STRATEGIC PLAN FOR TURKMENISTAN

USAID Regional Mission for Central Asia
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Part I: Assistance Environment and Strategic Priorities

I. Assistance Environment and Strategic Priorities

A. US Foreign Policy Interests

The United States and Turkmenistan have enjoyed productive, friendly bilateral relations since Turkmenistan declared its independence from the Soviet Union in 1991. The United States has an interest in the development of Turkmenistan as an economically viable, politically independent democratic entity, which is integrated into international political and economic institutions. This general interest is enhanced by geography -- Turkmenistan has long borders with Iran and Afghanistan and proximity to the Caucasus, the Middle East and South Asia -- and commercial potential. Possessing the world's fourth largest natural gas resources as well as significant reserves of oil, Turkmenistan holds out the promise of becoming a major player in world energy markets once energy export route questions are resolved. As an energy-importing country, the U.S. has an interest in ensuring that Turkmenistan's energy potential is realized to help diversify world energy supply.

Three of the United States government's major goals in Turkmenistan require substantial USAID involvement:

1. A stable, market-oriented economy with maximum access for and participation by American firms.

2. Progress on transition of the government of Turkmenistan to a more open, democratic society.

3. Development of Turkmen oil and gas resources and their delivery to world markets via multiple export routes; maximum access of U.S. firms to Turkmenistan's energy resources.

The overall goal of USAID involvement in Turkmenistan is sustainable economic growth. To achieve this goal, USAID/CAR supports the development of a market economy based on democratic principles. This work includes measures that promote direct foreign investment, including US investment.

B. Overview and Priorities

The table on the following page provides information on the budgetary history of the Mission's activities in Turkmenistan. Limited funding has been used extremely effectively to achieve substantive results in key areas, as demonstrated by a review of the Mission's program in market transition and other intervention areas.

TURKMENISTAN
USAID Obligations

PROJECTS	Through December 1994	FY 1995 (actual)	FY 1996 (actual)	FY 1997 (estimated)	FY 1998 (projected)
• Special Initiatives	$ 2,513,215	-	-	-	-
• Energy	$ 150,000	-	$ 100,000	-	$ 400,000
• Environment	$ 6,796,581	$ 1,830,000	$ 545,000	-	$ 400,000
• Health Care	$ 1,490,835	-	-	-	-
-Health Earmarks	$ 350,000	$ 100,000	$ 400,000	$ 550,000	$ 300,000
• Private Sector	$ 1,995	-	-	$ 100,000	-
• Democratic Reform	$ 754,227	$ 100,000	-	$ 200,000	$ 400,000
• Economic Restructuring	$ 58,000	-	-	$ 900,000	$1,700,000*
• Eurasia Foundation	-	-	$ 100,000	$ 100,000	-
• Enterprise Fund	$ 6,000,000	-	-	-	-
• Exchanges and Training	$ 2,793,289	$ 1,570,000	$ 1,100,000	$ 800,000	$ 800,000
Ex/Training-Partnership					-
Ex/Training-Exchanges					$ 100,000
TOTAL PROJECTS:	**$ 20,908,142**	**$ 3,600,000**	**$ 2,245,000**	**$ 2,650,000**	**$ 4,100,000**
AID/Transfers/Allocation					
• Farmer to Farmer	$ 524,269	$ 300,000			
• ENI Funding to other Bureaus	$ 1,375,851				
• USDA Cochran Fellow				$ 60,000	
• Commerce: SABIT		$ 23,000			
• Humanitarian Transport				$ 300,000	
• USIA Training and Exchanges	$ 500,000	$ 400,000		$ 450,000	$900,000
• Peace Corps		$ 1,000,000	$ 1,000,000	$ 1,000,000	
• Warsaw Initiative			$ 250,000		
• EXIM-Trade and Investment					$ 1,000,000
AID/Transfers/Allocation Total:	**$ 1,900,120**	**$ 1,823,000**	**$ 1,650,000**	**$ 1,810,000**	**$ 1,900,000**
TURKMENISTAN GRAND TOTAL:	**$ 22,808,262**	**$ 5,423,000**	**$ 3,895,000**	**$ 4,460,000**	**$ 6,000,000**
LESS NON-DISCRETIONARY:	**($ 8,250,120)**	**($ 1,923,000)**	**($ 2,150,000)**	**($ 2,460,000)**	**($2,300,000)**
DISCRETIONARY FUNDING:	**$14,558,142**	**$ 3,500,000**	**$ 1,745,000**	**$ 2,000,000**	**$ 3,700,000**

*** $2 Million for Economic Restructuring Programs was reduced by $300, because Washington allocated $300 for the Health Earmarks from the initial total amount $4,100,000 for Turkmenistan in FY 1998.**

Source: **Through December 1994 - NIS Financial Report Date February 13, 1995. Figures represent best estimates only, and include only those projects for which USAID has reporting responsibility; TDA, OPIC, USIS and other Inter-Agency funding transfers are excluded. FY 1995 - USAID/Washington Budget Planning Sheet; Last edit: September 25, 1995. FY 1996 - USAID/Washington Budget Planning Sheet; Last edit: August 29, 1996. FY 1997 - USAID/Washington esimates; Budget Planning Sheet; Last Edit: January 3, 1997; FY 1998 USAID/CAR; Revised FY 1998 Budgets, January 30, 1997.**

1. Strategic Assistance Area 1: Market Transition

a. Constraints and Opportunities

Since the Mission's first strategic plan covering all five Central Asian countries was submitted to Washington in December 1993, only limited progress has been achieved in the economic sphere in Turkmenistan. Much work remains to be done if the country is to

implement sustainable reform measures consistent with free market principles. This implementation will depend critically on the will of the government to institute reforms in both the economic and political spheres.

