at the interstate level. Lastly, Interstate environmental programmes have relied to a somewhat lesser extent on support to the government, as projects have included significant components of scientific co-operation and co-operation with NGOs.

The focus on agriculture is relevant for both environmental protection and poverty alleviation

47. The consistent focus over the years of the Tacis programme on agriculture (Table 2) is relevant for both the central issue of water management and issues related to the social consequent of the transition. As noted, inadequate irrigation is a major cause of water misuse and related environmental consequences in the region. Also, approximately 40% of the labour force is still in agriculture, which is therefore central to the country's social difficulties. Tacis' focus on agriculture therefore can potentially help with both those issues.

Issues for future programming

The need to be country-specific

48. These findings suggest that the Tacis strategy is not as relevant to Turkmenistan's particular situation as it could have been. Limited progress toward democracy and the absence

³⁶ The objective of the JEP is to assist the World Bank, and possibly other donors, in the preparation of environmental projects by funding up to 25 medium-scale feasibility studies for potential WB projects. The overall goal is to support the NIS and Mongolia in the implementation of the National Environmental Action Programmes.

of a consensual and credible donor-discussed reform agenda – two essential features of the country's situation – do not appear to be fully reflected in Tacis' approach to date. While in recent years the evolution of the country's situation has led other major donors to reduce their support to the government or to shift their co-operation to non-governmental sectors, Tacis has maintained unconditional support to the Authorities. This in turn has come to have a strong influence on its strategy:

- Democratisation as a central Tacis objective has had markedly less weight in the strategy orientations of Tacis than transition to the market, even though the former is a core challenge.
- When pursuing the transition to a market economy, a significant number of projects were based on the assumption that radical economic reforms would be implemented – whereas indications of actual commitment to reforms were scant.
- In selecting focal areas, the preferences of the authorities have apparently played an important role, even though there is no umbrella reform programme agreed with the donor community, rendering the process of sector selection critical.

49. To a large extent, the *ex ante* strategy has been similar to Tacis strategies in dissimilar countries, i.e. countries with an agreed reform agenda (for example in the form of BWI negotiated PFP) and with a reasonable record of progress toward a democratic form of public life. The recent evaluation of the Azerbaijan country strategy provides a case in point. With a solid PFP, Tacis correctly focused on support to government reforms *within the PFP*. Again, the situation is different in Turkmenistan both because of the current absence of any consensual reform programme and because of the preoccupying absence of progress towards democracy, which renders the prospects of such consensus uncertain. In this context, the absence of policy-based conditionality is all the more preoccupying.

The need to adapt the strategy to Tacis institutional set-up

50. A significant number of projects were built on the assumption that radical reforms would be implemented – whereas commitment to reforms had been assessed by other donors to be low. As noted, Tacis has tended to 'go it alone', which appears difficult when dealing with difficult economic reforms without adequate in-country authority and monitoring capacity. Here again, the strategy chosen by Tacis does not appear to reflect Tacis operational set-up and instruments.

2. Impact of the Tacis programme

51. The preceding chapter has argued that the *ex ante* strategic approach followed by Tacis – concentration on support to government projects – does not fully take stock of important characteristics of the country environment. Also, the rationale for the selection of sectors was found to be unclear, not being part of a broader, consensual reform plan and not been adequately justified in Tacis documents. In this chapter, the *ex post* impact of the Tacis programme is reviewed. The *ex post* is a crucial supplement to the *ex ante* for several simple reasons. First, experience shows that the implementation of any strategy can alter the original designs to a significant degree, adapting projects to their actual context. It can reveal the flawed – or correct – assumptions of the original design. Ultimately, the *ex post* sustainable impact is the key criterion for assessing the success of assistance programmes.

A. Impact analysis

52. The evaluation undertook an *ex post* analysis of the impact of Tacis activities in Turkmenistan. The detailed results of this analysis are contained in the impact matrix in Table 7. It drew on information from project terms of reference, monitoring reports, general evaluations of Tacis programmes commissioned by the SCR³⁷ and direct interviews and analyses conducted by the evaluation team. The first impact criterion (A) measures the attainment of the stated programme objectives, which has chiefly been based on the monitoring reports. The B criterion measures the sustainability of the projects, according to monitoring reports, general evaluations and analyses conducted by the evaluation team. Having separately assessed the relevance of programme objectives (Chapter 1), criteria A and B therefore provide an assessment of the impact and sustainability of the programmes – provisionally assuming that programme objectives are relevant. On the other hand, the C criterion reflects the evaluation team's assessment of the *ex post* impact of the Tacis assistance according to the priority objectives identified for the overall strategic evaluation, with an emphasis on the transition to a market economy and democratisation, not necessarily stated programme objectives. In the following section, the key factors influencing project outcomes have been analysed.

53. The analysis covered projects in the 1995 and 1996-97 Action Programmes (APs) with some reference to earlier support provided under the previous AP's whenever such support played a significant role in a sector programme. It also included the support provided under the Inter-State Programme (ISP) in the environment, energy and transport sectors. For each sector, the three impact criteria described above were used up to the project level. The detailed impact analysis is presented in Table 7. After presenting a few important general findings derived from this analysis, the results are analysed for each key Tacis objective.

³⁷ See annex C.

| Table 7: Analysis of Impact of Tacis Programme | | | | | | |
|--|---|--|----------|---|---|--|
| Sector | Intended Objectives | Outcomes | Rating # | | | Remarks |
| | | | A | B | C | |
| Structural and Institutional Reforms | <u>SMEDA</u> <ul style="list-style-type: none"> Support the development of the SME sector Ensure self-sustainability of SMEDA as a stand-alone operation | <ul style="list-style-type: none"> SMEs and individuals trained Impact on SME sector limited by lack of key policy and institutional reforms | 3 | 3 | 3 | <ul style="list-style-type: none"> The project suffered from the tension between the need to actively support SMEs and the need to achieve financial self-sustainability. Could possibly be viable as a purely private operation, having benefited from Tacis-supported skills transfer |
| | <u>Privatisation</u> <ul style="list-style-type: none"> Advice on privatisation policy and institutional reorganisation | <ul style="list-style-type: none"> Training of SPPA staff Advice on valuation and commercialisation techniques | 3 | 3 | 3 | <ul style="list-style-type: none"> Impact impaired by the lack of commitment to genuine privatisation |
| | <u>Foreign Investment Promotion</u> <ul style="list-style-type: none"> Advice on regulatory framework for Free Economic Zones (FEZs) Support to FDI promotion | <ul style="list-style-type: none"> Project terminated by the CE Advice on FEZ delivered by short-term mission | 3 | 3 | 3 | <ul style="list-style-type: none"> Termination of the project due to the difficult working relationships between the project personnel and SAFI's (the main beneficiary) senior officials |
| | <u>Support to Taxation</u> <ul style="list-style-type: none"> Support to tax policy improvements, specifically advice on new Tax Code Advice on the improvement of the taxpayer identification number | <ul style="list-style-type: none"> Training delivered to the tax administration tax Revised Tax Code produced Pilot automation system and taxpayer identification number system installed | 2 | 2 | 3 | <ul style="list-style-type: none"> Impact and sustainability still subject to the adoption of the Tax Code, for which prospects unclear |
| | <u>Public administration capacity building</u> <ul style="list-style-type: none"> Development of the civil service legal framework Development of civil service institutional framework | <ul style="list-style-type: none"> Civil Service Law passed Institutional reorganisation proposed – yet to be approved by Government | 2 | 3 | 2 | <ul style="list-style-type: none"> By working closely with the government, the project produced valuable advice and contributed to skills transfer; the Civil Service Law is a tangible achievement Sustainability, however, is subject to the actual implementation of the Law, as well as of the advice provided on institutional arrangements |
| | <u>Inter-bank Training Centre</u> <ul style="list-style-type: none"> Support to the banking sector by transfer of skills to bankers Institutional strengthening of the Inter-bank Training Centre | <ul style="list-style-type: none"> Training programmes upgraded, with effective implementation of the new programmes Institutional strengthening of the Inter-bank Training Centre achieved; creation of a Banking Institute and a Financial College | 1 | 1 | 3 | <ul style="list-style-type: none"> Well integrated in the banking sector and demand-driven (specific demand from the CBT) But overall impact still depends on hypothetical reforms in the financial sector |
| | <p># Explanation of Impact Ratings: Category: A = achievement of objectives (based on monitoring reports); B = sustainability (based on monitoring reports); C = impact on sector reform progress (Evaluation assessment) Scores: 1 = significant (corresponds to A and B in monitoring reports); 2 = positive (corresponds to C in monitoring reports) 3 = limited (corresponds to D and E in monitoring reports).</p> | | | | | |

| Table 7 (cont.) Analysis of Impact of Tacis Programme | | | | | | |
|---|---|--|----------|---|---|--|
| Sector | Intended Objectives | Outcomes | Rating # | | | Remarks |
| | | | A | B | C | |
| Structural and Institutional Reforms (cont.) | <p><u>National Capacity Building in the Field of Economics and Business Management Training</u></p> <ul style="list-style-type: none"> ▪ Promotion of undergraduate economics & business programmes in the context of a market economy by: <ul style="list-style-type: none"> ▪ Training of teachers in three higher education institutions ▪ Assistance in designing new curricula | <ul style="list-style-type: none"> ▪ Training to teachers delivered ▪ Advice on curricula reforms delivered | 2 | 2 | 3 | <ul style="list-style-type: none"> ▪ Sustainability has been reinforced by the close integration of the project with existing higher education institutions ▪ However, two years after the end of the project, the curricula have not been modified, de facto limiting impact |
| Agriculture³⁸ | <ul style="list-style-type: none"> ▪ Support policy formulation and implementation in food provision and distribution. ▪ Support farm restructuring and the development of agriculture based industries. ▪ Support the creation of social and economic rural structures within the reform process. | <ul style="list-style-type: none"> ▪ Pilot rural co-operatives established and registered, access to rural credit initiated and development of an input supply scheme for private farmers. ▪ Assessment of the current situation, analysis of policy impacts in key areas and presentation to GoT of policy options for improving sector efficiencies. | 2 | 2 | 3 | <ul style="list-style-type: none"> ▪ Poor performance of some pilot projects adversely affected by unplanned changes, conflicts and mismanagement. ▪ Results obtained with farmers' associations brings good potential for replication; constructive co-operation with municipal authorities. ▪ Limited capacity building in counterpart institutions ▪ Absence of any meaningful policy dialogue on key reform issues in agriculture. |

Explanation of Impact Ratings:
 Category: A = achievement of objectives (based on monitoring reports); B = sustainability (based on monitoring reports); C = impact on sector reform progress (Evaluation assessment)
 Scores: 1 = significant (corresponds to A and B in monitoring reports); 2 = positive (corresponds to C in monitoring reports) 3 = limited (corresponds to D and E in monitoring reports).

³⁸ See annex 1 for a complete list of projects in agriculture in AP 95 and AP 96/97.

| Table 7 (cont.) Analysis of Impact of Tacis Programme | | | | | | |
|---|--|---|----------|---|---|--|
| Sector | Intended Objectives | Outcomes | Rating # | | | Remarks |
| | | | A | B | C | |
| Infrastructure development | <u>Energy (national AP)</u> ▪ To develop appropriate policy, legal and institutional frameworks to attract foreign investment in the oil and gas sector. | <ul style="list-style-type: none"> Petroleum Law approved and Production Sharing Agreements with foreign oil companies signed. Consolidation of oil and gas institutions proposed but not implemented. | 2 | 3 | 3 | <ul style="list-style-type: none"> Legislation work well received and instrumental to attract private companies for oil exploration. Ministry of Oil and Gas (MOG) and Competent Body (CB) supported to develop their technical knowledge and negotiating skills. But Weak underlying policy framework and commitment to reform. |
| | <u>Energy (Inogate)</u> ▪ To promote the regional integration of the oil and gas pipeline systems. ▪ To facilitate oil and gas transport both within the region and towards the export markets of Europe. To attract support by IFIs and private investors. | <ul style="list-style-type: none"> Feasibility studies and audit of oil and gas transmission networks finalised. Regional Umbrella Agreement for the establishment of Interstate oil and gas transportation systems signed. | 1 | 2 | 3 | <ul style="list-style-type: none"> Inogate feasibility studies are not “bankable projects”. Limited involvement of private industrial sponsors in Inogate affects programme sustainability. Government’s commitment to implement Umbrella Agreement remains unclear |
| | <u>Transport (Traceca)</u> ▪ To support the political and economic independence of the republics by enhancing their capacity to access European and world markets through alternative transport routes. ▪ To encourage further regional co-operation among the partner States. ▪ To increasingly use of Traceca as a catalyst to attract the support of IFIs and private investors. ▪ To link the Traceca route with the Trans-European Networks. | <ul style="list-style-type: none"> Extensive training provided to technical staff, exposure to best international practice assured. Recommendations provided (but not implemented) on improvement of legal and regulatory framework, reorganisation of transport institutions, support to private sector development. Effective co-ordination with EBRD to finance the Turkmenbashi port rehabilitation. | 2 | 3 | 3 | <ul style="list-style-type: none"> Positive impact of programme at regional level not achieved in Turkmenistan due to lack of Government’s commitment to structural reforms. Turkmenistan future participation in Traceca is at risk, following Government’s decision not to sign the Basic Multilateral Agreement on Transport Corridor. |
| Environment | <ul style="list-style-type: none"> To support the establishment or development of National Environment Action Plans and their further implementation. To demonstrate the feasibility of measures addressing on a large scale the problems related to water supply for irrigation and on farm management, so that the Aral Sea region could move towards a sustainable and efficient use of water system. To foster a collaborative spirit between countries, reinforce institutional capacity, develop common approaches and define urgent investment possibilities related to the Caspian Sea environmental priorities. To raise awareness and support capacity building of groups to participate in creating solutions to the environmental situation. | <ul style="list-style-type: none"> NEAP still in preparation but priority NEAP projects presented to donor community for funding. Improved technical capacity to study desertification issues in the Caspian Sea region and development of common approaches initiated. Turkmen participation in Aarhus conference Positive contribution to capacity building within MoE and Institute for Desert Highly relevant technical results from the WARMAP projects | 2 | 3 | 3 | <ul style="list-style-type: none"> In spite of relevance of projects and technical contribution, limited impact at regional level, unless long term in-country resident advisors are deployed – as in Turkmenistan , with poor sustainability of project interstate structures. Very limited impact of public awareness campaigns and no capacity building with NGOs; limited co-ordination with civil society, except a national meeting held in Ashgabat to broaden discussion of NEAP to NGOs and key stakeholders. Limited capacity to disseminate relevant results and poor ability to achieve changes to policy framework; weak ability of stakeholders to operate at interstate level. But effective co-ordination with other aid agencies allowing better impact of Tacis resources. |
| # Explanation of Impact Ratings: Category: A = achievement of objectives (based on monitoring reports); B = sustainability (based on monitoring reports); C = impact on sector reform progress (Evaluation assessment) Scores: 1 = significant (corresponds to A and B in monitoring reports); 2 = positive (corresponds to C in monitoring reports) 3 = limited (corresponds to D and E in monitoring reports). | | | | | | |

