

**United Nations Development Programme
Country: Turkmenistan
Project Document**

Project Title Capacity Building Support for the Government of Turkmenistan on SMEs Development

UNDAF Outcome(s): By 2015, the system of environmentally sustainable economic management expands people's opportunities to participate in social and economic development, especially in rural areas

Expected CP Outcome(s): Men and women of all social groups effectively contribute to the country's development policy and implementation processes to achieve inclusive growth and social equality
(Those linked to the project and extracted from the CPAP)

Expected Output(s): Private sector enjoys favorable environment for market development
(Those that will result from the project and extracted from the CPAP)

Implementing Partner: Ministry of Economy and Development of Turkmenistan

Executing Agency: United Nations Development Programme

Brief Description

The aims of the project is to raise awareness of the need for further private sector reforms, to provide key government and private sector stakeholders with knowledge of key policy reform options and best practices, and to supply on-going technical assistance for their implementation.

| | | | |
|-----------------------------------|----------------------------------------|-------------------------------|----------|
| Programme Period: | 2010-2015 | 2010 AWP budget: | \$76,050 |
| Key Result Area (Strategic Plan): | Poverty Reduction and Inclusive Growth | Total resources required | _____ |
| Atlas Award ID: | | Total allocated resources: \$ | \$76,050 |
| Start date: | 01/01/2010 | • Regular | \$25,850 |
| End Date: | 31/12/2010 | • Other: | |
| Management Arrangements: | DEX | o Czech Trust Fund | \$50,200 |
| | | o Donor | _____ |
| | | o Donor | _____ |
| | | o Government | _____ |
| | | Unfunded budget: | _____ |
| | | In-kind Contributions | _____ |

UNITED NATIONS DEVELOPMENT PROGRAMME



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Date: 05.01.2010

1. Situation Analysis

By socioeconomic level of development, Turkmenistan was the poorest republic in the Soviet Union. Following independence in 1991, it experienced several further years of economic decline caused by the breakup of traditional economic ties, poor agricultural harvests and problems related to energy exports. The economy was hit hard in 1997 when non-payments by the CIS countries forced a suspension of virtually all natural gas exports. This resulted in a sharp decline in economic activity, hyperinflation and increasing external debt.

By 1998, however, the economy began to recover, and with the resumption of natural gas exports to Ukraine and Russia in 1999-2000, recovery accelerated. Another contributor to this has been large-scale, mainly state-driven, investments averaging more than 30 percent of GDP in oil refineries, electricity, transport and construction projects. Significant investment in textiles and food processing also represents an attempt to add value to Turkmenistan's traditional agricultural production.

According to official statistics, real GDP has been increasing by an average of 17 percent annually since 1999; while the magnitude of those and other economic data has been challenged by alternative estimates by international financial organizations, all agree that the Turkmenistan economy appears to have expanded strongly, although marked by a persistently difficult business environment and rising inflation.

The share of the private sector in Turkmen economy is the lowest in the Central Asian region, reported at 2.3 percent of GDP by World Bank. Official statistics reports that non-state economic sector as a whole accounts for 46% of GDP and 73% of employment, but these figures are very misleading for a number of reasons. They include joint stock companies with a majority of stock owned by the state, output and employment generated in oil and gas sectors and the majority of small scale subsistence farms that operate solely within the State order system.

Despite some progress, most notably the abandonment of the dual exchange rate system in May 2008, Turkmenistan has yet to make a number of macro-level reforms that are fundamental to the development of a modern market economy and sustainable employment generation. Large sectors of the economy continue to be dominated by State Owned Enterprises which effectively crowd out opportunities for private initiative, whilst in others State support in the form of land, infrastructure and financial capital are provided to selected 'private' entrepreneurs appointed by the State to operate local monopolies. These 'command enterprises' are privately owned, but in practice operate in much the same way as State Owned Enterprises and are not subject to the commercial pressures normally associated with private enterprises proper. The majority of the financial services sector continues to be owned and / or controlled by the state and the three banks that are legally mandated to lend funds to the private sector do so at heavily subsidized interest rates. In agriculture the main product sectors i.e. cotton, wheat, rice and sugar beet continue to operate within the state order system i.e. with highly subsidized inputs and rigid price controls.