The general economic situation has deteriorated since 1993 when the country stopped receiving substantial hard currency revenues for its natural gas exports. Inflation in 1995 reached 1,260 percent and the national currency devalued dramatically in nominal terms. In 1996, inflation was reduced to approximately 500 percent - still unacceptably high. Fiscal control is extremely difficult to exercise, since over half of all government expenditures are effectively off-budget. Real GDP has declined over 30% during the past three years, reflecting the country's heavy dependence on primary export earnings and the drastic decline in hard currency earnings from natural gas.

During 1996 the level of Turkmenistan's external debt increased substantially, reflecting the fact that long-term economic planning is still premised on expectations of substantial hard currency earnings from gas sales abroad. The official deficit was only 1 percent of GDP, but this figure is meaningless given the large share of off-budget expenditures. On the positive side, inflation was reduced significantly and moderate progress made on pricing and trade liberalization. However, the inability of the country's gas customers to pay for deliveries and a drastic reduction in revenues from Turkmenistan's other main export, cotton, led to continued problems in servicing Turkmenistan's external debt and severely constrained growth performance. Significantly, Turkmenistan is the one country in the Central Asian region that did not have an IMF program in place during the 1995-1996 period.

There are encouraging indications that the government recognizes the failure of its former economic development strategy and is willing to begin to adopt economic reform policies. In 1996 the government applied macroeconomic reform measures recommended by the IMF and the World Bank, including tightening monetary and fiscal policies, liberalizing foreign exchange conversion, liberalizing most prices and loosening export controls on agricultural commodities. The government recently annnounced its intentiont design and implement a mass privatization program, with World bank support. These policies are a clear step in the right direction.

However despite this recent progress, the reforms instituted and implemented thus far have not yet turned arrest the decline in most economic sectors. In this regard, a primary constraint is that the state sector continues to dominate the economy, engendering major economic distortions remain that cause severe misallocation of financial and real resources. In addition the budget process has yet to be rationalized in any serious way - particularly disturbing isince given the lack of progress on privatization there continues to exist a complex web of direct and indirect subsidies from the state to the enterprise sector. Of major concern is the almost total lack of rationality in the allocation of scarce public investment resources. Thus major public showcase investments have been made over the past few years in more than 20 luxury hotels that remain almost empty in Ashgabat; while basic physical and social infrastructure conditions deteriorate markedly. Mismanagement and centralization of the

agricultural sector have also led to poor harvests of the critical wheat crop, in addition to cotton; although recent measures to provide usufructury rights to land plots to private farmers represents a tentative step in the right direction.
In spite--or perhaps because of--the continued weak performance of the economy, the government remains committed to its policy of heavily subsidizing utilities, social services, energy products, and basic food commodities. While understandable from a political perspective, these subsidies are difficult to sustain under current economic circumstances.

b. USAID's Program Response

The main goal of USAID/CAR's development program in Turkmenistan is to promote sustainable economic growth. To do so in the Turkmen environment, the Mission assists, where possible, in putting in place the basic building blocks of a market-oriented economic system. In this connection, recent steps by the Government of Turkmenistan to promote economic restructuring have provided an opportunity for USAID/CAR to offer more substantial assistance in the area of market transition. To do so, USAID/CAR has developed strategic objectives in Fiscal Reform and in Private Enterprise Growth for Turkmenistan.

Fiscal policy reform is critical to the establishment of a stable investment planning environment and to the facilitation of efficient planning and delivery of public goods and services. Such reform must be accelerated in Turkmenistan if private-sector-led economic growth is to rapidly develop. Also, to guarantee appropriate implementation of such reforms, the management capacity of Turkmen officials must be dramatically improved.

To address these two areas of fiscal reform, USAID/CAR's Fiscal Reform Team will focus on budget reform and budget planning and analysis. In the first area, USAID/CAR will ensure that the budget process will be rendered more transparent. The aim will be to demonstrate to policy makers the exorbitant financial costs incurred by maintaining unmonitored state control over the country's productive assets. Thus USAID will work to ensure that appropriate budget reform
legislation is passed and that a greater proportion of overall expenditures are included in the official budget. In the second area, USAID/CAR will build on the work of the International Monetary Fund (IMF) in the budget classification and reporting area to introduce basic cost/benefit analysis concepts into the budgeting process and create basic linkages between expenditure levels and patterns and program outcomes. The principal aims will be to rationalize and tighten the overall budgetary planning process. If these initial efforts are successful, USAID/CAR will deepen its budget support during 1998-2001. However, if the Government does not move forward with fiscal reform, this effort will be terminated.

In March 1997 the government promulgated a new comprehensive petroleum law which institutes for the first time a modern framework for production sharing agreements to attract foreign investment. To promote enterprise growth, USAID/CAR's Private Enterprise Team will capitalize on Turkmenistan's strong interest in attracting foreign investment to effectively exploit the country's vast energy reserves. In this connection, the Mission team will adopt a

three-pronged strategy. First, the Mission will provide technical support during 1997 to promote greater awareness on the part of Turkmen policy makers of the legal and regulatory reforms for accession to the World Trade Organization (WTO). If this effort has an impact, the Mission may expand its technical assistance through 2001 to include support for the formal WTO negotiation process. Second, if WTO support is effective, the Mission will further expand its assistance during FY 1998-2001 to include technical support in the broader commercial law area. This would include reforms designed to facilitate the formation and operation of private businesses; by simplifying business registration and licensing requirements and promoting protection of basic business contractual rights. Third, further funding will be provided for the Central Asian-American Enterprise Fund (CAAEF). This entity assists new private businesses to develop and expand business operations. Already it has made commitments for three investments totaling $5.2 million, and its small loan program has approved eight loans totaling $529,000. Funding will also be provided to the International Executive Service Corps (IESC) program in Turkmenistan to provide business plan development services to CAAEF clients.

