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**Second country cooperation framework for Turkmenistan  
(2000-2004)**

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## **Introduction**

1. The second country cooperation framework (CCF) for Turkmenistan 2000-2004 is synchronized with the cycles of other key United Nations funds and programmes. It is based on the results of the 1999 country review, some interim data compiled for the United Nations common country assessment, as well as recent programmes of the President. The CCF takes into account the Administrators Business Plans, 2000-2003, submitted to the Executive Board in January 2000.

### **I. The development situation from a sustainable human development perspective**

#### **A. Political developments**

2. The political system of Turkmenistan is characterized by a strong presidency and a centralized decision-making structure. The President is also Prime Minister and chairs the only political party. He has declared his support for the transition to democracy and a multi-party system. However, political stability and continuity are viewed as essential preconditions for economic stability and growth. The President's role is of central importance to all aspects of economic and human development in the country and major decisions at all levels of Government are cleared by the President's office.

3. In December 1999, the Khalk Maslakhaty<sup>1</sup> appointed the President unanimously to an unlimited term in office. The Khalk Maslakhaty is the only body empowered to make changes to the constitution, but its main function is to approve the overall direction of government policy. The unicameral Mejlis (parliament) is the main, but compliant legislature. The 50 members of the Mejlis are directly elected by constituencies through an absolute majority of votes cast for five-year terms. The last elections took place in December 1999. There is little separation of powers because the legislature and judiciary, as well as specialized bodies, including the Office of the Procurator General and the Central Bank, are subordinate to the President's authority.

#### **B. Economic developments**

4. The Government continues to focus on state-led expansion and economic diversification, combined with some private-sector growth and foreign investment. Privatization has entered a new phase, with the focus shifting to industry and increased use of public auctions for the disposal of assets. Nevertheless, the public sector still generates approximately 60 per cent of GDP and employs 45 per cent of the workforce. The state continues to retain tight control over the key sectors of the economy and over access to imports, credit and foreign currency. However, steps have been taken within the Ministry of Finance and Economy to clearly distinguish the functions of economic analysis and policy formulation, budget preparation and expenditure control.

5. The economy of Turkmenistan is dominated by gas production, which until 1997, accounted for between half and two thirds of GDP and up to three quarters of exports. Since 1997, efforts have been made to diversify exports, and textile and chemical industrial products are expected to grow in the future. Strong real GDP growth in 1999 resulted from resumed gas exports, a record grain harvest and state-commissioned construction in new sectors. Depreciation of the exchange rate in the parallel market has fuelled inflation, although it has been limited by contractionary policies and government subsidies. The official exchange rate is 5,200 manat = US\$ 1; the parallel market at the time of writing had an exchange rate of approximately 15,400 manat = US\$ 1. The country continues to post a positive trade balance on the back of gas exports to Russia and government restrictions on imports. However, the low level of actual foreign-currency export earnings, combined with a large debt service, means continued balance-of-payments difficulties.

6. The total state budget for 1999 amounts to \$654 million, of which \$327 million are allocated to the local budget. Actual allotments, however, are dependent on revenue that remains unpredictable and on the performance of key economic sectors. Budget allocations are made by the central Government based largely on fixed entitlements determined according to past requirements. Most importantly, at least \$3.2 billion is managed by special funds from the centre that have their own administrative structures and are under the direct authority of the President. These

funds are derived from revenue generated by the key productive sectors of the country. They operate outside the state budget. The Ministry of Economy and Finance has taken a new approach to estimating the national budget for 2000, includes a breakdown of extra-budgetary funds and is more in line with international standards, including the introduction of the concept of amortization.

### C. Social issues

7. In 1999 the population of Turkmenistan reached 4.8 million after ten years of 3.5 per cent average annual growth, which was nevertheless substantially higher than the 2.4 per cent rate recorded between 1980 and 1989. In 1998 population density equalled 9.7 inhabitants per square kilometre. Official statistics of human development, such as educational levels, nutrition and infant mortality, are all relatively good and demonstrate positive trends. Gender-related development indices, such as the gender-related development index (GDI) and the gender empowerment measure (GEM) demonstrate relatively few gender disparities.