Overview of Main Findings

54. The analysis suggests relatively low impact and sustainability across sectors, including against the programmes' own stated objectives – evidencing the difficulties faced by Tacis programme in a policy environment not conducive to economic reforms. The lowest impact and sustainability appears to be for a majority of initiatives in SIR, as these were conditional on policy and institutional reforms which did not take place. Typically, the medium-term impact of the SMEDA and the privatisation interventions is conditional on key reforms to be undertaken by the government (see below). In energy, the limited scope of reforms is likely to jeopardise the impact and sustainability of Tacis projects.

55. Second, the analysis shows effective impact as measured against the project own objectives (criteria A and B) in a few important areas such as civil service, energy and environment, particularly in terms of skill transfer and institution building. This was especially true when (i) Tacis technical assistance matched a Government's specific demand³⁹, e.g. Energy Advisory Group (responsible for drafting the Petroleum Law) and taxation; (ii) or when the assistance had a longer term impact horizon through a skill transfer approach, e.g. the Inter-bank Training Centre. However, even for those projects, the impact of the same projects as measured against Tacis key objectives is unclear, again as a result of the slow pace of key reforms.

56. Third, the experience of Tacis with farmers associations⁴⁰ is encouraging, as it included significant co-operation with farmers association and could be instrumental in promoting democratisation at the local level. On the other hand, other projects in agriculture under the 96/97 AP are 'pilots'⁴¹, respectively concerning the meat & milk sector and the livestock sector, and have proved of overall limited sustainability and replicability. The Pilot project in the food processing sector (meat and milk) was ended in March 2000 with little evidence that the pilot processing plants of the 'President Farm' would be replicable experiments.

57. A fourth general finding is that the Tacis programme in Turkmenistan, as for most other donors, has failed to influence the reform agenda of the Government. The impact of projects on the reform process appears to be limited even when projects included policy advice components. This again relates to the general absence of commitment to genuine reforms in the country. In the case of Tacis assistance, this has often materialised as the lack of reforming power of the counterpart Tacis ministry. This situation was typically that of the privatisation and energy projects, when policy advice provided by Tacis was hardly taken up by GoT.

Impact on transition to a market economy

58. First, in all sectors, the *lack of commitment to reforms* has strongly hampered project impact on Tacis first objective, the transition to market economy. In the SIR sector, a large majority of initiatives are conditional on policy and reforms that did not take place. The impact of both SMEDA and Tacis support to privatisation has depended on the implementation of policy reforms, starting with the privatisation stance itself, but also other related reforms, including financial sector reforms, exchange rate policy and regulatory environment. Similarly, the prospects for the tax law drafted by the Support to Taxation Reform project to be passed by Parliament remain uncertain. In *human resources*

³⁹ Conversely, this finding questions the project selection mechanisms used for other interventions. This point, which relates to the procedures of Tacis in Turkmenistan, is discussed in Chapter 3.

⁴⁰ Farm restructuring and the development of farmer associations.

⁴¹ Feasibility study/pilot project livestock feed and production improvement; Pilot project in the food processing sector.

development, limited impact of the Public Administration capacity Building is evidenced by the fact that none of the agencies recommended by the project have been established⁴².

59. In *agriculture*, although high level policy and relevant sub sector studies have been funded to assist the GoT in designing the needed reform of its agricultural policy, their impact was marginal as reforms remained limited. Faced with the lack of GoT's openness to reforms, Tacis agriculture programming has interestingly shifted to demonstrating the merits of reforms by providing concrete examples of pilot projects. When successful – to some extent the pilot project on livestock⁴³ was – such projects had a certain positive impact in convincing beneficiaries and local authorities, but its nevertheless remained limited to micro realisations and does not address the main issues, for example the reform of the state order system and the issue of input and output pricing⁴⁴.

60. In the *energy* sector, the two main achievements of Inogate and the national programming (preparation of the Petroleum Law and signing of the Umbrella Agreement) are only preliminary steps toward a more comprehensive sector reform. The actual unwillingness of GoT to start implementing such reforms casts doubts over the impact of Tacis assistance and is a threat to Tacis future involvement in the area.

61. In the *transport* sector, the positive impact of Traceca at regional level was not shared by Turkmenistan due to its lack of commitment to structural reforms, as shown by its limited compliance with the regional harmonisation of transport tariffs, its inclination to protecting Turkmen national transport operators rather than favouring competition and its unwillingness to sign the Basic Multilateral Agreement on Transport Corridor.

⁴² The Institute for Public Administration for which drafted statutes and organisational structure were provided by the project, and the Central Civil Service Management Agency.

⁴³ Feasibility study/pilot project livestock feed and production improvement.

⁴⁴ *Turkmenistan – The burden of current agricultural policies*, IMF Working paper, June 2000

Box 5: Examples of different impact of Tacis Assistance.**Privatisation**

After a short TA project had assessed the Government's privatisation plan and made recommendations on work to be done, Tacis approved a project on privatisation of large enterprises. The main aim was to establish a Management Advice and Services Facility (MASF) to prepare restructuring and privatisation plans. This facility was operational only during the project life, thanks to the work of the foreign consultants. The Government's privatisation plan of large enterprises was postponed and MASF focused on only 6 medium enterprises, providing support in their corporatisation process under a single holding company. No actual privatisation of assets took place.

Based on the assumption that the Government would proceed with a new mass privatisation plan, Tacis included in the following AP a new project to assist the State Property and Privatisation Agency. To bridge the gap between MASF and the new project in the pipeline, Tacis financed a 7-month EES project providing policy advice and training. The assistance did not succeed in convincing the Government to embark in a comprehensive privatisation plan and in strengthening the role of the State Property and Privatisation Agency (SPPA), as a privatisation centre was created in the State Agency for Foreign Investments. Tacis, consequently, decided to discontinue further assistance in the sector. The AP project in the pipeline was replaced with a new project in support of State Agency for Foreign Investments that was abruptly interrupted after nine months.

At the time of the Evaluation Mission, the privatisation process had significantly slowed down and the enterprises involved were small service and trade companies. As of end of 1999 only 43 manufacturing enterprises were privatised, mainly in the textile sector.

Transport

The analysis of the impact in the sector should be considered at two levels. The technical level (ministry staff and public and private transport operators) has benefited from the Traceca programme. The projects "Road Transport Services" (completed) and "Promotion of International Transit Roads" (ongoing) are examples of initiatives that have raised awareness of the necessity to streamline government procedures and to introduce policies in support of transport operators (both public and private ones). The Ministry of Motor Transport is currently implementing the simplification of registration procedures.

The second level, the high Government officials (Cabinet of Ministers and President's Office), has been influenced significantly less by Traceca. Most of the recommendations on the reorganisation of the transport legal and institutional framework have not been implemented. The Government has always downplayed the regional focus of Traceca programme. The project "Transport Legal and Regulatory Framework", considered a success at regional level, was completely ineffective in Turkmenistan due the Government's resistance to ratify multi-lateral transit agreements.

The overall impact in the sector should be considered as unsatisfactory, as the Government has decided not to sign the Basic Multilateral Agreement on Transport Corridor, putting at risk its participation in Traceca future initiatives.

62. Second, Tacis projects that have incorporated institution building as a specific objective and have selected line ministries and executing agencies as their counterparts, have better managed to elicit changes and have achieved impact as measured against the projects own objectives. Technical staff and first management level have benefited from Tacis projects through exposure to EU best practice. Training was provided and alternative solutions were formulated to reorganise their internal regulations and working procedures. But the positive impact registered in transferring know-how or building institution capacities of lines ministries and executing agencies (such as in the environment and energy sector) was again limited in terms of influencing on the transition process, and of uncertain sustainability, due to three main factors:

- the concentration of the decisions at a higher level – which de facto limits the strategic weight of the supported institutions;
- the weakness of their budgetary allocations, which undermined both their daily activities and their capacity to carry out the reforms programmes⁴⁵, and

⁴⁵ On this issue of Turkmen ministries daily difficulties and under financing, see Self-sufficiency, pricing and netting: the case of urban transport, *Turkmenistan: improving the management of public expenditures*, World Bank report n°17791, 1998, p.7

- the high turnover of personnel, inducing a limited internationalisation of best practice in such institutions.

63. The Ministry of Environment is a good example of a high-level Government's institution that, thanks to Tacis, has increased its technical know-how and capacity in strategic management. The lingering problem is that this institution does not have the mandate and resources to apply its newly acquired skills in carrying forward a comprehensive action plan in the sector. In this regard, impact of such projects will remain limited as long as the management of public expenditures is not radically improved.

64. Third, impact has also been achieved by projects that have promoted the transition to market economy, without directly depending on short term structural policy changes either because: (i) their contribution should be assessed in the long term: e.g. the Interbank Training Centre's contribution to skills transfers in the sector of banking; (i) they had a very focused, technical approach (the effectiveness of skill transfer on international best practice policy instruments of the Support to Taxation Reform project, as evidenced by interviews) and/or were based on specific needs of the government (the Energy Advisory Group which was successfully responsible for drafting the Petroleum Law). Again, however, it is difficult to argue that ultimately the impact of those projects as measured against Tacis key objective of transition to the market economy does not depend on overall economic reforms.

65. So some extent, the Tacis programme thus appears to be trapped in a "vicious circle". On the one hand it has failed to produce a positive impact on the economic policies that the Government has decided to implement; on the other hand, lack of Government's policy changes towards a transition to a market economy is significantly reducing sustainability and impact of Tacis projects.

Impact on reinforcing democracy and the rule of law

66. Although the reinforcement of democracy is a stated objective of Tacis assistance, Tacis programming had no direct intervention in this area, except, to some degree, in the agricultural area, as we detail below. Under the Democracy Programme, the evaluation team found only one approved project ("Development of NGOs for the disabled"), which is yet to be implemented. Under the LIEN programme, the only approved project was interrupted at the request of the international counterpart after a few months of implementation. Under the Justice and Home Affairs regional programme, seven projects were the object of a specific mission in 1998 to draft detailed terms of reference. Out of them, four were of direct relevance to Turkmenistan, but none of them has been yet implemented and further continuation of the their programming is unclear.

67. Across sectors, Tacis focus on reinforcing democracy has been poor. In SIR, although some projects contribute to the emergence of key institutions needed in a market economy, and therefore contribute to good governance, very little has been attempted in the specific direction on the reinforcement of democracy. The SMEDA project has had some degree of interactions with the civil society through its support to SMEs, but its role in supporting advocacy groups for the private sector has been very limited. Such role was not explicitly in SMEDA's mandate. The objective of financial self-sustainability, which was set in SMEDA's terms of reference, also contributed to the fact that a large share of SMEDA's business came from large, often foreign companies, especially for the legal services division of SMEDA, not local SMEs. In transport and energy, the issue is not addressed at all. In environment, some regional projects were focused on increasing civil society participation through public awareness campaigns but being more active in other countries (mainly Russia) they did not really cover Turkmenistan and thus had no impact in the country. On the other hand, some NGO's working in environment have been consulted and participated to the elaboration of the Turkmen NEAP but their really being NGOs – and not Government-supported – is unclear.