Reinforcing the work of the teams for Fiscal Reform and Private Enterprise Growth, Turkmenistan's participation in a regional oil and gas initiative as well as in regional agreements on water use should also offer many opportunities to implement legal and regulatory change. In this regard, the Mission's Regional Team for Energy and the Environment will focus on facilitation of trade and investment through improved policies and regional cooperation. The Mission strategy in this area is detailed in the Regional Strategic Plan, which is predicated on the gains to be realized regionally by exploiting the complementarities of regional cooperation in energy and water development, including cooperation in energy trade and investment planning, agreement on water use rights to exploit hydroelectric potential, increased energy trade among CAR countries, and movement to a regional power pool.

Complementing the entire program will be the Mission's training activities under SO 4.2 (Cross-Cutting Programs) which focus on preparing and persuading decision-makers to adopt policy changes. During the initial stages from 1993 through 1995, the program was based on U.S.-based training. Courses were offered in a variety of areas, including drafting legislation, international contracting, and national budgeting. Other donors have cited this work as one reason why Turkmenistan appears to be more open to change. The new program for FY 1997 and beyond includes an emphasis on less expensive but highly effective in-country and third-country training. Greater emphasis will be placed on the actual implementation of policies to reinforce the reform interventions in the fiscal and private enterprise arenas. This training effort benefits Turkmen at all levels by training qualified public officials who are more open to the adoption of laws and regulations that are transparent and foster the growth of markets and democratic governance.

c. Relationship to Other Donors and USAID Comparative Advantage

The International Monetary Fund (IMF) provides the Government and the Central Bank of Turkmenistan with technical assistance and consultancy services in all areas of macroeconomic policy. Building on IMF work, USAID/CAR assistance in fiscal reform will complement IMF interventions by expanding budget reform efforts into the budgetary planning area. This work will build on budget analysis reform technical support and training activities USAID has carried out intensively in a number of CAR countries over the past two years. USAID/CAR assistance to promote private enterprise growth will complement European Unions' development program's (EU-TACIS) activities which focus on privatization and private sector development. The Europeans take a case by case approach, working with individual private sector firms and specific state-run enterprises. By contrast USAID/CAR's strength lies in its ability to provide an ongoing intensive in-country focus on the interrelated set of policy and administrative reforms that will facilitate an improved trade and investment environment for all firms; and that will promote integration into the international trading and financial community. USAID/CAR's strength also lies in the fact that the Mission has already conducted work in other CAR countries in budget, trade and investment, privatization, and in oil and gas.

2. Strategic Assistance Area 3: Social Transition

a. Constraints and Opportunities

The Government of Turkmenistan wishes to avoid the social trauma associated with rapid change in the economic and political climate. However, more than five years after independence, life for the average citizen of Turkmenistan remains difficult. As described in the section on market transition, hardship caused by inflation, poorly-funded government services, and the tremendous economic costs of maintaining a state-run economy have meant that the majority of Turkmenistan's population, particularly outside the capital city, lives with hunger and disease, particularly in the harsher winter months. The effects of this situation are telling and provide ample opportunity for positive change through engagement in the health sector. However, the fundamental causes of this situation must be addressed by overhauling the economic and political framework of Turkmenistan.

b. USAID'S Program Response

Work by USAID/CAR's Social Benefits Team cannot be initiated until further demonstration by the Government of Turkmenistan that it is seriously committed to moving ahead with reforms to a market-oriented economy and a democratically-based form of government. However, health-related activities will be funded with health earmarks (SO 4.1). It is anticipated that the mission will continue to receive such funds for the next several years.

The medical partnership, established in 1993 and currently in the graduation phase, has trained staff at 31 institutions in modern hospital management. It also helped establish a cost accounting department at its partner Turkmen institution which led to a marked reduction in

the average length of hospital stays. Fee-for-service medical care now accounts for 10 percent of the partnership hospital budget.

USAID/CAR's Social Benefits Team is also using family planning earmark funds to focus on the social marketing of contraceptives and, more generally, in pharmaceuticals. Success in this area will depend on the creation of a more open and competitive commercial sector. Hence, the interventions planned in market transition regarding general regulatory issues related to trade restrictions in the commercial and marketing sector will strongly complement the Mission's social marketing work.

Other earmark monies have funded Ashgabat's two fully equipped service delivery and clinical sites for reproductive health. These sites have the institutional capacity to train clinicians throughout the nation in reproductive health. Funds will also be directed toward public health priorities in the prevention and control of infectious diseases such as tuberculosis and typhoid.

c. Relationship to Other Donors and USAID Comparative Advantage

In 1994, USAID provided input into a World Bank effort to reform the health sector at the invitation of the government. A rationalization plan was developed for one velyat (state). USAID actively collaborates with the World Bank in this area. USAID was the lead donor in family planning. Turkmenistan has one of the highest fertility rates in the region with only a small proportion of the women using modern contraceptives. As USAID's resources in Turkmenistan have decreased, other donors such as the United Nations Population Fund (UNFPA) and United Nations Children's Fund (UNICEF) are providing assistance in reproductive health and maternal and child care. Training materials developed by USAID technical assistance are incorporated into UNFPA programs.

3. Strategic Assistance Area 2: Democratic Transition

a. Constraints and Opportunities

The desire on the part of the Government of Turkmenistan to avoid the social trauma inherent in rapid change underlies its political decisions. The leadership exercises firm authoritarian control over a highly centralized government structure. There is no press freedom and no tolerance of dissident political activities. However, advances have been made. In October 1996 the President opened the Institute for Democracy and Human Rights (IDHR), which has a mandate to foster democratization of the state and society and to monitor the protection of human rights. The IDHR is headed by members of the parliament and can play a key role in developing legislation to modernize political institutions. Although still in its formative stage, the IDHR could become a vehicle of change over time. The parliament has an active role in drafting and debating legislation. This body recently requested USAID assistance in providing databases of laws in Russian. It plans to use these laws as blue prints for new legislation. A small but active community of Turkmen non-profit organizations is developing. In spite of

bureaucratic obstacles to organizing and registering, committed groups of civic-minded individuals are doing important work in a variety of areas.