8. State subsidies offset the negative social effects of economic transition. Services are subsidized and most utilities are free of charge. However, because non-economic statistics relating to social indicators are more difficult to come by or require verification, the full degree of vulnerability of different groups and the extent of human development remains difficult to assess. Soil salination and poor water quality are negatively affecting productivity and health in many *velayats* (provinces).

## II. Results and lessons of past cooperation

9. The Government of Turkmenistan is keenly interested in carefully defining and circumscribing the limits of foreign development assistance with a view to maximizing self-reliance. As a result, the active donor agencies are relatively few. Some of those present, such as the World Bank and the IMF, have been unable to make much progress towards approval and implementation and their operations remain at a relatively low level of intensity.

10. Policy support to the Government is necessary but must be provided in a strategic and sensitive manner, as noted in the country review report. Effective cooperation is only possible if assistance is provided in strict support of government priorities and if policy support is provided in confidence and in a supportive manner. Furthermore, government ownership and acceptance of project ideas are essential elements in ensuring the success of projects and programmes. Development in Turkmenistan is inherently incremental and the approach of the UNDP will be to identify areas of common interest and to build on success.

11. The scope for direct work with non-governmental community institutions remains limited under current circumstances, which also continue to make effective targeting of poverty alleviation and empowerment projects difficult.

12. The Government views the UNDP as constructive in its mode of engagement in the area of governance. However, the Government appears committed to not adjusting significantly the respective roles and relationship between the different branches of the state in the short term. Economic stability and increasing commitment to market reforms is given precedence over political and institutional change. There is considerable potential, therefore, for UNDP assistance to play a role in the ongoing economic transformation and the management of resources. The Government recognizes that further liberalization and structural change is required if development is to take place on the scale it envisages. The country review recommended that UNDP-funded studies with policy implications be internalized within government programmes and linked to ongoing operational activities. This is reflected in the current document.

13. Effective targeting remains difficult owing to the absence of reliable data on key social indicators — particularly concerning the vulnerability of different groups and the true extent of poverty in rural Turkmenistan. This is due in part to the way in which target-oriented statistics are generated. The UNDP partnership with the Government is still in the process of development. Ongoing UNDP support in preparing a more reliable statistical database will serve as a critical element in advancing this relationship.

14. Shortfalls in government revenue were a perennial problem at the centre and especially at the

local-government level during the last CCF. In addition to posing problems in the collection of government cost-sharing, these shortfalls have drawn attention to the need to address the effective management of domestic and international resources. This was recognized in the President's 2010 programme, which lies at the core of the present five-year programme of UNDP. Policies geared to broadening the revenue base should be devised in a manner to stimulate production — particularly among small producers — and reduce evasion. A better understanding has also been reached with the Government on the role of UNDP. Projections of government cost-sharing are now made on a more realistic basis and negotiated case by case. Both execution and implementation arrangements have been reviewed and steps are being taken to ensure smoother delivery with appropriate checks and balances and levels of accountability.

15. The country review noted that the overall impact of UNDP involvement was compromised by fragmentation and a lack of focus. The current CCF will address this by focusing UNDP activities on a single objective and by applying a more programmatic approach. The establishment of a government counterpart at the level of the Deputy Prime Minister is expected to facilitate the daunting task of ensuring inter-ministerial and inter-agency collaboration in the current Government.

16. A programme of the size of that in Turkmenistan is heavily dependent on the partnerships that it can build and the resources that it can mobilize. The difficulties experienced by other donors in the country present both an opportunity and a disadvantage. The UNDP programme will seek to work with both the Government and the donors concerned to facilitate the approval of projects in critical areas and to mobilize resources in support of development. Particular attention is to be paid to collaboration with the Bretton Woods institutions, the European Union and sister United Nations funds and programmes.