Lack of progress made by the Government of Turkmenistan in implementing policies for privatization, financial liberalization, price liberalization and trade are reflected in the European Bank for Reconstruction and Development's transition index which places Turkmenistan significantly behind other CIS states.

Whilst Turkmenistan remains in most respects a pre-transition economy, the development of the private sector has begun to gather momentum in recent years. Having acknowledged the role of entrepreneurship as a driver of income growth and employment worldwide, the Government of Turkmenistan made a commitment to increasing the share of the non-state sector in non-hydrocarbon sector GDP to 'not less than 70%' by 2020. In order to achieve this goal a range of possible reforms are proposed, including the consolidation of legislation on business registrations and licenses, tax incentives, the development of free economic zones (FEZs), 'denationalisation' and privatisation.

Subsequently, and in pursuance of these goals, the Government of Turkmenistan have adopted two key documents that are intended to provide the conceptual and legal foundations necessary for the realization of the private sector development agenda: *The Concept of State Policy for Enterprise Support and Development* (CSPESED) and *the Law on State Support to SMEs* (LSSSME). The Government is in process of drafting *the State Programme of Development and Support to Entrepreneurship* (SPDSE) that will outline a plan of specific actions for implementing the CSPESED and LSSSME.

2. Main Strategic Objective

In response to the development challenges and key issues outlined above, it is envisaged that the proposed project to support SMEs development in Turkmenistan focuses primarily on advocacy and the task of capacity building for key stakeholders in the Government of Turkmenistan and the private sector, with the aims of:

- increasing awareness of the need for more thorough going market reforms if Turkmenistan is to successfully diversify its economy and significantly increase the contribution of the non-oil and gas private sector to aggregate output and growth;
- providing Government and private sector representatives in Turkmenistan with knowledge and direct experience of policy options and international best practices in market reforms, drawing particularly on the experience of Czech Republic;

- providing policy advice for the development and implementation of a carefully sequenced policy reform strategy building on existing government policy proposals as contained in the CSPESED and LSSSME

3. Expected Project Outcomes

i. Short Term Technical Advisor for Specific Policy Reform Strategy

Rationale: CSPESED and LSSSME adopted by the Government provide the framework that needs to be supported by a number of additional legislative acts and regulations, including State Programme for SME support, as well as regulations concerning conditions for participation of lending and other institutions in these programs. To date the progress of Government's reforms to draft such a programme to promote SMEs development has been slow, as key stakeholders need improved knowledge of international best practices in a number of priority policy areas that are advanced in CSPESED and LSSSME.

Proposal: to engage a senior SME development expert to provide technical assistance to the Government of Turkmenistan for the policy reform strategy. The expert would focus his/her work on the development of recommendations for coherent State Programme of Development and Support to Small and Medium Enterprises by analyzing the present situation in the country and bringing SMEs expertise from the Eastern Europe and CIS region, looking particularly for support to the Government of Turkmenistan in formulating legal and regulatory framework for private sector development. Specifically the consultant is expected to:

1. Map out the current SMEs sector in Turkmenistan
 - Identify and comment on the key economic indicators, economic policy, and social factors that are likely to influence the development of SMEs in the country;
 - Provide an overview of the current legal, financial, and institutional setting for SMEs (including a review of present laws on organizational forms and taxation, accounting standards, prudential regulations, banking supervision, etc.) making recommendations on changes to promote a more enabling environment;
 - Identify opportunities and constraints for the sustainable development of SMEs from a policy, legal and regulatory perspective, as well as from perspective of access to finance, counseling, information, skills, technology and markets;
 - Identify the key private sector development stakeholders, including national and international agencies, and their strategies with regard to support SMEs development, as well as identify most pressing capacity development needs.
2. Review existing draft State Programme of Development and Support to Entrepreneurship developed by the Government of Turkmenistan and provide recommendations on specific actions for implementation, including the following areas:
 - Legal and institutional framework for SMEs development;
 - Access to finance for SMEs;
 - Business Development Services for SMEs;
 - SMEs development in rural areas

The expert will be engaged for 20 working days. The data collection, analysis and report writing will be carried out over a one-week period. A first draft of the report will be submitted prior to leaving the country.