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b. USAID's Program Response

Although Turkmenistan is not ready for the full implementation of USAID/CAR's Strategic Objective for Citizen Participation (SO 2.1) due to its constrictive political climate, modest efforts are planned under Special Initiatives (SO 4.1) and Cross-Cutting Programs (SO 4.2) to foster democratic concepts, expand information flows, and increase the role that local citizens play a greater role in the economic and political life of Turkmenistan. Under Special Initiatives, USAID/CAR's Democracy Team will provide databases of legislation in Russian language to the parliament in an exploratory effort to determine the extent of the Government receptivity and commitment to reform. In early 1997, a USIS-sponsored expert on the ombudsman concept advised the IDHR on responding to citizens' complaints of government malfeasance. IDHR has also received assistance from the UNHCR and the EU. USAID/CAR will coordinate with these and other donors on the assistance and advice to be provided to the institute for democracy and human rights. Activities may include a legislative expert for the IDHR.

Initiatives in the NGO sector will also be placed under Special Initiatives. NGO development programs active elsewhere in Central Asia will be used in Turkmenistan as appropriate. USAID/CAR is working on the assumption that, with encouragement and practical help, some of the small groups with an interest in building a civil society can develop into true NGOs. The local press has carried positive articles about some of these groups, their activities, and the ways in which volunteer citizen activism benefits society. After a long period of delay and frustration, a very active and effective Ashgabat organization completed the registration process and became one of the few officially registered NGOs. This success has encouraged some of the other NGOs to consider pursuing the formal registration process as well. If the Government continues to be reasonably receptive, USAID will increase its assistance to NGOs and consider a program of technical assistance with the parliament and the Institute for Democracy and Human Rights. NGO assistance needs only for the government to continue to allow the existence of NGOs. Close coordination on assistance to the parliament will occur with the United Nations.

Under SO 4.2's Cross-Cutting Programs, the Eurasia Foundation makes small grants on an on-going basis to support economic transition, promote better delivery of public services, and encourage greater citizen involvement in civic decision-making. The Eurasia Foundation opened an office in Ashgabat in 1996. To reinforce interventions under Special Initiatives and Cross-Cutting Programs, USAID/CAR will continue to use its training program to reinforce the principles of participatory democratic development.

c. Relationship to Other Donors and USAID Comparative Advantage

As initial efforts in democratic development are undertaken by USAID/CAR, other donors will be consulted to determine how to most effectively use Mission resources in Turkmenistan. The Mission's comparative advantage lies in its five years of experience both in Turkmenistan and in democratic development in Central Asia. In this regard, lessons learned about citizen involvement in public life, NGO creation and development, and use of information will greatly assist the Mission in its modest efforts to introduce democratic principles in Turkmenistan. In this connection, EU-TACIS has already assisted with development of a civil code, and the UN is working on civil service legislation.

C. Summary Rationale for Strategic Objectives

USAID/CAR developed its first strategic plan for the entire Central Asian region in December 1993. At that time, the mission had been in operation for only one year, and Turkmenistan was taking tentative steps to transform itself from a Soviet republic to an independent country. To help with this process, USAID/CAR's plan presented a strategic approach based on three principles: assisting Central Asian countries to establish legal and regulatory environment to support market-led economic growth; assisting Central Asian countries to establish a political, legal and regulatory environment to support democratic governance; and, finally, easing the adverse human and social impact of transition by developing private sector capacity to deliver health services. In addition, the plan addressed the regional problem of the degradation of the Aral Sea.

The three major themes still apply to Turkmenistan but Turkmenistan has advanced and Mission knowledge of this country has deepened and broadened to require a very specific treatment of activity areas, as follows:

SO 1.2 Fiscal Policy and Management

Budget reform is critical to Turkmenistan's long-term growth prospects, particularly in the area of providing a stable investment planning environment. Key results sought under this SO include improved budget analysis and planning and ensuring that decision-makers understand the high financial costs of maintaining state control over the productive apparatus. Among other donors, only the IMF has been engaged in these two areas through its work with the Ministry of Finance. USAID’s prior assistance on budget reform in Kazakstan, Kyrgyzstan, and Uzbekistan gives the Mission a key advantage in these areas. The Government appears committed to these activities.

SO 1.3 Private Enterprise Growth

Turkmenistan has significant interest in creating a policy, legal, and regulatory environment to attract foreign investment. To respond to this interest, the Mission's Private Enterprise Team plans to promote WTO accession, broaden work in commercial law, and develop private entrepreneurial capacity. Because of USAID's key role in these areas in other countries in the

CAR region, the Mission is well placed to spearhead this effort in Turkmenistan. We rate the commitment of the Turkmen Government to these reforms as medium to high because of its strong interest in foreign investment and membership in the WTO.

We summarize below the comparative importance of our two strategic objectives and the two Regional Objectives which are also part of the Mission's program in Turkmenistan. Priorities may change from year to year.

SO	OBJECTIVE TITLE	RANK
1.2	Increased Soundness of Fiscal Policies and Fiscal Management Practices	1
1.3	Accelerated Development and Growth of Private Enterprise	3
1.5	A More Economically Sound and Environmentally Sustainable Energy System as the Primary Engine of Economic Growth	2
3.3	Reduction in Regional Economic and Political Tensions Generated by Transboundary Environmental Issues	4

D. Customer Focus

In the fall of 1996, USAID/CAR developed a customer service plan which was widely distributed in the CAR region. This plan outlined the Mission's methods for understanding and responding to the needs of USAID/CAR's main customers in Central Asia and in the United States. These customers include U.S. taxpayers, U.S. business, the U.S. Congress, the host country, other donors, PVOs, and implementing partners. In all aspects of work with this broad array of groups, the Mission has focussed on promoting sustainable economic growth by providing support for the establishment of a market economy based on democratic principles. This work includes measures that promote direct foreign investment, including U.S. investment.