### **III. Objectives, programme areas and expected results**

17. The development plans of Turkmenistan are embodied in the national programme of President Saparmurat Turkmenbashi: Strategy of socio-economic development in Turkmenistan for the period up to

2010. Although the programme is based on production targets with a strong Turkmen cultural and social base, UNDP has been requested to use it as the overall framework for the CCF. The 2010 programme is based on four areas of priority: economic security, food security, social security, and ecological security. The programme identifies a number of policy initiatives within each area of priority and goes on to establish physical and production targets as indices of development.

18. The national human development index is used as the overall measure of development in Turkmenistan. The second CCF identifies areas of common interest with the intention of building on areas of success. Furthermore, this CCF will seek to maximize impact through programmes that (a) match national priorities with UNDP areas of competence and comparative advantage; (b) address critical constraints in the viable areas of economic and managerial transformation; and (c) leverage significant additional resources either as cost-sharing or in parallel.

19. Although policy change in the past has been cautious and incremental in nature, the 2010 programme heavily emphasizes the introduction of structural economic changes and the improved use of financial, human and environmental resources in support of overall priorities for development and modernization of the nation. The President's programme does not contain explicit commitment to political and institutional reforms. The CCF will therefore seek to contribute to the liberalization of the economy, the broadening of participation in economic growth and the alleviation of poverty through a single objective: that of strengthening the "efficient and effective use of domestic and international resources for sustainable human development" in Turkmenistan. In general, UNDP assistance will serve to promote opportunities for individuals by creating conditions for self-organization, private production and job access in the modern sector. It is also geared to developing capacity in each area of involvement, addressing the enabling environment, systems (including legislation) and training.

**A. The objective of the CCF: to strengthen the efficient and effective use of domestic and international resources**

20. With the gradual development and exploitation of Turkmenistan's natural gas and oil reserves, the potential for rapid development exists. It may be expected that such growth is likely to be neither sustainable nor equitable without the elimination of a series of structural constraints to the efficient and effective use of both domestic and international resources. Some of these changes are contained in the 2010 programme. Policy reforms, legislative changes and capacity will be necessary in a number of areas relating to the management of budgetary and financial resources, the development of human capital (human resources) and the sustainable use and regeneration of natural resources that are of critical importance but are currently under severe threat.

21. These goals will be achieved through two closely inter-related programme areas into which the largest portion of UNDP core resources will be channelled. The two programme areas are (a) strengthening the use of economic and human resources; and (b) strengthening the use of natural resources. Those two programme areas are inter-dependent in that the effective use of economic and human resources is essential for the creation of an enabling environment that facilitates the effective use of natural resources. UNDP assistance will be deployed in a manner to develop national capacity, particularly through the development of appropriate legislative frameworks, policy documents, rules and regulations as well as training, systems development and the introduction of new technology that is critical to the transformation process. Furthermore, UNDP will support Turkmenistan's integration into the global economy.

**B. Programme area 1: strengthening the use of economic and human resources**

**1. Strengthening financial and economic analysis capacity**

22. The 2010 programme places emphasis on: updating the legal framework for the budget system; expansion of budget coverage; establishment of a unified system for expenditure management; computerization of budget management through a network; and the development of auditing capacities. UNDP will deploy its assistance in a manner to strengthen economic analysis and forecasting. Coordination between the forecasting systems in the Ministry of Finance, Central Bank and State Department of Statistics and the budget preparation and management process will be strengthened.

23. Steps will be taken to create closer ties between the budget and policy direction based on sound economic analysis and, where necessary, modeling and to ensure the adherence of sectoral ministries. Efforts will also be made to take local development priorities into account when preparing the budget to ensure that it is more responsive to local needs. It is expected that, as a result, planning, prioritization and macroeconomic analysis will be integrated into the budget preparation and management process and that all of the principal sources of revenue and line items will be fully visible in the budget.