68. The only genuine, although limited, impact on democracy has been in the agricultural project “Support to farmers’ associations”. As noted in section 1, the explicit objective of the project was not democratisation, but, positive democratisation-related aspects of this project nevertheless include:

- The creation of two pilot co-operatives as “democratically-managed” entities.
- Their official registration as associations, which brings hope for further facilitated registrations for NGOs.
- The establishment of a dialogue between these co-operatives and the municipal authorities (Hakim).
- A potential for replicability and sustainability.

Impact on other Tacis objectives

Protection of the environment

69. AS noted, in view of the Turkmen situation, the choice of implementing the environment programme at the regional level appears appropriate. Regional projects were designed around the following principles:

- *Common policy approach* to all NIS countries is applied for the development and implementation of the National Environment Action Plans (NEAPs).
- *Scientific co-operation* reinforces national capacity and policy dialogue, with common standards, exchange of information and regional co-operation.
- *Working with NGOs and civil society* (public awareness campaigns) facilitates the implementation of the NEAPs.
- *Close donor co-ordination* facilitates co-financing of projects identified in the NEAPs.

70. However, the regional programmes appear to have had less impact in Turkmenistan than in other republics, mainly as a consequence of (i) Turkmenistan’s limited recognition of its responsibility in regional environment disasters impeding a genuine approach towards multilateral co-operation and (ii) the inability of project stakeholders to influence national policy, like for instance the Water resources Management and Agricultural Production in the Central Asian Republics (WARMAP) project, especially, again, in the absence of any conditionality⁴⁶. Outcomes can be summarised as follows:

- Turkmenistan participated in the Aarhus Convention, thus affirming its willingness to really implement its NEAP⁴⁷.
- The elaboration of the Turkmen NEAP is to be finalised in December 2000, therefore with significant delay and hence delaying the definition of a suitable project pipeline to be financing under multi-donors funding.

⁴⁶ As stated in the TIPE evaluation, “integration of environmental considerations into other policy areas can only be achieved through political will. This can most efficiently be promoted through linking it with other benefits (conditionality). Although hard, it is an inescapable solution if this goal is to be pursued”.

⁴⁷ The Aarhus conference (Denmark, June 1998) was the fourth Environment for Europe Ministerial Conference gathering Ministers of Environment of Central and Eastern European countries. An evaluation of progress made by the countries in developing their NEAPs was presented, concluding that their implementation has been constrained both by institutional weaknesses and the lack of well-prepared projects eligible for external funding.

- Concrete investment projects are identified, mainly in relation to the Caspian Sea environmental priorities, but are not yet formulated in detail.
- Poor dissemination within the country of project results like WARMAP evidencing the Government's limited effort in disseminating information on sensitive issues such as water pricing and farm management, hence reflecting its opposition to encourage economic reform in the sector and its lack of commitment to move toward a sustainable policy for the Aral Sea Disaster.

71. In addition, recent information on a Turkmen decision to divert water from the Karakum canal to create an artificial lake in the central desert plans, without consultations with donors and neighbouring countries⁴⁸, illustrate the difficulty of establishing a policy dialogue on environmental protection with the Government. It also indicates the latter's insensitivity to a regional environmental approach, jeopardising the sustainability of the entire Tacis programme in the sector.

Poverty alleviation and gender equality

72. In spite of the focus of its programme on agriculture, Tacis impact on poverty alleviation measures has been minimal. By introducing modern production and management techniques, it has indirectly contributed to improve farmer income. Yet this is considerably less than the Tacis support in social areas in other republics where support to the national social safety net system has often been provided at action programme level, for example on employment services and pension reform. No such initiatives have been carried out in Turkmenistan, with the exception of the EES advice project on social and labour market policy, that has produced no follow-up.

73. The only EC, non-Tacis, intervention in the country with a strong poverty focus has been the Food Aid Programme and the special assistance project launched in Central Asia, the Regional Agricultural Reform Programme (RARP1) in order to follow on the disbursements of the related counterparts funds.

74. The evaluation team found no evidence of activities in favour of gender equality, with the exception of a grant from the Dutch Embassy to the Tacis-supported agriculture co-operatives in order to finance women's small initiatives, e.g. bakery, ready-made garments and cheese production following a request designed with the help of and canalised by Tacis project management. This appears as an isolated initiative as there are no other references to gender issues in all the projects analysed by the evaluation team.

B. Factors affecting impact

75. The analysis of project impact suggests a number of common issues that had significantly affected the success of Tacis projects. These are:

- The difficulty of strengthening State institutions in a blocked policy environment;
- The need for co-operation with the civil society to influence Government's social and economic reform agenda;
- the need to ensure adequate involvement and commitment of the project beneficiary institutions.

⁴⁸ The project poses potential threats to the Aral Sea that should be carefully assessed.

Strengthening State institutions

76. The evaluation team found that Tacis initiatives directed at strengthening State institutions faced significant difficulties during implementation, deriving from the absence of a policy environment conducive to reform. In almost all sectors in which Tacis provided assistance, the Government has backtracked on the implementation of the necessary policy reforms formulated with the assistance of Tacis projects and agreed with Tacis management as a basis for receiving further assistance. As a consequence, Tacis effectiveness to assist Ministries and executing agencies in their reorganisation effort was significantly reduced.

77. When impact and sustainability have been conditional on the immediate introduction of policy and institutional changes, projects' results were negative. This is the outcome in the majority of capacity building projects:

- The impact of both SME and privatisation assistance projects depended on the implementation of macro-economic reforms (particularly the exchange rate policy), the reform of the banking system and other regulatory reforms to promote competition. These reforms not completed, both SMEDA and the State Property and Privatisation Agency have remained marginal actors in their sector of competence.
- The Centre for Reform in the Ministry of Agriculture, the main beneficiary of a Tacis project, suffered a reduction of personnel from 28 to 6 staff during the first year of project life; the Regional Rural Development Centres, whose establishment Tacis sponsored, are not fully operational and are not central to the agricultural reform process;
- The Public Administration Capacity Building programme recommended the creation of an Institute for Public Administration (IPA) and of a Central Civil Service Management Agency. For the former the project provided draft statutes and organisational structure. To date, the Government has established none of the two institutions.
- The curricula under the project National Capacity Building in the Field of Economics, have not been reformed (as was anticipated originally), *de-facto* limiting impact.

78. More positive, though limited, outcomes were achieved when Tacis projects had a longer-term impact horizon and/or focused on technical issues⁴⁹. In addition, when the assistance was directed to existing institutions that play a central role in shaping the economic policy of the country, like the Central Bank (for the Inter-Bank Training Centre) and the Ministry of Oil and Gas, a few significant project results were achieved in terms of exposure to European best practice and of implementation of gradual policy and institutional changes. These results have managed to further strengthen the position of these institutions that could be exploited when and if the Government decides to initiate a genuine reform process.

79. It should nevertheless be stressed that, even when achievements of specific projects' objectives and sustainability of institution building activities scored positively, there was not automatic "spill over" effect on the overall sector reform progress, still dominated by a very conservative position of the President's office and the Cabinet of Ministers. The example of the transport sector presented in Box 5 is emblematic.

Co-operation with civil society

80. Working with the civil society in Turkmenistan is a difficult task because of the Government's reserved stance on democratic reforms and its strong top-down approach to policy-making. Few NGO's, mainly those active in environment and the ones close to the

⁴⁹ The following projects fall in this category: i) Interbank Training Centre; ii) Road Transport Services; iii) the Energy Expertise Structure; iv) Support to Taxation Reform.

Government's circle, are officially registered. For other more independent and pro-reform organisations, the mere act of registration has proven impossible. Some incidents have been reported in which the Government had an aggressive and intimidating attitude towards them.

Box 6: Turkmenistan, civil society and the Internet

During the evaluation mission, Turkmenistan became one of the forty-five countries which, according to Reporters San Frontières⁵⁰(RSF), restrict their citizens' access to the Internet, by forcing Internet private providers to subscribe to a state-run Internet Service Provider (ISP). The Internet is a two-edged sword for authoritarian regimes. On the one hand, it enables any citizen to enjoy an unprecedented degree of freedom of speech and therefore constitutes a threat to the government. On the other, however, the Internet is a major factor in economic growth, due in particular to online trade and the exchange of technical and scientific information, which prompts some of these governments to support its development.

81. The civil society is in an early stage of organisation in Turkmenistan. Officially, only 5 NGOs are registered, out of which 4 are government-supported. Nevertheless, according to the Counterpart Consortium, which has made significant progress in identifying non-registered NGOs and strengthening their operational capacities, the potential for further development of an active civil society is strong. Nevertheless, Tacis programme has shown no real effort to establish a dialogue with the few NGOs that are operational in the country. This has been detrimental not only to the achievement of Tacis second objective, reinforcement of democracy and the rule of law, but has also represented a lost opportunity to strengthen the impact and sustainability in terms of transition to the market in the area of SIR, Agriculture and Environment.

82. The evaluation team found that within the EC there is little strategic thinking on how to engage the Tacis programme into reinforcing democracy in Turkmenistan. Particularly, supporting organisations that perform "watchdog" functions on transparency and democracy could be a direct way to assert Tacis commitment to the fulfilment of its objective but would inevitably meet Government's opposition, carrying the risk of damaging other Tacis activities in the country. The pros and cons of such an option nevertheless do not appear to have been evaluated, nor the necessary actions have been taken to explain to the Government the importance and the value that Tacis attaches to community-based initiatives. The evaluation team found no evidence of projects carried out in Turkmenistan under the Democracy Programme, Lien (helping NIS non-governmental organisations to establish social safety net) although the scope of such programmes appear to be highly relevant to the country's situation and Tacis objectives. However, it should be noted that one critical condition for these instruments to be used on Turkmenistan is a prior formal agreement of the government, which, given the specific country context, may not be a mere formality.

83. As noted above, the Tacis agricultural project "Support to farmers' association" with the creation of two co-operatives contains all the necessary elements to produce sustainable initiatives at community level. Although it has the potential for being replicated, the experience is still of limited scope and needs to be broadened. The new 1999 AP agriculture project will follow this direction, with the creation of 6 new cooperatives.

84. The last aspect, dialogue with local authorities, is particularly important in Turkmenistan where power is largely exerted locally. The country is divided in five provinces (Velayat), each run by a local governor to whom around 30 local municipalities (Hakim) directly report. In this vertical power structure, establishing a dialogue with Hakims on specific merits of TA initiatives developed at community level could have induced a virtual cycle, moving first horizontally to other Hakims and then vertically to Velayats.

⁵⁰ The 20 Enemies Of The Internet, Reporters Sans Frontières, August 1999.

85. The absence of an in-country local dimension of the Tacis action programme, with the only exception of agriculture, has meant a lost opportunity for EC to exploit this bottom-up approach to increase sustainability and impact of its projects. This is particularly evident for the environment programme whose awareness campaign in Turkmenistan was not sufficiently financed to reach and influence local communities and that has not yet ensured appropriate follow-up activities at community level in the country.

86. In a similar context, the work on SME development and privatisation has not attempted to create professional advocacy groups and business lobbies to try to influence Government's decision in the economic sphere. The initiative of the SMEDA project to build a good relationship with the private sector has been to a large extent directed at its objective of achieving financial self-sustainability, rather than to create an influential network of private operators.

Local participation and ownership

87. Where local ownership has been strong, impact has been higher, at least as assessed against the project own objectives. This particularly applies to two projects, the Inter-bank Training Centre and the Energy Expertise Structure (both projects financed under AP 96-97). Their implementation has benefited from the proactive involvement of beneficiary institutions in the project management. The factors that have contributed to this positive outcome can be summarised as follows: i) correct identification of beneficiaries whose needs were addressed by the services offered by the project; ii) correct localisation of Tacis project within the beneficiary's structure; iii) common interests of the parties to sustain project's activities, on the basis of a shared belief in the project's relevance to the national priorities.

88. The SMEDA project represents the negative case in which the underestimation of the above factors during project formulation has created difficulties during implementation. SMEDA appears to have been assigned two conflicting formal objectives: advising the Department of Support to Entrepreneurship (its direct beneficiary) and other Government's entities in charge of private sector development on one side, and providing business services to private companies on the other – with the stated objective of achieving financial self-sustainability. Considering the beneficiary's opposition to reform in this sector, SMEDA's impact on SME policy and institutional environment has been minimal, therefore limiting the project's impact. Further, as repeatedly noted in the monitoring reports, the objective of self-sustainability has often conflicted with the objective of SME support, be it through advocacy of SME interests or direct enterprise support.

89. Specific considerations of local ownership apply to the Interstate Programmes. These projects, by nature, cover more than one country and their overall management has been centralised in Europe. This approach has generally produced a weak involvement of beneficiaries in the project cycle management. The evaluation team, though, has noted some differences among programmes. In the case of Traceca decentralised Co-ordination Teams⁵¹ have mitigated this supply-driven approach. The result was that the needs of the Turkmen side were better reflected during the programming phase, and co-ordination among beneficiaries in different republics was guaranteed during implementation; local participation in the programme, even in a difficult policy environment, was enhanced. With Inogate, decentralisation did not take place. Contractors were requested to focus on audits and studies at regional level, leaving to a minimum the time spent in Turkmenistan on TA support activities. The beneficiaries' involvement was often limited to data collection with no full participation in the analytical phase.