The expert should meet the following qualification criteria:

- At least 10 year's direct experience gained in transition economies, with a strong and demonstrable track record of working with senior decision makers on policy reform issues related to private sector/SMEs development
- Excellent written and spoken English and Russian
- Excellent interpersonal and communication skills
- A higher degree (preferably in economics, business studies or related field) from a recognised university

ii. Professional Study Trip for Key Decision Makers and Private Sector Representatives

Rationale: Experience gained in other transition contexts indicates that exchange of experience initiatives, enabling decision makers to learn 'first hand' from comparable experiences in other countries, can be an effective supplement to mentoring or other short term technical assistance interventions that rely on 'importing' external expertise. Czech Republic has accumulated a demonstrable experience of successful policy reforms in areas of concern to the Government of Turkmenistan's emerging private sector development strategy. In addition, Czech Republic is plausibly 'comparable' to Turkmenistan along one of a number of axes, including a relatively recent legacy of a centrally-planned command style economy.

In addition to providing decision-makers with evidence of policy outcomes in a context that they can relate to, such exchanges can be particularly effective in promoting convergence between different line ministries and other stakeholders involved in policy making and implementation for SMEs development.

Proposal: to support one study trip for key officials from inter alia the Cabinet of Ministers, the National Institute of Strategic Planning and Development, the Ministry of Economy and Development, the Ministry of Finance, the Ministry of Agriculture, the Central Bank of Turkmenistan, the Chamber of Commerce and Industry of Turkmenistan, Union of Economists and Manufacturers and Union of Economists. The study trip should be highly intensive and preferably of no more than 5 working days' duration and for approximately 12 persons. The focus should be showcasing lessons learned in Czech Republic on the implementation of a range of policies foreseen in the CSPEED, LSSSME, and SPDSE.

The outputs of the study tour would be as follows:

- Increased awareness of the government officials and private sector representatives on Czech Republic's policies and programmes to support private sector development, in particular SMEs;
- Dialogue and partnership between similar institutions in two countries will be established;
- Practical mechanisms/tools for increasing the effectiveness of the support to SMEs development will be identified and implemented in Turkmenistan, taking into consideration local peculiarities.

The study tour will include:

- a) Meetings and discussions with the state agency/ministry representatives responsible for state policy on SME development, trade and investments.
- b) Meetings and discussions with the representatives of the state infrastructures supporting SME development;
- c) Meetings and discussions with the representatives of the private infrastructures supporting SME development;
- d) Visits to and meetings with the SMEs being supported by the specialized institutions.

After the study tour the Turkmen Delegation/Team will:

- a) Summarize the findings and results of the study tour;
- b) Prepare and submit a report on study tour to the Cabinet of Ministers, Ministry of Economy and Development and UNDP country office;
- c) Share the findings and results with the corresponding institutions in Turkmenistan

It is expected that the study tour would be organized with support of Technical Advisor to ensure that key messages and their relevance are properly debated and internalized by the participants.

**Annual Work Plan
Capacity Building Support for the Government of Turkmenistan on SMEs Development**

Year: 2010

| EXPECTED CP OUTPUTS AND INDICATORS INCLUDING ANNUAL TARGETS | PLANNED ACTIVITIES <i>List all activities including M&E to be undertaken during the year towards stated CP outputs</i> | TIMEFRAME | | | | RESPONSIBLE PARTY | PLANNED BUDGET | | |
|----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------|----|----|----|----------------------------------------|--------------------------------------------------|--------------------------------------------------------------------|-------------------------------------|
| | | Q1 | Q2 | Q3 | Q4 | | Source of Funds | Budget Description | Amount \$ |
| Output: Private sector enjoys favorable environment for market development | Short-Term Consultancy for Specific Policy Reform Strategy | | | | | Ministry of Economy and Development | UNDP | Local travel Interpretation Internet and supplies Visa | 500 1,000 300 150 |
| | Professional Study Trip for Key Decision Makers | | | | | Ministry of Economy and Development | Czech Trust Fund UNDP Czech Trust Fund | Consultancy fee Travel International travel | 17,000 5,700 23,900 27,500 |
| Total: | | | | | | | UNDP Czech Trust Fund | | 25,850 50,200 |