**2. Fiscal issues and Treasury management**

24. Based on the principle that stimulation of economic activity is perhaps the most effective way of increasing the tax base, the UNDP programme may focus on working with the Government on fiscal reforms that also serve to improve the enabling environment for job creation as the principal means of sustaining important successes in the alleviation of poverty. In this regard, under the 2010 programme the Government expects to raise private-sector employment to approximately 67 per cent of the total workforce. Current assistance with the computerization of the treasury function will be extended to the *velayat* level.

**3. Support to the municipal level of Government**

25. UNDP support to nine pilot municipalities will continue, focusing more intensely on establishing an

enabling environment for community participation in local development. The effective management of resources has been significantly hampered by either the absence or weakness of enabling legislation in key areas, including budget and revenue management, payment for government services, cadastral rights and the use of critical resources, such as water. UNDP will also support the strategic identification of areas of priority and the drafting of necessary legislation. Pilot efforts to introduce the privatization of a limited number of municipal services will also be pursued.

26. It is expected that UNDP programmes will result in the passage of legislation that: (a) clarifies the role of local elected bodies (Gengeshi); (b) increases the coverage and autonomy of local government in the management of revenue and budget; and (c) clarifies and strengthens the role of not-for-profit, non-governmental entities, providing them with appropriate privileges and exemptions. Two key municipal services are expected to be privatized in at least one of the pilot municipalities.

#### **4. Support to Parliament**

27. Parliament has become increasingly important in the management of national affairs, particularly in drafting legislation and managing resources. UNDP will focus on strengthening the substantive review of key government policies and the drafting of legislation in parliamentary sub-committees that are critical to the management of the budget and finances. Substantive and systematic review and preparation processes for legislation will be established and put in force with UNDP assistance.

#### **5. External resource management**

28. Foreign investment and the effective management of revenue derived from the sale of commodities are critical to sustainable development. UNDP will assist the State Agency for Foreign Investment in computerizing some of its operations. Asset management is an increasingly important factor as revenues rise. Very few, if any, senior professionals within the country are trained in asset management or the functioning of modern capital markets. UNDP will provide assistance and seek to secure other partners in the development of economic and financial programmes at the university level for the training of professionals and post-graduate students. UNDP may also consider supporting a new management school, to

be established directly under the Office of the President in July 2000. This school will focus on retraining senior civil servants through a one-year course programme. It is expected that, by the time UNDP assistance terminates, the curriculum will be developed and institutionalized and the training of professionals will have begun.

29. UNDP will continue to support the Government in its efforts to manage the aid-coordination process, in transferring the database currently being prepared at UNDP and in backing key aid-coordination activities. Management of the country's debt burden has also become increasingly important. UNDP will help to develop the capacity of the Central Bank to address debt and debt service issues.

### **C. Programme area 2: strengthening the use of natural resources**

30. Pollution and degradation resulting from industrial and economic schemes introduced during the Soviet period have already had severe effects on biodiversity, human health, and agricultural and industrial productivity in Turkmenistan. Failure to actively promote the sustainable use of natural resources, including conservation, will lead to even more serious economic and social consequences. The deterioration of water quality resulting from industrial, chemical, military and untreated organic wastes is increasingly well documented. Trans-boundary pollution and overuse of water has dramatically affected water quality, the health and economic effects of which cannot yet be quantified owing to the absence of comprehensive data.

31. As set out in programme area 1, UNDP will support the Government in establishing an enabling environment for the effective management of resources, through legislation, fiscal policies, rules and regulations and management practices, including resource pricing and cost-recovery. UNDP will also continue to work with the Government to develop and institutionalize a national environmental action plan. Efforts will be made to ensure that activities are substantively coordinated with those of the Caspian and Aral Sea regional projects.