⁵¹ The Co-ordinating Team in Tashkent covered the programme's components for Turkmenistan.

Donor co-ordination

90. The UNDP mission has been entrusted with the responsibility of donors' co-ordination in Turkmenistan. This co-ordination mechanism is operational at two levels:

- Plenary sessions, in which all the donors' representatives meet to exchange information on the social and economic development in the country, Government's policies and aspects related to their own programme cycle management; these sessions take place regularly, every quarter.
- Theme Groups, which meet according to their needs to discuss sector-specific co-ordination issues. The groups are organised along the following sectors: (i) agriculture (headed by Tacis); (ii) education (UNICEF); (iii) environment (UNDP); (iv) gender (UNV); (v) health (UNFPA); (vi) civil society (USAID); (vii) public sector economic reform (USAID). A proposal for establishing a group on energy was made but has not yet been approved.

91. This co-ordination mechanism is useful to the donors' common effort to try to change the Government's reserved attitude towards democratisation and economic reforms. However, the evaluation team found that donors tend to use co-ordination meetings as a simple vehicle of information sharing on their respective programme/projects, rather than for joint decision-making. More generally, donors do not have an established system of strategic co-ordination and shared programme management at both macro and sector policy levels. In particular, in the absence of a consensual reform agenda⁵², there is no mechanism for co-ordinated conditionality monitoring. The traditional co-operation approach of direct bilateral negotiations with the Government and financing of individual projects thus appears to be still in place, as compared to the more effective programmatic approach (see Box 7).

| Box 7: Traditional vs. Programme Approach | |
|---|---|
| <u>Traditional Approach</u> | <u>Programme Approach</u> |
| <ol style="list-style-type: none"> 1. Formalisation of sector policy. 2. Selection by the Government of projects in coherence with the sector policy. 3. Search for funding and agreements with donors, on a project-by-project basis. | <ol style="list-style-type: none"> 1. Sector analysis, in co-operation with lead donors. 2. Formalisation of sector policy by the Government, in co-operation with lead donors. 3. Implementation of sector policy with donor support. |

92. The transition from the traditional approach to the programmatic approach is made difficult by the Government's resistance to discuss key policy issues. This situation, however, should represent a further motivation for donors to formalise common policy recommendations to the Government. A co-ordinated, sector-level programme approach would increase the donors' leverage on Government's anti-reform position and, at the same time, be cost-effective measure, limiting duplication in policy analysis and monitoring.

93. The evaluation team also found that co-ordination between EC and its Member States needed to be significantly improved in the field. The Embassies of France, Germany and the UK in Turkmenistan were unaware of most Tacis activities. In addition, while the Ambassadors were invited to participate to the last EC-Turkmen Joint Committee, in which Tacis programme management issues were discussed, but no formal channel of communication on follow-up activities and programme implementation was established. To a large extent, this can be viewed as a consequence of the absence of a Tacis in-country

⁵² In many countries the PFP is used by the donor community to co-ordinate the conditionality of their assistance.

representation, together with the relatively low frequency of visits from Headquarters. This situation limits the capability of the Member States to better co-ordinate their bilateral initiatives with the Tacis programme – particularly at the political level. The possibility of launching awareness campaign and promotion initiatives of Tacis programme by the embassy of a Member State covering the EU Presidency is also missed under the present circumstances. The evaluation team believes that a fresh start on co-operation between EC and the Member States could be centred on a joint programme in support of the civil society; the previous experience of the bilateral co-operation agencies and the support in the field that the embassies could provide, would guarantee the effectiveness and sustainability of these highly sensitive initiatives.

94. On the other hand, as noted, several EC regional programmes have succeeded in institutionalising appropriate donor co-ordination. The Bangkok facility used by the EBRD to fund TA associated to large investment project is a case in point. This mechanism has been at times further enhanced by good co-ordination with other EC's regional projects, particularly Traceca (Box 8). Similarly, the joint environmental programmes of the EC and the World Bank are very encouraging (see page 18).

Box 8: Tacis and EBRD co-ordination – the Turkmenbashi port project

The restructuring of Turkmenbashi Port of is an initiative to modernise transport service facilities in the Caspian Sea. The joint initiative appears to be well co-ordinated between EC and the EBRD, thanks to three main factors:

- The timely implementation of a feasibility study project by Traceca, following the identification of a common interest of EC and EBRD to restructure the port.
- EBRD follow-on decision to invest in the upgrade of the port, an investment of the total value of 44.11 million €.
- Traceca co-financing (i) the modernisation of the container facilities of the port and (ii) the purchase of cargo and container handling equipment, from the quota of Tacis funds available for investment financing.
- EC decision to provide additional finance, through the Bangkok-Agreement Facility, to two EBRD TA projects supporting the Port Authority, to reinforce its capabilities in managing the new infrastructure.

It should be noted that Traceca investment financing in this project is perfectly in line with the “multiplier effect” criteria set out in the Tacis regulation that requires EC financing to be part of a multiple of investment from other sources.

95. As a major provider of TA to Turkmenistan since its independence, Tacis has a special responsibility in facilitating donor co-ordination. A decision for a more assertive Tacis role in donors' co-ordination is nevertheless subject to an increase in country management resources. At present the country desk officer for Turkmenistan, responsible in the EC Directorate General for External Relations for the overall strategic direction of the Tacis programme in the country, pays short visits to Turkmenistan once or twice a year, on average. He does not participate officially in donors' co-ordination meetings in the country.

Policy dialogue with the Government

96. Policy dialogue with a Government that is often unwilling to discuss economic reform policies is certain to be difficult. In this environment, international practice suggests donors to adopt an approach that is based on (i) a clearly stated strategy; (ii) sustained in-country dialogue; and (iii) a flexible programme adjustable to the pace of the reform progress. On all these counts Tacis appears to have under-performed.

97. As the main actor for policy dialogue Unit E/3, under the Directorate for Eastern Europe, Caucasus and the Central Asia Republics, was responsible for the preparation of two key documents embodying the current Tacis strategy in Turkmenistan: “Turkmenistan 1996-

1999 Strategy Paper” (TSP) and “1996-1999 Indicative Programme”(IP)⁵³. The TSP was intended to carry out the macro and sector analysis in the country to provide the framework within which the IP defines the overall objectives of Tacis intervention and proposes the broad area of its intervention. The evaluation team found that:

- Very little analytical work was carried by the EC in preparation of the strategy. The TSP appears to be a collection of secondary information, not based on macroeconomic analysis and sector development studies commissioned in the field. It was prepared by the Co-ordinating Unit, a Tacis-supported governmental institution (see below).
- Still, the TSP was used mainly as a Tacis internal document to be presented to the Management Committee and was not meant for wide circulation within the Government, in-country counterparts and the donor community.

98. As was noted in Chapter 1, the logic of the sector selection is unclear and some key characteristics of the country’s environment are not fully taken into account in the Tacis strategy as formulated in this set of documents. Furthermore, as noted, no formal conditionality mechanism is used. However, this in large part derives from a lack of resources.

99. The present strategy of support to the Government’s reforms would have implied a sustained dialogue on policy reforms. The dialogue needs to be conducted within a long-term time framework, mainly in country and at the highest political level. Yet with the present structure, Tacis programme cannot ensure this level of dialogue. There is no EC Delegation in the country and the Co-ordination Unit, as a governmental entity, has no mandate for this. Tacis management was forced to opt for a far-off “second best”, a co-operation from a distance, characterised by regular although not frequent meetings. The most important yearly events that could be considered as occasions for direct policy dialogue are:

- IP/AP missions⁵⁴ and discussions are held on strategic directions of the programme and on identification of projects; in Turkmenistan the preliminary agreements reached in the field were subject to significant modifications by both parties at a later stage⁵⁵.
- Joint EC-Turkmen Committee – high level meeting on bilateral relations; discussions does not focus exclusively on Tacis programme, but embraces political, economical and trade issues.
- National Co-ordinators meetings – official gathering giving Tacis management the opportunity to discuss the overall programme developments with all the National Co-ordinators; it is a collegial venue where country-specific issues can be discussed only marginally.

100. The ratification by the EC Member States of the PCA, following its ratification by the Turkmen Parliament in June 2000, could potentially contribute to strengthen the mechanism for policy dialogue, through the establishment of an Co-operation Council to supervise the implementation of the agreement, the Co-operation Committee, its operational arm, and any other special committees that could assist the council in carrying out its duties. How the EC would cope with the increased work ensuing from the participation of its officials to these bodies without a more continuous presence in the country remains however an open question. In addition, ratification of the PCA by the EU is still a far-off prospect that may not happen before the political stance in Turkmenistan, particularly regarding human rights and democratisation, has changed. Indeed, some international observers view the ratification of the PCA by Turkmenistan as of little significance as for the actual commitment of the authorities to the content of this document – particularly with respect to democratisation.

⁵³ See Section B of Chapter 1 for a description of these documents.

⁵⁴ IP missions are every four years.

⁵⁵ See Section D below.

Several important international agreements have been signed by Turkmenistan without being followed by any effect. The formal agreement of the country to the full body of provisions delineated in the Helsinki Final Act and the documents of the Organisation for Security and Co-operation in Europe – of which Turkmenistan has been a member since 1992 – is a case in point. Reports abound of the violations of these provisions.⁵⁶

C. Issues for future programming

101. The evaluation team found that the overall impact of the Tacis programme has been limited. This was largely a consequence of the Government's opposition to adopting a comprehensive reform agenda. Tacis sector-based initiatives have consequently suffered from the absence of coherent Government's policies, an unreformed legal and regulatory system, and from weak counterpart institutions with a limited mandate on policy matters.

102. Tacis shares the responsibility of the limited impact of its own programme inasmuch as it has not succeeded in factoring the lack of Turkmen commitment to reform into its initiatives and to respond with a more flexible approach. The next Tacis programming exercise should be based on the assumption that reform progress in Turkmenistan will continue at a slow pace and its direction will be difficult to predict. As long as no consensual reform agenda exists, institution building projects that depend on the introduction of policy and institutional changes should be avoided, as they do not guarantee sustainability.

103. The absence of a Tacis strategy to co-operate with NGOs and CSOs to develop community-based initiatives is an issue that should be addressed in future programming. Two criteria could be used to identify the type of intervention in this sensitive area. The first is sector-specificity, based on which work would be organised to achieve sector-specific objectives (such as provision of clean water). Agriculture and environment are two sectors in which these initiatives are understood and shared by the population as shown by the success of the Tacis project supporting farmers' associations. The Government could also be convinced of the important role of community-based services as complement to its own action. The second criterion is decentralisation, that implies the selection of an in-country regional focus where to concentrate Tacis resources.

⁵⁶ See for example *Human Rights and democratization in Uzbekistan and Turkmenistan*, Commission on Security and Co-operation in Europe, Washington, March 2000.

3. Tacis programming and management

104. This chapter considers issues of procedures and resources in their relation with strategic decisions and implementation. The approach adopted is to look at key aspects of the Tacis management process and the extent to which they reflect established norms and best practice for the management of TA. Specifically, the chapter considers: (i) the institutional set-up of Tacis in Turkmenistan and its consequences on Tacis strategic options; (ii) the consequences for Tacis programme in Turkmenistan of the effectiveness of Tacis instruments; (iii) the strength of the programming cycle.

A. Effectiveness of Tacis institutional set-up

105. In the view of the evaluation team, Tacis programme for Turkmenistan has been negatively affected by two main factors:

- Programme under-management, insufficient to sustain a significant TA programme in the country considering the difficult policy dialogue with the Government;
- Separation of policy and programming functions from implementation functions in the Commission.

106. The institutional set-up for managing the Tacis programme is complex, mostly centralised and involves a series of actors who have broad responsibilities and need to co-ordinate their activities over large geographical and sectoral areas (see Box 9). The EC has limited internal resources to manage this structure and the pressure on these resources is likely to further increase with the shift decided by the new Council Regulation from a demand-driven to a dialogue-driven programme. For a country like Turkmenistan, whose Government is yet to be convinced of the value of a market economy, this shift implies significant additional management resources to revamp a policy dialogue that to date, on the definition of a person interviewed by the evaluation team, has been “intermittent and confrontational, without constructive negotiations on clearly-stated strategic positions”.