As regards U.S. taxpayers and U.S. business, the Mission has worked with Embassy officers, the Foreign Commercial Service (FCS), and local counterparts to benefit the United States. In this connection, USAID/CAR has seized opportunities to use key interests of the Turkmenistan Government such as WTO accession to promote our comprehensive policy, legal, and regulatory agenda. Fully supported by the Embassy and FCS, this systematic approach is expected to yield an improved business climate for American interests in Turkmenistan. To effectively identify obstacles to address under this approach, the Mission meets directly with local business people and participates in regularly scheduled roundtables with the business community. As an example, the issue of foreign currency convertibility was discussed at a recent roundtable.

The U.S. Congress is also an important customer of USAID/CAR. The Mission is responsive to their requests regarding use of earmark funds and special interests. A recent illustration of close and effective cooperation is an emergency medical service (EMS) training center in Ashgabat, a project being conducted with the Richmond (VA.) ambulance authority.

The people of Turkmenistan are, of course, the key customers for the field mission. To identify and address their needs, our primary method is direct dialogue with key officials, policy makers, community leaders, international donors, and USG Mission staff. Sustained dialogue has deepened our understanding of Turkmenistan's reform priorities. Likewise, donors are sharing their insights. These kinds of exchanges have contributed to USAID/CAR's decisions to undertake technical assistance in budget planning and analysis, to shape health training to address the ministry of health's interest in family practice, and to initiate a significant technical assistance program in the oil and gas sector.

To cement customer understanding of the purpose and direction of the Mission program, USAID/CAR has launched a media initiative to inform our customers, especially the local public, about USAID/CAR work and the benefits of reform. This initiative involves production of brochures in English and Russian on USAID/CAR programs in Turkmenistan. This initiative also involves the distribution and broadcast of over 45 video programs and radio shows about reform to media enterprises, partly through the assistance of the USAID/CAR-supported Resource Center for returned training participants and the general public in Ashgabat.

Finally, the Mission works closely with other donors to assure effective coordination of activities. Although these entities are not technically our "customers," the Mission's work with them ensures that our customers enumerated above are better served. Regular donor coordination meetings with the World Bank, international donors, embassies, and the Turkmenistan government provide a forum for discussion of ongoing and planned work in specific technical areas. In addition to these meetings, smaller sub-groups meet to discuss and coordinate activities in privatization, agriculture, environment, etc. USAID/CAR in Ashgabat works particularly closely with other donors with regard to NGOs and to the Institute for Democracy and Human Rights and NGOs. The Mission also co-sponsors activities and share costs with other donors, such as budget workshops with the UNDP. Additionally, health is a key area for donor coordination. One notable example is the development of the World Bank health sector loan. USAID made technical assistance available to the World Bank team during the design phase. This assistance was based on lessons learned in health reform in other Central Asian republics.

E. Graduation Prospects

It is obviously too early to judge the time frame for Turkmenistan to achieve a lasting transition to a market-based democracy. The country's deteriorated infrastructure and limited economic base in comparison to some of its neighbors present impediments to rapid economic

and democratic development. The time required will critically depend on the political will of the Turkmenistan Government which appears to be at the "takeoff" point for economic and political reform. Official interest in activities requiring significant reform such as WTO accession provide an opening for meaningful assistance in market transition. Also, the recently established Institute for Democracy and Human Rights may be a favorable sign that the Turkmenistan Government has become more accepting of political freedom.

To make full use of such opportunities, the USAID/CAR program is being formally organized along strategic objective lines. Resource constraints, however, may limit the comprehensiveness of our program even as new opportunities arise. USAID/CAR will work to ensure that necessary resources are available.

F. Environment Issues

Environmental issues relating to biodiversity will not be a major focus of the Mission program over the next five years. Rather, Mission activity in the environment area will center on the integration of environmental concerns into economic reforms, notably legislation to establish environmental standards for natural resource exploitation. Also, the Mission will continue to monitor development in the Aral Sea Disaster Zone where substantial USG resources have already been invested in the construction of a potable water plant. The ENI region does not contain any tropical forests.

Part II: Rationale and Plans for Strategic Objectives

Strategic Objective 1.2

Increased Soundness of Fiscal Policy and Fiscal Management Practices

A. Statement of Strategic Objective 1.2

Increased Soundness of Fiscal Policies and Fiscal Management Practices

B. Problem Analysis

Turkmenistan is the country within the CAR that has been the slowest in moving towards market liberalization. For several years after independence, Turkmenistan took little initiative in privatization and financial sector reform. It maintained price controls on a range of basic consumption and energy product and a complex consumer and producer subsidy system, and did not liberalize its trade regime adequately. The country now understands the necessity for systematic economic reform. It has reduced price controls, initiated agricultural and industrial privatization programs, has liberalized regulations related to foreign investment, and is actively seeking expertise from the donor community. However, Turkmenistan remains the one country in the CAR which has not had an IMF Program in place during the 1995-96 period.

One of the areas in which the country needs to promote systemic reform is in the fiscal policy area. Fiscal policy reform is crucial to providing a stable investment planning environment, and facilitating the efficient planning and delivery of public goods and services (particularly infrastructural investments) in a manner which will support increased private investment and economic growth. Without acceleration of fiscal reforms, and a dramatic improvement in the management capacity of the Government to sustain such reforms once implemented, the prospects for private-sector led economic growth in Turkmenistan will remain limited.

C. Progress, Program Approaches, Other Donors

Fiscal Reform Performance

Fiscal reform in Turkmenistan requires drastic acceleration. Most particularly the budget process in Turkmenistan is in dire need of a complete overhaul. The official deficit for 1996 was approximately 1 percent of GDP. However this is a very misleading figure - approximately 60 percent of all government expenditures in Turkmenistan are off-budget. Given that inflation in 1996 was over 400 percent, this would strongly imply a significantly higher deficit.

Budget Reform Performance and Requirements

In addition the government has not introduced any type of measures to rationalize the expenditure determination process for those expenditures which are part of the central government budget. Expenditure planning is based on historical expenditure patterns and expenditure norms which are not tied to any direct program outcome measures.