32. Turkmenistan is a signatory of most key United Nations conventions, including the conventions on biodiversity, the control of ozone-depleting substances,

hazardous wastes, climate change, desertification, sustainable development and access to information. As such, it is committed to the implementation of these conventions within its own boundaries. For this purpose, and to address the use of natural resources, UNDP will continue to support the work of the National Commission for the Implementation of United Nations Environmental Conventions and Programmes, which is chaired at the level of deputy prime minister and includes key ministries. The Commission, and its working groups, should be used to address each of the key areas of concern. As a result of UNDP assistance, action plans will be implemented in the areas covered by each United Nations convention. Furthermore, a minimum of 30 community-based organizations and non-governmental organizations will be supported within this framework.

## **D. Cross-cutting themes**

### **1. Gender in development**

33. Gender will be applied as a cross-cutting theme. Ensuring women's access to opportunities and the economic and political empowerment of women is to be a high priority for UNDP. The UNDP-supported Women in Development (WID) bureau will promote an enabling environment for (a) women's participation in policy development and (b) women's access to employment in high productivity areas. The WID bureau will dialogue with the Government on the preparation and follow-up to the national human development report (NHDR), Beijing+5 Conference and Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) report and will support the women's sector within the Government and build its capacity. Facilitating the implementation of the national action plan (NAP) will be a priority. The number of women in decision-making positions will stabilize at 26 per cent; at least 25 women NGOs will receive strategic development support; and at least 600 unemployed women will be retrained in high-productivity sectors, such as banking, high technology and business management.

### **2. Policy dialogue**

34. Policy and programme support should be developed to enable UNDP to maintain an effective, substantive policy dialogue and to provide continued support to programme development and increased

national execution capability. The NHDR has been gaining greater recognition, if not acceptance, among policy-makers within the country. UNDP will provide funding for more detailed policy studies on specific issues of importance to development that derive from NHDRs and will continue to use its national human development index statistics as a basis for support to policy dialogue at the national level. Where appropriate and necessary, UNDP will support more detailed vulnerability analyses for specific groups.

## **IV. Management arrangements**

### **1. Relationship with Government**

35. Insistence on the need to rely on domestic resources in the development process has characterized the relationship between the Government and donor agencies since independence. The relationship between UNDP and the Government has considerably improved, but is still maturing. The Deputy Prime Minister in charge of economic affairs and international and financial organizations was recently designated as the principal counterpart of UNDP; this along with the broad-based dialogue leading to CCF preparation are important steps towards deepening the UNDP-Government partnership. Priority will be given to activities that benefit from Government cost-sharing, which emphasizes the high level of relevance and national ownership of the programme.

### **2. Partnerships**

36. UNDP technical assistance in the area of public-expenditure management and fiscal reforms may be used as a means of enhancing the dialogue between the Government, Bretton Woods institutions and the European Union. UNDP will also continue to work with the Global Environment Facility, (the United Nations Children's Fund (UNICEF), the United Nations High Commissioner for Refugees (UNHCR), the United Nations Population Fund (UNFPA) and the Joint and Co-sponsored United Nations Programme on HIV and AIDS (UNAIDS), in implementing its global mandates in those areas where resources beyond the target for resource assignment from the core (TRAC) can be mobilized. Work with the subregional network of UNDP offices supported by the subregional resource facility (SURF) will continue to be an important element of partnership that facilitates the overall work of UNDP in the country, as will support from UNDP

headquarters, including RBEC. Regional best practices will be a source for technical cooperation among developing countries (TCDC) expertise.

### **3. Resident coordinator system**

37. UNDP will continue to fund and support the resident coordinator system and will expand its direct substantive collaboration with other entities of the United Nations system. It will also continue to facilitate and provide administrative and operational support to other United Nations agencies in their activities. Follow-up to the World Conference on Education for All and structural change in the education sector will serve as one such area for coordinated policy dialogue with the Government.