107. The separation of policy and programming functions from implementation functions has further reduced the capability of Tacis management to design a flexible country programme for Turkmenistan, and to hold back when planned reforms and other priority actions are not implemented. The management feedback mechanism (i.e. the mechanism by which lessons learned during implementation are fed into the following programming cycle) appears to have weakened over the years. The responsibility of Task managers in SCR are limited to project implementation in their sector of competence across countries, which makes co-ordination with the country desks for Turkmenistan in the Directorate General for External Relations complex and at times difficult.

| Box 9: Tacis Programme in Turkmenistan – Main Actors | |
|--|---|
| <p>Responsibility for management of the Tacis programme is divided among several different bodies, principally the Directorate General for External Relations, the Joint Service for the Management of Community Aid to Non-Member Countries (SCR), the Tacis Co-ordination Unit in Turkmenistan (CU) and the Tacis Monitors. Like most other NIS countries there is no EC Delegation in Turkmenistan.</p> | |
| <p>European Commission Directorate General for External Relations: Unit E/3, Directorate E, Eastern Europe, Caucasus, Central Asia Republics</p> | <p>The DG for External Relations has responsibility for proposing the overall strategic direction of the Tacis programme in Turkmenistan, formulating budget proposals for approval by the Management Committee and European Parliament, and in collaboration with the Government allocating funding between different projects and activities. The DG also has responsibility for co-ordinating implementation of the PCA on behalf of the EC, which includes bilateral negotiations on political, economic and trade related issues.</p> <p>Unit E/3 that is directly responsible for Turkmenistan under Directorate E covers the geographical area that includes the countries in the Caucasus and Central Asia, plus Mongolia.</p> |
| <p>European Commission Joint Service for the Common Service for External Relations (SCR)</p> | <p>SCR, which was established in mid 1998, is responsible within the EC for managing the implementation of projects included under the Tacis programme. This includes preparation of terms of reference, tendering of TA projects and overseeing project implementation. The SCR also contracts the Tacis Monitors and the TA team provided to the Co-ordination Unit. Within SCR, responsibility for Turkmenistan falls under Unit A3, which is organised on a thematic basis with contracts managed by the relevant sector specialist. In 1999, Unit A3 had a total of about 30 professional staff who were responsible for managing €500 million of annual commitments under the Tacis programme.</p> |
| <p>Government of Turkmenistan Tacis Co-ordination Unit in Ashgabad (CU)</p> | <p>Within the Government of Turkmenistan (GoT), the CU is responsible for (i) providing GoT inputs into the preparation of the IP and AP; (ii) signing of the Financing Memoranda by the National Co-ordinator; (iii) supporting the implementation of the AP involving reviewing ToRs prepared by the EC, ensuring issuance of the Statement of Endorsement (SoE) by the project beneficiary and commenting on monitoring and evaluation reports; (iv) advising potential project beneficiaries on Tacis objectives and procedures; and (v) providing information on Tacis activities to aid agencies, potential investors and the general public in Turkmenistan.</p> <p>The CU is currently a stand-alone entity reporting to a Deputy Prime Minister who is also the Tacis National Co-ordinator. The CU has a staff of 4 officials headed by an Executive Director. It is assisted by only one expatriate expert. In addition to advising the Co-ordination Unit, the expert has specific responsibility for advising on and advertising EC programmes, in assisting the EC with the organisation of visiting missions and, in the absence of an EC Delegation, reporting back to the EC on political and economic developments in Turkmenistan.</p> |
| <p>Tacis Monitors</p> | <p>The monitoring of Tacis projects is undertaken by an independent team of monitors appointed by the EC, who cover the four Central Asia countries. The team is based in Tashkent, but maintains an office in Ashgabad, which is staffed by local experts.</p> |

Tacis management feedback

108. The flow of Tacis assistance to Turkmenistan has remained steady over the years. In terms of finance, since the Action Programme 1993/94, the Government has received an assistance programme worth around € 8 to 10 million per biennium⁵⁷. As noted above, other donors have been more cautious. The BWI have significantly scaled down their operations in Turkmenistan following the refusal of the Government to accept an IMF framework of comprehensive policy reforms. Other donors have follow suit, reducing their assistance and/or shifting it to social sectors, such as health and education, and to civil society support.

⁵⁷ Excluding resources for the regional programmes.

109. The EC decision to maintain a significant programme of assistance despite limited Government's progress appears in part to be a consequence of the weak Tacis project cycle management in Turkmenistan⁵⁸. In particular, the evaluators noticed the absence of an effective management feedback mechanism that, on the basis of the negative outcomes of previous initiatives in the field, could have determined a revision of future Tacis intervention in Turkmenistan. It is interesting to note that none of the interviewed people in the field could explain how and based on which criteria the Tacis budget to Turkmenistan was determined. Nevertheless, informal mechanisms appear to effectively operating, as the recent reduction in the Tacis overall volume suggests. Such reduction can be interpreted as a adequate reaction to the lack of impact of the programme.

110. The evaluation team found that the inclusion in the IP a standard Conditionality Clause for all NIS countries⁵⁹ was not sufficiently tailored to steer the programme in Turkmenistan towards a more effective intervention over the years. Considering the policy-related difficulties to which most Tacis projects were confronted in the country, the use of a set of conditionalities could have helped Tacis to better measure the Government's commitment to its two key objectives of market transition and democratisation. Tacis's ensuing decision on the degree of its future intervention would, then, be based on the progress on wide sector reform programmes more than on the successful implementation of individual projects.

111. Interestingly, the standard conditionality, if not sufficient by itself, was still highly relevant for Turkmenistan, as it made reference to "a respect for democratic principles and human rights as defined in particular in the Helsinki Final Act and the Charter of Paris for a New Europe". The Government did not respect these principles during the period 1996-1999 in which the IP conditionality was in force. Nevertheless, again, no formal discussion was entered into by Tacis in this respect. The recent revision of the volume of assistance was not based of a formal conditionality process. Such a formal revision was prevented by the absence of a system that would detect early warnings, trigger a procedure for review, open discussion with Government's officials on corrective measures, and possibly decide the enforcement of the conditionality by reducing or suspending the programme. One of the few instance of discussion of Turkmenistan's compliance with market economy/democracy conditions has been through the EBRD Board, on which the CE sits. The EBRD Board chose not to suspend Turkmenistan's membership, but, as noted, has now suspended EBRD funding to governmental projects. However, the contribution of the CE to this formal discussion has concerned EBRD support, not the Tacis programme.

Turkmenistan's aid management and role of the CU

112. International aid assistance is managed under the Vice-Chairman of the Cabinet of Ministers responsible for Banking and Finance. The Unit nominally in charge with aid management under this vice-chairmanship is the International Financial Organisation Department (IFO). However, IFO's staff comprised only of two professionals at the time of the evaluation. This in part reflects the reduction of the involvement of the BWI, but also reportedly indicates that most major donors deal directly with the Cabinet of Ministers and line ministries, rather than utilising this centralised department.

113. Tacis itself is a case in point, as the key counterpart institution for Tacis is the CU. The CU, an institution of the GoT, is also under the Vice-Chairman of the Cabinet of Ministers responsible for Banking and Finance, who is Tacis National Co-ordinator, but is distinct from the ILO and does not report to it.

⁵⁸ Issues related to Tacis project cycle management are discussed in greater detail in Section D below.

⁵⁹ Section 1.2 of the 1996-1999 Indicative Programme.

114. The evaluation of the role of the CU should draw a clear distinction between the old and the new management. Under the previous management, in position since the establishment of the Tacis programme in Turkmenistan until May 2000, the CU centralised both policy dialogue and programme management. This was made possible by the fact that the CU was (and still is) a stand-alone body reporting directly to the Council of Ministers. This system had a negative influence on Tacis programme management, in particular because:

- information flow on Tacis programmes to line ministries which were potential beneficiaries was neither adequate nor transparent; through its interviews, the evaluation team has found that the knowledge of Tacis objectives, instruments and procedures is limited among Government's institutions;
- the CU itself, more than the Government as a whole, appears to have influenced in the past the selection of areas of co-operation and the identification of individual projects; for example, the CU management's explicit position against SPPs reportedly hampered the use of these effective instruments in Turkmenistan;
- the CU was kept understaffed, with only two professionals and the expatriates' advisory role was reduced to that of mere administrators;

115. This situation has not improved significantly, as the current personnel policy of the governmental for the CU is not allowing for an adequate stability of resources. A new Executive Director was appointed in May 2000 but was removed in July of this year. The job was vacant at the time of writing. More generally, the visibility of the government's intentions on the reform of the aid management mechanisms (Box 10) remains low.

Box 10: Plans for the establishment of a new national agency for aid co-ordination

International best practice suggests that external assistance is most effectively co-ordinated where there is a strong and well-defined government programme to which it can be applied, and that such co-ordination may be facilitated by the existence of a national aid co-ordination agency that works with all aid agencies.

The Government of Turkmenistan is currently studying the possibility of unifying all donor co-ordination activities under the Vice-Chairman responsible for Banking and Finance in the Cabinet of Ministers. This would represent a positive development for Tacis as the Vice-Chairman is also the National Co-ordinator, thus facilitating the bilateral policy dialogue at a high political level and facilitating donors' co-ordination.

A new Tacis-encompassing proposal⁶⁰ could be helpful in this undertaking. Under this proposal all Tacis CUs are planned to be transformed into National Co-ordinating Units, with the objective of managing all donors' contributions. This project was being discussed with the government at the time of writing.

B. Flexibility of Tacis instruments

116. In theory, the range of Tacis instruments should give considerable flexibility to the management of the programme by providing: (i) concentrated support in priority areas through the national programme; (ii) regional initiatives in strategic sectors which have a national relevance for the economic development of Turkmenistan; (iii) support to specific initiatives through the Small Projects Programmes (SPP's); and (iv) rapid assistance in key policy areas through the Policy Advice Programme (PAP). It has been found that when these instruments were used in a co-ordinated way, the results were positive.

The use of the policy advice and small projects programmes

117. PAP projects were successful in Turkmenistan in preparing critical legislation for the liberalisation of the internal market and the introduction of market principles. Drafting the

⁶⁰ *Support to National Co-ordination Units*, Terms of Reference, May 2000.

Petroleum Law, a milestone to attract foreign oil companies, and the support initiatives to taxation reform and the introduction of a civil code are example of projects highly focused and effectively linked to both the reform process and the Government's agenda. The PAP advisory service project on privatisation is another example of a cost-effective use of a short-term project: Tacis financed it to test the commitment of the Government to approve a mass privatisation programme, before launching a larger TA initiative under the action programme⁶¹.

118. The evaluation team found that the positive experience in the use of PAP was not applied when using other instruments in Turkmenistan, losing the opportunity of a multiplier effect deriving from an integrated approach. This missed opportunity is particularly evident for SPPs, EC programmes that are intended to deal with specific issues, adopting a bottom-up approach while complementing the larger TA projects. As noted, there were no initiatives in Turkmenistan under the Democracy Programme, Lien, or City Twinning (exchange initiatives at local level to support democratic structures and promote administrative efficiency), all SPP instruments. Only a few Tempus projects have been initiated, co-financing university exchanges to assist the modernisation of higher education system.

119. Sustained decentralised intervention in all the above areas would be commendable in a country like Turkmenistan where decision-making is highly centralised in the President's Office – and the democratisation process uncertain. While a series of factors might help to explain the non-activation of these initiatives in Turkmenistan – including the present strategic focus on support to the government – one possible factor has been the absence of a permanent structure in the country to disseminate information on the programmes and facilitate the participation of the few independent NGO's and civil societies organisations that are operating without formal recognition⁶². This consideration is substantiated by the fact that, in countries where it exists, the EU Delegation successfully manages, from publicity to selection and from contract management to monitoring, the Democracy Programme micro-projects which target local NGOs⁶³. Donors active in co-operation with the civil society in Turkmenistan have confirmed that an in-country presence is proving highly useful, as the government's attitude towards genuine CSOs is still ambivalent. An in-country representation is felt by those donors as providing a degree of protection from unwarranted interference. At the time of writing, plans were being discussed by the CE to open a Tacis office reporting to the SCR.

The regional programmes

120. Different regional programmes have adopted different programming and management arrangements as shown in Box 11 for Traceca and Inogate. Generally, regional programmes with decentralised management functions, a set of complementary instruments, and active involvement of local beneficiaries, such as Traceca, have better performed in Turkmenistan. In some cases these elements helped the programmes compensate for the negative attitude of the Turkmen Government towards regional co-operation and multilateral agreements.

⁶¹ The mass privatisation programme was postponed and Tacis suspended its assistance in the sector.

⁶² Only an handful of NGO's (mostly Government's sponsored) have been officially registered in Turkmenistan.