Public investment planning is highly irrational, with major showcase investments in hotels being undertaken while basic physical and social infrastructure deteriorates markedly. In addition the Ministry of Finance (MOF) budget staff which oversees the annual budget request and planning process is understaffed and under-trained.

At the same time the Ministry has made significant progress in developing a systematic budget reporting and tracking system. An IMF Treasury advisor has worked with Ministry staff over the past two years to set up a functioning Treasury System. Under this system a unified budget accounting structure has been set up and an organized budget reporting and tracking system implemented. In addition a revised modern budget classification system has been designed and is currently being implemented. Thus for that portion of the budget which is operated directly through the MOF, effective budgetary oversight and control mechanisms have been established.

Within the current economic policy context, budget reform is a potentially crucial policy area for opening up dialogue on broader reform issues. At this point, the Government seems unprepared to completely eliminate its price control system. The peculiarly opaque nature of the budget process in Turkmenistan makes it very difficult to establish with any degree of clarity the very real financial costs of maintaining state control over the productive apparatus of the country.

The costs to the economy of the web of producer and consumer subsidies still in place combined with the high opportunity costs of the showcase public investments which have taken place over the past several years make it difficult to clearly understand the secretive budget process. Were the costs brought under tighter scrutiny, it would at least allow decision-makers to understand fully the fiscal and economic implications of continuing to maintain a statist economic development strategy.

At the same time the progress made on the budget reporting and tracking side and the budget classification system for that share of the budget which is overseen through the MOF does indicate some willingness to move forward with reforms in the budget area. Of course improving budget tracking capability in and of itself is of little value, if (1) the system is only applied to a minor portion of the budget; and (2) no changes are made in the budget planning process to increase the rationality of initial budget allocation decisions.

Fiscal Reform Support Strategy

USAID/CAR will attempt to build upon the opening within the MOF established by the IMF Treasury Assistance Program, by developing a support initiative in the budget planning area. USAID/CAR will provide long and short-term advisory support in the budget analysis and planning area beginning in FY 97, supplemented by modest training resources.

The aim of the support will be to rationalize and tighten the annual budgeting process, introduce basic program analysis concepts into the budget planning process, and introduce

explicit cost/benefit techniques into the public investment planning process. In addition support will be provided to fully implement the new modernized budget classification system.

Finally, systematic efforts will be made to widen the coverage of the budget planning process to include a greater proportion of overall expenditures - ie. to reduce the share of "off-budget" expenditures. This is absolutely crucial to significantly improving the overall rationality of the budget planning process, as well as establishing firmer control over aggregate public expenditure levels.

Finally, it is crucial in order to bring to light the huge costs associated with maintaining the current state-dominated system of production and distribution. Thus this effort, if successful, could serve as the basis for establishing a dialogue on broader economic policy reform issues.

Initial efforts in the fiscal reform area will be modest in scope (one long-term advisor and a modicum of associated training support). These efforts will be aimed at:

- Agreement to develop and pass budget reform legislation;
- Progress in the design and adoption of rationalized budget planning measures and techniques;
- Accelerated implementation of the new budget classification system; and
- A reduction in the share of total expenditures which are off-budget.

D. Graduation and Sustainability

The fiscal reform support efforts targeted for Turkmenistan in 1997 are modest in scope. If the Government fails to display a willingness to move forward in the critical fiscal reform areas enumerated above during FY 1997-1998, the effort will be terminated.

However if progress is made in some of these core budget reform areas, then the technical and training support effort will be deepened during the FY 1998-2001 period; and close out after 2001. During that period budget reform legislation should have been passed and fully implemented; a transparent and well-ordered annual budgeting process developed and implemented; a rationalized budgetary analysis process developed and implemented which ensures a strong linkage between programmatic expenditures and performance outcomes; an annual public investment program budgeting exercise executed; and virtually all budgetary expenditures transparently included within the annual budget process. All support efforts in this area will be closely coordinated with the IMF, World Bank, and UNDP.

This is clearly a high risk effort, which is the reason that a relatively small amount of resources will be initially allocated to it. However as noted above, if the effort does bear fruit, it could be an effective vehicle highlighting the financial and economic costs associated with the Government’s inwardly-focused development policies. It could therefore play an

important role in establishing a more comprehensive dialogue with the Government on its overall economic development strategy.

Support for rationalization of Turkmenistan's budgeting process will begin in 1997. This support activity, if well received by the Government of Turkmenistan, will continue throughout the planning period. Fiscal reform is viewed by the Mission as a core activity and the relatively modest funding budgeted for this activity is not varied in the various budget scenarios presented during the planning period.

INSERT TREE FOR SO 1.2 HERE

TURKMENISTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						1996		1997		1998		1999		2000		2001	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	**Increased soundness of fiscal policies and fiscal management practices**	**1. General government deficit as a % of GDP.**	**Definition: Expenditures (cash & accrued basis) less revenues as % of GDP Unit: Percent**	1995	1.6		1.0	0.6		0.2		0.1		0.095		0.09	
IR 1.2.1	**Central government shifted roles and responsibilities as primary fiscal manager and regulator vis-a-vis local government, state owned enterprises and private sector**	**No activity**															
IR 1.2.2	**Government of Turkmenistan complied with the International Financial Institution's conditions.**	**Other donor activity**	**Unit: Yes - No - Partial**				N	P		Y		Y		Y		Y	
IR 1.2.4	**Improved budget management.**	**Off budget share of Consolidated National Budget**	**Definition: General fiscal deficit (accrued basis) less general fiscal deficit (cash basis) as % of GDP. Unit: Percent**	1995	n/a		n/a	5		3		2		1		0	