38. The successes achieved in developing government policies, particularly with respect to HIV/AIDS, demonstrate the potential effectiveness of United Nations partnerships under the umbrella of the resident coordinator system. Upon completion of the common country assessment (CCA), a United Nations Development Assistance Framework (UNDAF) will be prepared, paying particular attention to ways in which substantive programmes can be developed and implemented in close collaboration. Efforts will be made to ensure an effective division of responsibilities between United Nations agencies operating in Turkmenistan. In this respect, UNESCO involvement in the development of archaeological and cultural sites will be further enhanced, and UNDP direct involvement concurrently reduced. Furthermore, active joint programming may be undertaken with UNICEF and UNHCR, making full use of the respective capabilities and mandates of each agency.

### **4. Execution modalities**

39. Of high priority will be the rapid introduction of the Internet to underpin national managerial and analytical capacity. Training programmes in national execution procedures will be further systematized. The use of foreign, private auditing firms to undertake regular management and financial audits of projects and programmes will continue.

### **5. Aid coordination**

40. Substantive coordination between the key donor agencies in Turkmenistan needs further development. Avenues will also be sought to establish more

substantive collaboration and dialogue with the Government on key issues of central relevance to the process of transition. UNDP will continue to support and develop government capacity for aid coordination.

### **6. Resource mobilization**

41. Resource mobilization will become a high priority for UNDP with this CCF. UNDP will seek to mobilize private-sector resources to implement specific programmes, including the establishment of a local Netaid foundation, which will use the Internet and other information technology tools for the development purpose. A resource-mobilization ratio of at least 1:1 will be established and monitored and will be subject to revision on an annual basis.

### **7. United Nations Volunteers**

42. Turkmenistan has considerable potential for the effective use of national expertise, particularly for developing national capacity in the management of resources at the local-government level. The use of national and international United Nations Volunteers will therefore be expanded and an effective system of support for such volunteers established.

### **8. Results-based management**

43. The Strategic Results Framework (SRF) for Turkmenistan will be revised to reflect the new focus of this CCF. The SRF and its indicators will be used as the basis for monitoring and evaluating the implementation of the overall UNDP programme. A country review will be scheduled at the mid-term of the CCF to assess performance and reorient programme and management activities and arrangements as necessary.

#### *Notes*

<sup>1</sup> The Khalk Maslakhaty (People's Council) is the supreme legislative body, composed of the President who serves as Chairman, all parliamentary deputies, one elected deputy from each *etrap* (district), the chairman of the supreme court, government ministers, judges and Governors.



## Annex

## Resource mobilization target table for Turkmenistan (2000-2004)

<i>Source</i>	<i>Amount</i> <i>(In thousands of United States dollars)</i>	<i>Comments</i>
<b>UNDP regular resources</b>		
Estimated carry-over into 2000	889	Includes AOS.
TRAC 1.1.1	2 744	Assigned immediately to country.
TRAC 1.1.2		This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
0 to 66.7 per cent of TRAC 1.1.1		
Other resources	289	In line with decision 95/23, paragraph 19.
SPPD/STS	325	
<b>Subtotal</b>	<b>4 247</b>	
<b>UNDP other resources</b>		
Government cost-sharing	725	
Sustainable development funds	1 048	
		of which:
Capacity 21	148	
GEF	900	
Third party cost-sharing	2 419	
Funds, trust funds and others	1 020	
		of which:
Nordic Trust Fund	500	
Japanese Trust Fund	370	
UNIFEM	150	
<b>Subtotal</b>	<b>5 212</b>	
<b>Grand total</b>	<b>9 459</b>	

<sup>a</sup> Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: AOS = administrative and operational services; GEF = Global Environment Facility; SPPD = support for policy and programme development; STS = support for technical services; TRAC = target for resource assignment from the core; UNIFEM = United Nations Development Fund for Women.