⁶³ See Evaluation of the Phare and Tacis Democracy Programme 1992-1997.

| Box 11: Traceca and Inogate programme management – a compared assessment | | | |
|---|----------------|----------------|---|
| Criteria | Traceca | Inogate | Remarks |
| <i>Leadership in the sector</i> | 2 | 4 | <ul style="list-style-type: none"> - Traceca's objectives are shared by other donors; able to attract and co-ordinate investment financing; led to significant investment in the Port of Turkmenbashi. - Inogate tended to work in isolation from other donors; did not manage to attract industrial and financial sponsors. |
| <i>Effectiveness of International Agreement</i> | 1/5 | 1/3 | <ul style="list-style-type: none"> - The Basic Multilateral Agreement on Transport Corridor was signed by 12 Eastern Countries; it includes technical annexes providing detailed regulation of issues set out in the basic agreement (score of 1); Turkmenistan did not sign the agreement (score of 5). - The Inogate Umbrella Agreement was signed by Turkmenistan, together with other 11 countries (score of 1); the agreement covers general principles, leaving details of regulation to be defined by the parties at a later stage (score of 3). |
| <i>Complementarity in the use of different instruments</i> | 1 | 5 | <ul style="list-style-type: none"> - Traceca projects included policy advice, institution building, technical assistance, feasibility studies and investment projects co-financed by other donors. - Inogate projects focused mainly on technical audits and feasibility studies; investment projects were limited to priority emergency investment in maintenance equipment and spare parts for oil and gas infrastructure. |
| <i>Decentralisation of programme management functions</i> | 1 | 5 | <ul style="list-style-type: none"> - A single management contractor but with decentralised decision making, facilitated by two co-ordination teams in Tbilisi and Tashkent and local antennas in all Traceca member States, including Turkmenistan. - EC managed the programme from Headquarters; Support Group for strategic management and operational support was based in Europe. |
| <i>Direct participation of local beneficiaries</i> | 2/4 | 4 | <ul style="list-style-type: none"> - Beneficiaries of Traceca projects were involved in project formulation, implementation and participated in training programmes and study tours (score of 2); Turkmen beneficiaries were often refused permission to travel abroad to participate to programming meetings, training and study tours (score of 4). - Inogate projects requested local beneficiaries' support for data collection and analysis; audit and feasibility studies had only small components on training programmes; a limited number of investment projects' "road-shows" were carried out. |
| <i>Project lead-in time (from project approval)</i> | 2 | 2/4 | <ul style="list-style-type: none"> - Traceca and Inogate implemented projects had an average lead-in time of 6 to 12 months, less than for projects under the AP (score of 2). The Inogate projects under the 1998 work programme are experiencing a delay in their preparation (score of 4). |
| <p>Note: Scores: 1 = substantial achievement; 5 = minimal achievement Where two scores are shown, results have been mixed. The remarks explain the reasons for each score given.</p> | | | |

C. Strengths and weaknesses of the Tacis cycle management

Project identification and formulation

121. Procedures for selection of Tacis projects follow written programming guidelines⁶⁴ (see Box 12). Although they are standard for all NIS countries⁶⁵, they appear complex and fragmented for Turkmenistan for which management resources both in Headquarters and in the country are limited. Supportive documentation requested for AP preparation includes: (i) sector framework papers; (ii) project fiches; (iii) logical framework sheets; (iv) description of selected facilities. There is a risk that the pressure on the EC to perform such obligations without adequate resources reduces the efficiency of the entire project and identification process. In analysing the 98/99 AP process, the evaluation team noticed that, as of June 2000:

- a series of important issues related to project selection was still pending;
- no project under the 98/99 AP had started implementation;

122. The analysis of the project documentation therefore suggests that the projects were often insufficiently investigated before Tacis resources were committed. Two aspects of project identification appear to have been particularly affected. As repeatedly noted above, the institutional and policy environment was insufficiently researched – with the inevitable corresponding adverse effect on impact, given the type of assistance provided (support to governmental reforms); local ownership was also often in question (see page 32).

123. The 98/99 AP process appears to have been incomplete and not fully transparent, affecting negatively the already difficult policy dialogue with the Government. The AP wrap-up session between EC and Government's officials took place on 10 February 1999 and an agreement was reached on a budget of € 9.7 million. Since then both parties have proposed significant changes⁶⁶ but no formal negotiation has taken place to settle these pending issues. In addition the Government received no clear explanation on how the SPP projects were selected and would complement the large TA initiatives.

124. A consequence of the protracted 98/99 AP process has been that none of its projects has yet reached the implementation phase. At the time of the evaluation terms of reference had been finalised and endorsed by Government for most of the projects. The tendering process is ongoing. The evaluation team estimates that the project lead-in time, the interval from the AP wrap-up session to the date in which the EU contractor signs the project contract with the EC, will result in the end in being longer than 18 months, a time that risks reducing significantly the relevance of Tacis interventions.

⁶⁴ See *Tacis Programming Guidelines 1996-1999*.

⁶⁵ With the exception of Russia and Ukraine for which AP are prepared every year instead of normal two-year interval for the other republics.

⁶⁶ In July 1999 the Commission decided, unilaterally and without providing clear explanations according to the CU's views, to reduce the total budget to € 8.5 million. On its side the Government has requested to replace an energy project in the field of electricity with another one for the development of a Caspian Economic Zone.

Box 12: Tacis procedures from project identification to tendering process.

After the early stages of programming, for the definition of the country strategy and the selection of the priority areas of co-operation, the Action Programme exercise focuses on the identification of TA projects. It is then followed by the preparation of the terms of reference, tendering and mobilisation.

Project identification and formulation – A mission consisting of EC officials and, in some cases, consultants is organised in country for a period of about ten days. Projects are identified consistent with the IP, in two-year Action Programme (AP). Initial project list is provided by the Government (in the case of Turkmenistan by the Co-ordination Unit). After contacts with potential beneficiaries the Government and the mission agree on the project selection during a final wrap-up session. During the session, the EC presents draft project fiches and sector framework papers to be later included as annex in the AP.

Preparation of ToRs – following approval of the AP, detailed ToRs for the identified projects are prepared under SCR responsibility. This is typically done by consultants during one-week mission in the country. The draft ToRs are then sent to the CU. Once the comments of the CU are received, the ToRs are then finalised in Headquarters and sent back to the Government for final approval and the issuing of a "Statement of Endorsement" (SoE).

Tendering process – Once the ToRs have been finalised, the next stage is for the TA contract for a project to be tendered. Government's representatives, normally from the project beneficiary institutions, participate to the tender evaluation committee in Headquarters, with a voting right. Following tender evaluation, the contract is drawn up between the successful bidder and SCR, with mobilisation following within one month.

125. Preparation of logical framework sheets is mandatory for projects with a budget over € 3 million. As all the projects included in the 98/99 AP are below that ceiling, it is presumable that no such documents were prepared – none were present in the documents reviewed by the evaluation. Nevertheless the evaluation team believes that in the case of Turkmenistan a logical framework analysis should be a priority for all projects, regardless of their budget size. The identification of performance indicators, possibly agreed with the local beneficiaries, would help focus the attention on the project's specific targets and, hence, increase the commitment of contractors and beneficiaries during implementation. Similarly, a careful analysis of the risks and assumptions upon which the project's performance is based, would provide a more realistic view of the reform process in the country and would help establish a practice of checks and balances for the EC officials, contractors and the monitors.

Implementation

126. The 1996-1999 IP sets a number of principles that would guide the implementation of Tacis assistance programme for the four-year period. In summary, they aim at a co-ordinated project implementation within sectors, with specific attention to issues such as project synergies and complementarities, consistency of sector objectives and long-term perspective of TA initiatives. The evaluation team found that the application of those principles in the field was limited. Projects appear to have been implemented in relative isolation and without the necessary sector programme co-ordination. Tacis intervention in the field of private sector support is taken as example.

127. Private sector support is a sector in Turkmenistan that included a large number of initiatives including policy advice (taxation reform), training (inter-bank training centre, national capacity building in the field of economic and business management), direct support to Government's programmes in privatisation and foreign direct investment promotion (support to the State Property Agency and to the State Agency for Foreign Investments), and direct assistance to the embryonic private sector (SMEDA). In the view of the evaluation team, the potential synergies among these projects were not secured due to limited sector co-ordination. Such co-ordination would have been instrumental to:

- guarantee consistency of Tacis interventions that were implemented over different periods of time, building on success cases;

- provide guidance to contractors in the field in the execution of their activities, avoiding overlapping and promoting the sharing of common project tasks⁶⁷;
- ensure leadership and leverage *vis-à-vis* the Government to facilitate the implementation of key sector reforms, recommended by projects in order to move on in the market transition process.

128. The above points are best dealt with through the mobilisation of in-country management resources. EC Delegations, in conjunction with SCR, have more resources to perform this function in the NIS countries where they are present. For Turkmenistan, without an EC representative office, only recently was a reformed SCR in a position to ensure some degree of project supervision and co-ordination from Headquarters. Besides distance from the field, another factor that reduced co-ordination was the high turnover of task managers⁶⁸.

129. The evaluation team has also found that limited sector supervision and co-ordination have contributed to weaken strategic management. EC officials appear to have been mostly reactive to events in the field and strategic direction for the sector programme implementation was often not clear. In agriculture and environment, contractors complained that the EC “policy level” was not fully supportive to prevent Government’s unjustified changes in ToR’s (pilot project in the meat and milk sectors) or to negotiate with the Government the implementation of important project’s recommendations (WARMAP). Conversely, the isolated performance of a few contractors in Turkmenistan could heavily influence the effectiveness of the sector programmes. Some Inogate and Traceca projects, for example, did not manage to build a local understanding of the national benefits deriving from these regional programmes, limiting the Government’s commitment.

130. Another implementation difficulty of the Tacis programme is the duration of projects. The average project duration is 18 to 24 months. However, the beneficiaries’ often limited absorption capacity would typically call for a longer presence in the country. In agriculture, the pilot project approach adopted by Tacis requires time to first consolidate its results in the pilot area and then expand to other areas of the country to reach impact at national level. In particular, based on the past experience of similar initiatives, the community-based work implemented under the farmers’ associations project should be sustained for a period of four to five years. Tacis’ correct response in agriculture, but also in energy and SME support, has been to finance the continuation of specific projects under successive AP’s. However, the issues are not completely addressed when, due to long project lead-in time, the smooth transition from a TA contract to the next is not ensured, resulting in gaps in the assistance that can cause a significant loss of momentum. The on-going project of support structure and training centre within the Ministry of Oil and Gas is a case in point. It is still awaiting a second TA support project, at the crucial time of a possible institutional reorganisation promoted by the first Tacis project.

M&E and Audit

131. A system for monitoring Tacis projects has been established utilising independent monitors who report on project progress every six months. The team monitoring the Central Asian countries covers Turkmenistan. Initially the Inogate programme had an ad-hoc monitoring team, but since the end of 1999 the monitoring function for all programmes in the region has been unified under one contractor. The monitoring reports follow the logical framework methodology, assessing progress in: (i) implementation of activities;

⁶⁷ The MASF and SMEDA projects de-facto assisted SMEs (public and private ones respectively), without explicitly setting common principles and standards for company valuation, financing and restructuring processes.

⁶⁸ In the end-of-project assessment report on the MASF project, the Monitors pointed out that during the project life span there were four changes of task manager.

(ii) achievement of outputs; (iii) appropriateness of the work-plan; (iv) ability to achieve objectives; and (v) potential sustainability. The monitoring reports are circulated to the EC, the Tacis CU, the beneficiary institutions and the project contractors.

132. Information contained in monitoring reports is mainly focused on technical supervision of individual projects, comparing contractors' performance with the ToR requirements in terms of project inputs and outputs. This has proved very useful for task managers, beneficiary institutions and contractors to fine-tune project implementation. As in most other Tacis countries⁶⁹, the assessment of project outcomes within the context of a broader sector programme has been weaker. A further concern was the use made of the monitoring reports and the extent to which they influenced project and programme management. Both monitors and project team leaders considered that the monitoring reports were of greatest use to the project TA teams, particularly in the absence of significant technical supervision by the EC during project implementation. They appeared to be relatively less used by task managers in the EC or by the CU. In addition, more attention should have been given, in the opinion of the evaluators, to the identification and measurement of performance indicators, together with a careful consideration of project risks and assumptions. In a large number of cases Tacis intervention was based on the assumption that the Government would carry out sector reforms crucial to successful project implementation and later sustainability⁷⁰. Monitoring reports failed to produce early warnings on the lack of Government's commitment to implement those reforms and on the consolidation of a centralised power system limiting decision-making responsibility of ministries and other project beneficiaries. Consequently the "big picture" perspective was missed and, with it, timely recommendations for corrective measures at sector programme level. In this context, the evaluation team noticed the absence of sector studies⁷¹ and a mid-term review of the overall Tacis intervention in Turkmenistan.

133. No separate audits of Tacis projects in Turkmenistan were undertaken. This fact needs to be appreciated in the context of the general weakness of financial management and financial controls in Turkmenistan's public sector. This context, obviously potentially very harmful to the financial management of Tacis projects, has been virtually unchanged since independence and well known all along in the donor community. While investigating any misuse of funds is out of the scope of the present country strategy evaluation, a series of past unusual conducts in the Co-ordination Unit – under the prior management – was indeed repeatedly reported to the evaluation team. It should be noted that the Commission is now fully aware of these facts. Evidence directly reviewed by the team in the course of its routine project analysis is as follows:

- Statements of Endorsement were signed by the CU Executive Director instead of project beneficiaries; no dates for the signature were indicated.
- The Co-ordination Unit was involved in the selection of local experts to be employed by Tacis projects during their inception phase.
- Upon request of the CU the single agricultural project identified for the 96/97 AP was artificially divided into three smaller projects, losing the synergies of a unified intervention.
- The Executive Director resigned on 4 May 2000; his resignation was accepted the same day; he left the country the following day.

⁶⁹ See *Evaluation of the Tacis Monitoring System, 1999* and *Evaluation of Tacis Country Strategy: Azerbaijan, 2000*.

⁷⁰ These include, among others, Tacis activities on privatisation, SME development and public administration reform. See Chapter 3 for detailed analysis.

⁷¹ Similar to the World Bank Economic and Sector Works.