IR 1.2.1.2	**Roles and responsibilities of different levels of government clarified**	**No activity**															
IR 1.2.4.2	**Government borrowing is less inflationary**	**CBT share in deficit financing**	**Definition: Share of CBT credit to the government as a percentage of total deficit financing** **Unit: Percent**	1995	n/a		100	60		50		40		30		20	
IR 1.2.4.1	**Expenditure allocation process rationalized**	**1. New budget classification system is in place** **2. Budget Law passed** **3. Treasury Law passed**	**Unit: Yes - No - Partial**	1995	N N N		N N N	P N N		Y Y Y		Y Y Y		Y Y Y		Y Y Y	
IR 1.2.4.1.1	**All government expenditures are included in the national budget**	**Government expenditures not included in the national budget**	**Definition: Percent of government expenditures not included in the national budget**	1995	n/a												

E. Results Framework Narrative

Strategic Objective 1.2 Increased soundness of fiscal policies and fiscal management practices

I. Transition Hypothesis and Underlying Rationale

As in other Central Asian countries, development of the private sector in Turkmenistan has been hampered by macroeconomic instability resulting from weak fiscal policies. To combat this situation, the strategic objective focuses on strengthening the expenditure side of fiscal policies initially, to provide a more rational allocation of scarce government resources.

II. Critical Assumptions

Until recently, Turkmen officials had not been open to reform in the budget process. Likewise, privatization of medium-sized industry has just gotten underway. The Government of Turkmenistan has had productive meetings with assessment teams from the World Bank, the International Monetary Fund, and others on how to pick up the pace of economic reforms. Work in the current fiscal year is based on the assumption that this work will go forward.

III. Causal Linkages

Two primary results need to be achieved by USAID in concert with its partners if this strategic objective is to be accomplished in any meaningful way:

- Compliance by the Government of Turkmenistan with the conditions set forth by the International Financial Institutions (the IMF and World Bank in particular). This compliance is necessary to obtain further financial assistance from these institutions. Without the leverage from these institutions, USAID's efforts will be much less effective.

- The central government budget must be better managed, by including all or nearly all government expenditures within the budget. This is key to further progress in rationalizing fiscal policies.

New initiatives are being discussed, and the International Monetary Fund and World Bank are developing a support program. If these new initiatives are not successful or if other donor support is not forthcoming, problems could arise.

Strategic Objective 1.3

Accelerated Development and Growth of Private Enterprises

A. Statement of Strategic Objective 1.3

Accelerated Development and Growth of Private Enterprises

B. Problem Analysis

Turkmenistan remains, at this point, a state-dominated economic system. The basic legal and regulatory infrastructure which would support the development of a vibrant indigenous private sector and attract foreign investment is not in place. The economy is in an extremely precarious position, dependent upon two export products - natural gas and cotton - for approx. 75 percent of its foreign exchange revenues.

However recent the Government indicated in April 1997 that it is willing to discuss serious commitments towards accelerated privatization progress with the World Bank. An opening for intensified progress in the development of the overall private sector may now exist.

C. Progress, Program Approaches, and Other Donors

Legal and Regulatory Reform Status and Support Strategy

To date, the Government has done very little to put in place a legal and regulatory framework which would support the development and growth of a vibrant private sector. However the Government is extremely interested in attracting foreign investment into Turkmenistan (in large part in order to promote the more effective exploitation of the country's primary resource base). As a result it appears quite interested in further integrating itself within the international financial and trading community. In particular it has significant interest in membership in the World Trade Organization (WTO).

WTO Support Requirements and Program

USAID/CAR has opened a dialogue at senior levels of the Government, and found a strong desire for technical support in the area of defining:

- WTO membership requirements
- Legal and regulatory environment adjustments that would be necessary in order for Turkmenistan to join the WTO

USAID/CAR plans to provide a modest technical assistance and training program in FY 97 designed to promote a greater awareness on the part of senior Government policy-makers of the breadth of the investment and trade-related legal/regulatory reforms required for WTO accession; and to provide associated technical support for design and implementation of these reforms. This will initially take the form of a long-term advisor who will be focused on constraints in the investment and trade regime which inhibit open flows of financial resources

and commodities; and which inadequately protect the property ownership and control rights of private investors.

USAID/CAR has found in other countries that WTO-related discussions have served as an effective prism through which to focus the attention of key policy-makers on the need for investment and trade-related reforms which have economic liberalization implications extending far beyond WTO membership considerations. If this effort appears to be having an impact in Turkmenistan; it could be expanded during the next several years to include technical support for the formal WTO negotiation process.

Commercial Law Reform Support Strategy

In addition, if WTO support efforts appear to bear fruit they could eventually be expanded to include technical and training support in the broader commercial law area. This would be designed to promote the development and adoption of legal/regulatory reforms which would facilitate the formation and operation of private businesses. This support effort would begin in 1998; assuming of course that the Government was in fact responding positively to the WTO-related policy recommendations made by USAID advisors. It would focus on technical and training support designed to develop the commercial law infrastructure required to (1) appropriately define the property ownership and transfer and commercial transactions rights of market agents; and (2) develop systematic institutional capacity to enforce the commercial rights of market participants.

Though at this point it is difficult to evaluate the Government's long-term commitment to trade and investment liberalization measures, there are factors which present cause for limited optimism. First, it is unlikely that the constraints facing the country in terms of finding more cost-effective export channels for its natural resource-based export products will be resolved during the next few years. Thus it will face significant external financing pressures during that timeframe; with concomitant pressure to (1) attract foreign investment; and (2) gain concessional financing from the donor community.

In addition, the Government is observing and will continue to observe the economic progress being made by those CAR neighbors which have moved forward more aggressively in the economic policy reform area. This is particularly relevant for Kazakstan and Kyrgyzstan, which both experienced modest real GDP growth in 1996 and which are both moving swiftly towards WTO membership. Finally, the Government's own enthusiasm for WTO membership - assuming this continues once the stringent requirements for membership become clearer to Government policy-makers - could drive an acceleration in investment climate-related legal/regulatory reform measures.

Nonetheless this effort remains, in light of the current economic policy environment, a relatively high-risk endeavor. As a result the initial commitment of resources will be limited in FY 97 (one long-term advisor supplemented by approximately six months of short-term legal expertise); with resources to be expanded over the next few years if the Government

policy response is favorable. All activities in this area will be closely coordinated with the EU and World Bank.