D. Issues for future programming

134. The evaluators found that limited management capacity both at sectoral and country level together with the fragmentation of responsibilities in the programme cycle management were significant constraints to the Tacis programme in Turkmenistan. A wide range of TA instruments are available but the EC often failed to exploit their potential in the specific Turkmen context. The isolated implementation of individual projects did not allow the management to focus on wider sector programme issues, further reducing its capacity to incorporate lessons learned during previous programme implementation into the following programming cycle. The absence of an effective management feedback mechanism has, in turn, weakened the EC position *vis-à-vis* the Government's lack of commitment to reforms. As noted, another important aspect that the EC could look into in its attempt to improve its programme in Turkmenistan, is programming for both IP and AP preparation.

4. Recommendations

135. This chapter draws together the conclusions of the evaluation and makes proposals for the future programming of Tacis in Turkmenistan, particularly the IP 2000-2003. It begins by considering the measures needed to improve the relevance and impact of Tacis assistance. It then goes on to consider ways in which programme management could be strengthened. The final section presents suggestions for the selection of areas for future co-operation.

A. Improving the relevance and impact of EC assistance

Summary of main findings

Low focus on democratisation

136. Despite the specific orientation of the 1996-2000 Tacis Regulation – further emphasised in the new 2000-2006 Regulation – low priority was given to democratisation both as a condition for fund release and as the focus of Tacis-financed activities. However, slow progress in democratisation and human rights are key concerns in Turkmenistan, both in their own right and to a large extent as a root cause for the slow progress of reforms. Putting fresh emphasis on democratisation is therefore needed not only to bring the Tacis assistance to Turkmenistan in line with the Tacis Regulation but also as a way to make necessary reforms possible over the long term. Tacis' own activities in agriculture and some activities of other donors, for example USAID's Counterpart Consortium, suggest that there is scope for promoting democratisation over the medium term by focusing on the local level and by entering a fruitful co-operation with the civil society on technical aspects such as water management or agriculture. The political environment permitting, specific democracy-oriented work could also be envisaged.

The impact of Tacis assistance has overly relied on the short-term implementation of key reforms

137. The history of international co-operation in Turkmenistan since independence shows that donors, including the BWI, have had very limited influence on the direction and pace of reforms. As long as the present political structure remains in place, any significant change in this situation is unlikely. A large number of Tacis projects, especially in the SIR and agriculture areas, have nevertheless supported the government and, explicitly or not, relied on the assumption that key reforms would be implemented quickly. As a large number of reforms were stalled, the impact of those projects has been limited.

138. Another important factor for future programming is that Tacis does not have the institutional capacity to monitor, nor the clout to influence difficult economic reforms in an environment where other donors with strong experience in hard policy dialogue have had only very limited success. Although a better utilisation of the available Tacis instruments can be contemplated in Turkmenistan, as it suggested below, it is unlikely that this fundamental institutional constraint be lifted in the foreseeable future.

Recommendations

Refocusing on democratisation as a key goal

139. Refocusing on democratisation does not preclude maintaining assistance for transition to a market economy, but would imply a shift in the Tacis programme in the two following directions:

- Selection of the activities which are conducive to gradual democratisation, albeit in the longer term. This direction should build on Tacis past experience in the country, for example in agriculture.
- Entering a dialogue with the authorities on democratisation, in close co-ordination with Member States and other donors, particularly the OSCE. This dialog could be developed in the framework of the PCA, which is very specific on democratisation issues and which sets an adequate high-level forum for politically-orientated issues. This dialog implies to take the Tacis Regulation seriously by putting in practice the specific conditionality related to democratisation and human rights. In this perspective, it is advised to adopt a strategy with two scenarios.

Adopting a strategy conditional on reforms

140. Given the particular constraints of the country environment, together with the management constraint of Tacis, It is recommended that a strategy with two possible scenarios be adopted, with the shift to the high case scenario being conditional on reforms – both economic and political. The two scenarios could be as follows:

- In the low case scenario, Tacis would only assist in activities for which impact is not dependant on hard reforms being implemented. One guiding principle for the selection of those activities is that their usefulness should be felt over the long term, regardless of short-term developments in governmental reforms. Some of the Tacis activities that have been found above to have significant impact meet this criteria, particularly in agriculture. Co-operation with the civil society and the private sector should be a prominent part of the low case scenario, as detailed below. This scenario implies a further reduction in the overall volume of Tacis assistance. In addition, it is important to note that Tacis rules make it mandatory for the government to formally approve any reorientation of the programme towards co-operation with the civil society and the private sector. Should the government reject this reorientation, even the low case scenario could not be possible and the Commission may envisage closing down the Turkmenistan programme altogether.
- In the high case scenario, Tacis would also, together with other major donors, support the governmental reform agenda. The implementation of the high case scenario should be conditional on both (i) the existence of a programme of reforms discussed and agreed with the donor community; ideally, such programme could be formalised in the form of BWI-sponsored PFP; (ii) genuine progress towards a more democratic form of public life. Should either of these two conditions not be met, it is recommended that Tacis adhere to the low case scenario. At the time of this evaluation, none of these two conditions was met.

Ensuring strategic co-ordination with other donors

141. Given the constraint of the Tacis institutional set-up, close co-ordination with other major donors is needed, as well as with the Member States – especially those active and/or with bilateral interest in the country. Particularly, the set of conditionalities triggering the shift to the high case scenario above should not be Tacis-specific, but should rather be a joint

exercise with other major agencies. For deciding upon the existence of consensual economic programme, it is, again, suggested that the existence of a stabilisation programme with the IMF and the corresponding PFP be used as a key criterion. For assessing the progress towards democracy, common criteria should be discussed and monitored jointly with Member States and the OSCE.

B. Areas for future co-operation

Summary of main findings

142. Chapters 2 and 3 highlighted four important criteria for technical assistance to have a positive and relevant impact. These were:

- The need to refocus on democratisation as a key goal.
- In the low case scenario, assistance should not be depending on implementation of hard policy reforms. Conversely, for any activity under the high case scenario, an important criterion should be the existence of an appropriate and conducive regulatory and policy framework.
- Follow-on assistance should support sectors where the EC has already assisted and where the basis of a successful long-term relationship had been established.
- Assistance should complement the activities of other aid agencies.

Recommendations

143. Box 13 summarises how EC activities have scored against each of these four criteria over the past 5 years. The sectors have been classified according to the areas of co-operation listed in Annex II of the EC Regulation for 2000-06.

| Box 13: Analysis of Sectoral Focus for Future Programming Rounds | | | | |
|--|---|--|---|---|
| Areas of Co-operation EC Sector/Sub-sector¹ | Conducive to democratisati on? | Conducive policy framework?² | EC involved in effective relationship?³ | Other aid agencies active in the sector?⁴ |
| Promotion of Democracy/Rule of Law Government reform General legislative and policy reform Support for civil society | Yes (some) Yes (some) Yes | No No N/A | Yes (some) Yes (some) No | Yes Yes Yes |
| Support to the Private Sector/Assistance for Economic Development SMEs Development of banking/financial sector Privatisation/ large scale enterprises Support for favourable business envir. | Yes (some) Yes (some) No Yes (some) | No No No No | Yes Yes Yes (some) No | Yes Yes Yes Yes |
| Support in Addressing Social Consequences of Transition Health Education Social protection/social assistance | Yes (some) Yes Yes (some) | No No No | No No No | Yes Yes Yes |
| Development of Infrastructure Networks Energy Transport Communications | No No No | No No No | Yes Yes No | Yes Yes No |
| Promotion of Environmental Protection | Yes (some) | No | Yes | Yes |
| Development of Rural Economy Agriculture | Yes (some) | No | Yes | Yes |
| Notes: 1. The areas where Tacis is presently active are in bold letters. 2. Sectors were considered to have a supportive framework if: (i) there existed a relevant public sector institution(s) to oversee policy and the legal/regulatory framework; <u>and</u> (ii) the relevant institution(s) had received institutional support under the Enhanced Structural Adjustment Facility or a Structural Adjustment Credit. 3. Had EC activities assisted in the development of policy, or of the legislative and regulatory framework over a period of time (i.e. longer assistance than from a single SPP)? The effectiveness of the EC's track record in the sector were also considered as part of this component. 4. Were other aid agencies providing assistance in the sector? | | | | |

144. The low case scenario implies a reduction of the current volume of assistance and a shift in the balance of Tacis assistance towards the civil society and the private sector, and away from direct support to the government. Support to the civil society could be instrumental to the key objective of democratisation and follows the specific emphasis of the new Regulation. The above analysis suggests that areas for future Tacis assistance could be as follows:

- In *agriculture*, Tacis' correct emphasis on co-operation with local-level associations should be maintained as it provides adequate assistance to community-based CSOs. In time, this experience could be used to push for a bottom-up approach of policy change in agriculture (see below).
- *Support to CSOs and the private sector*. The EC could consider providing financing to existing intermediary institutions, such as the NGO resource centre currently supported by USAID. The focus of existing intermediary institutions being mostly environmental,

this would fit the EC's strategy of regional support in this area. This would also help to facilitate a co-ordinated multi-donor approach while increasing the EC's profile in this important area. The political environment permitting, Tacis could also consider using instruments such as LIEN and the Democracy Programme, for supporting *democracy-oriented educational programmes*. However, this activity could only be possible with the support of a high-level commitment of the EC, in the framework of the PCA. Finally, Tacis could envisage building on its SMEDA experience to support entrepreneurs advocacy groups in the private sector. Again, for this activity, a multi-donor approach could be envisaged, particularly with USAID's Counterpart Consortium.

- The higher education-related activities of the *Support project to the Inter-Bank Training Centre* could be maintained, as they do not depend on the immediate implementation of reforms.

145. Sectors in which national Tacis assistance has in the past proved less effective and for which the EC should reconsider its involvement include:

- The energy sector, as it is not robust to the present slow pace of reforms and has a limited direct impact on democratisation. In addition, Turkmenistan would still benefit from Inogate for issues of regional scope.
- The SIR focal area, for similar reasons. Specifically, SME development has had limited impact in the absence of fundamental reform of the regulatory environment, and to the project-specific difficulties analysed above.
- The new project of Tacis in support of the governmental reform in the cotton sector, which does not seem to be robust to the lack of reforming will of the GoT.

146. The high case scenario could eventually expand the above activities based on a consensual reform program. Other sectors which met some of the criteria and which could be considered for future support include:

- Policy advice in agriculture, within the framework of a sector-wide policy dialog co-ordinated with other key donors in the sector, particularly the World Bank. This would complement the bottom-up approach recommended above.
- Environmental protection, building on and developing the existing multi-donor initiatives and complementing the existing EC support to regional initiatives. Again, this would complement the bottom-up suggested above.

C. Strengthening programme management

Summary of main findings

147. The evaluation team found that limited management capacity both at sectoral and country level together with the fragmentation of responsibilities in the programme cycle management were significant constraints to the Tacis programme in Turkmenistan. The absence of an effective management feedback mechanism has, in turn, weakened the EC position *vis-à-vis* the Government's lack of commitment to reforms. Policy dialogue lacked consistency and was not sustained by the necessary analytical works at macroeconomic and sector level.

Recommendations

148. Improving the performance of EC-supported activities, the new emphasis on policy and political dialogue through the PCA mechanism, the need to improve management

feedback mechanism and to strengthen controls over the use of funds will require substantial strengthening of capacities for the management of the EC assistance programme in Turkmenistan. Measures will need to be taken in the following areas:

- Financial auditing. It is strongly recommended to submit projects to a systematic audit procedure. A volume threshold could be defined above which all projects should be audited by an international audit firm, both at mid-term and through a final audit.
 - Better programme and project design. Programme and project design will need to be focused more towards the achievement of sector objectives and outcomes and less on project outputs and inputs. More resources should be devoted to programming and project selection. Within a sector programme, effective co-ordination of projects and SPPs is required to ensure greater continuity and consistency in approach. Programme design should also take account of requirements for technical and professional back-up and supervision, and ensure that the necessary resources for these functions are available.
 - Co-ordination among aid agencies. Better integration of EC technical assistance within the broader support for Turkmenistan's reform process requires more effective co-ordination with other aid agencies. Co-ordination should, at least initially, be particularly focused on strategic issues such as the general stance of international co-operation with Turkmenistan. This could be facilitated by more regular professional contacts between Headquarters and the IFIs providing assistance. Where relevant, EC sector managers should participate in joint missions with other aid agencies. In the low-case scenario, there should be particularly strong co-ordination with USAID.
 - Strengthen feedback mechanisms. The preservation and use of institutional memory is particularly important for technical assistance programmes. Feedback links between the different elements of the project cycle management need to be strengthened in order to ensure that lessons learnt from previous Tacis activities are fed into the design of new projects. Strengthening these links will also require better integration of monitoring information into the overall programming and management process.
 - Programme management within GoT. GoT should integrate responsibility for the co-ordination of EC assistance within its broader framework of managing international assistance to support economic and institutional reform. The new Tacis National Co-ordinating Units could be of particular relevance in this respect. Over a longer term horizon, should the sector-wide be gradually implemented, the GoT should also strengthen its programme management at the sector ministry level.
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ANNEX A - LIST OF TACIS PROJECTS IN TURKMENISTAN

| Action Programme | Areas of Co-operation (as per new Tacis Regulation) | Tacis Sector | Project Name | Amount (€'000) |
|--|---|--|---|-------------------------|
| AP 98/99 € 8.5 million | Support to the Private Sector and Assistance for Economic Development | <i>Enterprise Restructuring and Dev.</i> | Support to the SME sector | 1,000 |
| | Development of the Rural Economy | <i>Agriculture</i> | Pilot project in agriculture and food processing sectors Cotton project | 2,000 1,000 |
| | Development of Infrastructure Networks | <i>Energy</i> | Assistance to the oil and gas sector Support for the development of the energy sector | 1,000 1,500 |
| | Support in Addressing the Social Consequences of Transition | <i>Facilities</i> | Education and Training (Tempus) | 500 |
| | Promotion of Democracy and the Rule of Law | <i>Facilities</i> | European Expertise Services International standards/statistics Customs | 300 700 300 |
| | | | Contingency | 200 |
| AP 96/97 € 11.5 million | Promotion of Democracy and the Rule of Law | <i>Enterprise Restructuring and Dev.</i> <i>Facilities</i> | Support to taxation reform European Expertise Services | 1,000 500 |
| | Support to the Private Sector and Assistance for Economic Development | <i>Enterprise Restructuring and Dev.</i> <i>Enterprise Restructuring and Dev.</i> | Support to the Interbank Training Centre Policy Advice on Privatisation | 1,000 700 |
| | Development of the Rural Economy | <i>Agriculture</i> | Feasibility study/pilot project livestock feed and production improvement Farm restructuring and the development of farmer associations Pilot project in the food processing sector | 1,500 1,000 1,200 |
| | Development of Infrastructure Networks | <i>Energy</i> | Expertise structure and training programme for the oil and gas sector | 3,000 |
| | Support in Addressing the Social Consequences of Transition | <i>Facilities</i> | Education and Training (Tempus) | 800 |
| | | | Contingency | 1,000 |

| Action Programme | Areas of Co-operation (as per new Tacis Regulation) | Tacis Sector | Project Name | Amount (€'000) |
|---|---|--|---|----------------|
| AP 95 € 4.0 million | Development of the Rural Economy | <i>Agriculture</i> | Assistance in the milk and meat processing sub-sectors | 750 |
| | | | Assistance to the fisheries sub-sector | 750 |
| | Support to the Private Sector and Assistance for Economic Development | <i>Enterprise Restructuring and Dev.</i> | Policy advice and implementation assistance for privatisation | 1,000 |
| | Support in Addressing the Social Consequences of Transition | <i>Human Resources Development</i> | Support for public administration reform | 1,000 |
| | | | Reserve and M&E | 500 |
| AP 93-94 € 8 million | Development of the Rural Economy | <i>Food production, Processing and Distribution</i> | Technical Assistance to Cereal Production | 3,600 |
| | | | Assistance to Agricultural and Food Training | |
| | Support to the Private Sector and Assistance for Economic Development | <i>Enterprise Restructuring and Development</i> | Support to Second Phase Privatisation | 1,800 |
| | | | Support to SMEs | |
| Support in Addressing the Social Consequences of Transition | <i>Human Resources Development</i> | Development of Training in Economics and Business Management | 1,800 | |
| | | | | |
| AP 92 € 8.8 million | Promotion of Democracy and the Rule of Law | <i>Government Advice</i> | Support to a Policy Unit on legal and institutional framework | 2,500 |
| | Support to the Private Sector and Assistance for Economic Development | <i>Enterprise Restructuring and Dev.</i> | Support to the implementation of the privatisation programme | 500 |
| | | | Support to the Chamber of Commerce and Industry | 100 |
| | Support in Addressing the Social Consequences of Transition | <i>Human Resources Development</i> | Support to the Turkmen Institute of National Economy | 300 |
| | | | Short-term courses in Europe for University lecturers | 750 |
| Development of the Rural Economy | <i>Agriculture</i> | Planning and Technical Advisory Unit in Ministry of Agriculture | 3,650 | |
| Development of Infrastructure Networks | <i>Energy</i> | Institution building and advice on oil/gas, electricity, energy conservation | 1,000 | |

Source: SCR, CU Database

AP Total Funding

| |
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| |
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Inter-state Programme

Since 1992 Turkmenistan has also received assistance under the Tacis Inter-State Programme. The main Inter-State projects for the period 1996-1999, relevant to Turkmenistan are shown below.

| Inter-State Programme | Areas of Co-operation | Tacis Sector | Project Name | Amount (€'000) |
|-------------------------------|--|--|--|----------------|
| IS 99 | Development of Infrastructure Networks | <i>Energy</i> <i>Transport</i> | Inogate (<i>break-down of activities not available</i>) | 10,000 |
| | Environmental Protection | <i>Environment</i> | Traceca – Custom facilities at Central Asian road boarder crossings | 2,000 |
| | Democracy and Rule of Law | <i>Human Resources Development</i> | Environmental Action Programme (EAP) | 3,000 |
| | | | Justice and home affairs actions in NIS | 3,500 |
| IS 98 | Development of Infrastructure Networks | <i>Energy</i> | Inogate <i>of which:</i> | 10,000 |
| | | | - Preliminary engineering studies for oil/gas transportation Caspian Sea | <i>n.a.</i> |
| | | | - Engineering studies revitalisation of critical gas pipelines | <i>n.a.</i> |
| | | | - Further priority investments in oil/gas infrastructures | <i>n.a.</i> |
| | | <i>Transport</i> | Traceca – International road transport transit facilitation | 3,000 |
| | <i>Transport</i> | Traceca – Traffic forecasting, Caspian Sea and Chardzev Bridge | 2,000 | |
| | <i>Transport</i> | Traceca Co-ordination Team | 900 | |
| <i>Transport</i> | Southern Ring Air Route Phase II | 2,000 | | |
| Environmental Protection | <i>Environment</i> <i>Environment</i> | Joint Environmental Programme (JEP) | 5,000 | |
| | | New regional environmental centres | 3,500 | |
| Democracy and the Rule of Law | <i>Human Resources Development</i> | Justice and home affairs actions in NIS | 3,000 | |
| IS 97 | Development of Infrastructure Networks | <i>Energy</i> | Inogate <i>of which:</i> | 12,000 |
| | | | - Assessment of Hydrocarbons: resources estimation and certification | 2,000 |
| | | | - Feasibility studies for oil and gas transportation | <i>n.a.</i> |
| | | | - Priority emergency investment in oil and gas infrastructure | 3,500 |
| | | | - Investment promotion for the rehabilitation programme | <i>n.a.</i> |
| | | <i>Transport</i> | Traceca – Container service Baku - Turkmenbashi | 1,500 |
| | <i>Transport</i> | Traceca – Inter-modal services | 1,600 | |
| | Environmental Protection | <i>Environment</i> <i>Environment</i> <i>Environment</i> | Regional Seas Programme: Caspian Sea | 3,000 |
| | | Raising Public Awareness & Environmental Media (II) | 2,500 | |
| | | Information system for agro-environmental monitoring | 2,500 | |
| Democracy and the Rule of Law | <i>Human Resources Development</i> | Justice and home affairs actions in NIS | 3,000 | |

| Inter-State Programme | Areas of Co-operation | Tacis Sector | Project Name | Amount (€'000) |
|-----------------------|--|------------------------------------|---|----------------|
| IS 96 (Feb'97) | Development of Infrastructure Networks | <i>Energy</i> | Inogate – Feasibility study oil/gas pipelines through the Caspian Sea | 2,300 |
| | | <i>Energy</i> | Inogate – Rehab. existing crude oil/oil product transportation networks | 1,800 |
| | | <i>Energy</i> | Inogate – Rehab. of existing gas transmission networks | 2,000 |
| | | <i>Energy</i> | Inogate support group | 1,000 |
| | | <i>Energy</i> | Inogate – Institutional issues and strengthening of regional co-operation | 2,000 |
| | | <i>Transport</i> | Traceca – Renovation of Turkmenbashi Sea Port (stage 2) | 800 |
| | | <i>Transport</i> | Traceca – Road Maintenance System | 2,500 |
| | | <i>Transport</i> | Traceca – Railways Restructuring Studies (Central Asia) | 1,500 |
| | Promotion of Environmental Protection | <i>Environment</i> | Environmental Action Programme (EAP) | 6,500 |
| | | <i>Environment</i> | Inland Seas Programme - Caspian Sea | 3,000 |
| | Development of the Rural Economy | <i>Agriculture</i> | Regional Agricultural Reform Project- Top-up funding RARP I | 1,500 |
| | Democracy and the Rule of Law | <i>Human Resources Development</i> | Justice and home affairs - Crime prevention study | 500 |

Source: SCR, CU Database

ANNEX B

| Action Programme | Tacis Sector | Project Name | Related to Gov't Reform Prog | Comment | Methodology/ Stage of Reforms | Comment |
|------------------------|--|---|------------------------------|---|-------------------------------|--|
| AP 95 | <i>Structural and Institutional Reform</i> | Public Administration Capacity Building | Y | Support to the reform of the public service | B | Slow pace of reform in the public sector. |
| AP 98/99 | <i>Structural and Institutional Reform</i> | Support to Taxation | Y | Support to the reform of taxation | A | Slow pace of reform in the public sector. Government still in phase A' |
| AP96/97 | <i>Structural and Institutional Reform</i> | Foreign Investment Promotion | Y | Support to introduction of Free Economic Zones and Promotion of FDI | B | Slow pace of reform in the public sector. Government still in phase A |
| AP 98/99 | <i>Structural and Institutional Reform</i> | Support to SMEDA | N | Not directly linked to gov't reforms | 0 | Slow pace of reform in the public sector. Government still in phase A |
| AP 92 and AP 95 | <i>Structural and Institutional Reform</i> | Privatisation | Y | Support to the gov't's privatisation programme | C | Slow pace of reform in the public sector. Government still in phase A |
| AP 96/97 | <i>Structural and Institutional Reform</i> | Support to the Interbank Training Center | N | Stand-alone skills transfer programme | 0 | Commitment of the Government to this well focused project. |
| AP 95 | <i>Structural and Institutional Reform</i> | National Capacity Building in the Field of Economics and Business Management Training | Y | Direct relevance to 'transition to a market economy' | B | Slow pace of reform in the education sector. |
| AP 96/97 | <i>Agriculture</i> | Pilot project in the Meat and Milk Sector | N | Pilot project in the private sector | 0 | Slow pace of reform in agriculture. Government still in phase A. |
| AP 96/97 | <i>Agriculture</i> | Pilot project on the improvement of livestock | N | Pilot project in the private sector | 0 | Slow pace of reform in agriculture. Government still in phase A. |

| Action Programme | Tacis Sector | Project Name | Related to Gov't Reform Prog | Comment | Methodology/ Stage of Reforms | Comment |
|------------------|----------------------------|---|------------------------------|---|-------------------------------|---|
| AP 96/97 | Agriculture | Support to farmers' association | N | Pilot project in the private sector | 0 | Slow pace of reform in agriculture. Government still in phase A. |
| AP 99 | Agriculture | Integrated support for Agriculture and the food industry | N | Pilot projects in the private sector | 0 | Slow pace of reform in agriculture. Government still in phase A. |
| AP 99 | Agriculture | Support to the Cotton Sector | Y | Assistance to gov't policy through support to higher education institutions | B | Slow pace of reform in agriculture. Government still in phase A. |
| AP 92 | Infrastructure development | Energy Advisory Group | Y | Support to reforms in the energy sector. | A | Government in phase A but willing to reform |
| AP 96/97 | | Expertise Structure and Training Programme for the Oil and Gas Sector | Y | Support to reforms in the energy sector. | B | Government in phase A but willing to reform. Slow pace of reform. |
| AP 98/99 | | Assistance to the Oil and Gas Sector | Y | Support to reforms in the energy sector. | B | Government in phase A but willing to reform |
| AP 98/99 | | Support for the Development of the Energy Sector | N | Support to the aluminium industry | 0 | Government in phase A but willing to reform |
| IEP 95 | Environment | Water Resources Management and Agricultural Production in Central Asian Republic | Y | Strengthening of national and regional planning capacities in the area of water and land management | A | Government in phase A. Slow pace of reform. |
| IEP 95 | Environment | Caspian Environmental Programme: facilitating Thematic Scientific Advisory Groups | N | Scientific co-operation. Research and support to research institutions | 0 | |
| IEP 95 | Environment | Development of Common NIS Environmental Policies + extension | Y | Support the development of National Environmental Actions Programmes (NEAPs) | A | Government in phase A. Slow pace of reform. |
| IEP 95 & 97 | Environment | Raising Environmental Public Awareness | N | Awareness raising and support to CSOs | 0 | |
| IEP 98 | Environment | Joint Environmental Programme (JEP) | Y | Support to the implementation of NEAPs | B | Government in phase A. Slow pace of reform. |

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ANNEX D - LIST OF PEOPLE INTERVIEWED

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 Jan Rombouts, Tacis Project Leader, Support to the Interbank Training Center in Ashgabat.

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