Support for Development of Entrepreneurial Capacity

The other major private sector support initiative funded by USAID/CAR in Turkmenistan is the operation of the Central Asian American Enterprise Fund (CAAEF). The CAAEF has had an office operating in Turkmenistan for over a year. It is providing equity and loan financing to aspiring private entrepreneurs. It has thus far made commitments for 3 investments totally approx. $5.2 million. Its small loan program, operated through a number of Turkmen commercial banks, has approved 8 loans for a total of $529,000. Most of the equity and loan financing operations are concentrated in the food processing and textile sectors.

USAID has started a modest IESC program in Turkmenistan, which is targeted virtually exclusively at providing business plan development services for potential CAAEF clients. USAID/CAR has found that in other countries with a larger CAAEF presence, IESC and other business development-related NGO's have proven invaluable in helping the CAAEF target viable clients. They have also (most particularly in the case of IESC) provided valuable post-investment business development support. USAID also plans to addess human capital development constraints beginning in 1998 by supporting the formation of a partnership between a major Turkmen higher education institution and an American academic institution. This program would continue through the 1998-2005 period. It would include student and faculty exchanges and build a permanent dialogue on economic education and policy issues between an innovative and influential economics training institution in Turkmenistan and a major university in the United States.

D. Graduation and Sustainability

As noted above, initial support efforts in the investment climate area will be limited, as Government willingness to reorganize a serious WTO accession effort and begin to move towards basic investment climate liberalization measures is accessed. Assuming significant progress is made, support for WTO accession would continue and be deepened during the 1998-2001 period. At that time the country would be expected to have completed its multilateral negotiations and to have gained accession to WTO; and to have initiated comprehensive enactment the trade/investment reform measures required for WTO membership. In addition under this scenario, support for broader commercial law infrastructure development would begin in 1998, continuing at least through the year 2002.

USAID plans to continue a modest level of IESC support through at least the 2001 period. IESC activities will (1) support the effective targeting of private entrepreneurs for the scarce financial resources of the CAAEF; and (2) maintain support for private entrepreneurial development while major policy constraints are being addressed. USAID will also support the development of economic policy-related training capability through a partnership program through year 2005.

This SO covers trade and investment support (including eventual support for WTO succession if and when the Government of Turkmenistan begins to move aggressively in this direction) and support for IESC volunteers.

In the budget years FY 1999-2001, if the budgets allocated for Strategic Objectives in Fiscal Reform and Private Enterprise Growth were reduced by from 6 percent to 20 percent, the cuts would occur in Private Enterprise Growth. Hardest hit would be the IESC program, an important activity that is nonetheless not part of the core program.

INSERT TREE FOR SO 1.3 HERE

TURKMENISTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1997		1998		1999		2000		2001	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Total	Actual	Total	Actual
SO 1.3	Accelerated development & growth of private enterprises	Increase in private sector GDP market shares	Definition: Share of GDP generated by private enterprises Unit: %	1996	0.00	30.0		40.0		50.0		55.0		60.0	
IR 1.3.1	Improved operating environment for private sector growth	Increase in private sector capital investment	Definition: % of total capital investment in private sector Unit:%	1996	0.00	10.0		30.0		50.0		57.0		62.0	
IR 1.3.1.1	Improved policies, laws and regulations in place to ensure competition and allow for easy market entry and exit	1. Critical policies, laws and regulations that are consistent with international standards are published	Definition: Number of policies, laws and regulations published with drafting and implementation assistance provided by USAID Unit: Number	1996	0.00	10		15		17		20		23	
		2. Significant bodies of law and international conventions that promote legal basis for the growth of market economy	Definition: Major legislative initiatives (more than 50 sections), treaty accessions, and significant policy determinations drafted or implemented with USAID assistance Unit: Number	1996	0.00	5		7		8		8		7	
IR 1.3.1.2	Administrative agencies strengthened to enforce policies, laws, and regulations	Number of legal and administrative positions filled with personnel trained by USAID	Definition: Number of key legal and administrative positions filled USAID trained professionals Unit: Number	1996	0.00	30		100		200		220		250	

IR 1.3.1.3	Business and business advocacy groups strengthened	1. Number of groups benefitting from USAID assistance (e.g. NGOs, PIFs)	Definition: Number of groups receiving USAID advice Unit: Number	1996	0.00	10		12		15		17		20	
IR 1.3.1.4	Government of Turkmenistan complied with the International Financial Institutions' conditions	1. Compliance	Definition: GOTX adheres to conditions set forth by the IFIs for additional assistance Unit: Yes or No	1996	Y	Y		Y		Y		Y		Y	
IR 1.3.2	Human resources improved to function in a market economy	1. Number of people trained (excluding 1.3.1.3)	Definition: Number of people trained through seminars, roundtables or one-on-one encounters Unit: Number	1996	0.00	150		300		600		650		700	
IR 1.3.3	Increased availability of and access to capital and technological resources for the private sector	1. Loan and joint venture funds invested	Definition: Dollar volume of joint venture funds invested Unit: Dollars (millions)	1996	5.2	7		10		12		14		15	
		Comments/Notes:													

E. Results Framework Narrative

Strategic Objective 1.3 Accelerated development and growth of private enterprises

I. Transition Hypothesis and Underlying Rationale

Private business growth in Turkmenistan is hampered by limited progress in privatization and the very nascent stage of its financial market development. Nonetheless, opportunities for both domestic and foreign investment exist. The Central Asian American Enterprise Fund (CAAEF), headquartered in Ashgabat, has made a small number of investments. Limited progress has also resulted from a continuing dialogue with the World Bank and the IMF, including a new macroeconomic reform plan including themes emphasized by the IMF.

The three basic issues related to private sector growth hold true in Turkmenistan:

- First, a much more favorable legal and regulatory environment needs to be established. Key characteristics would include consistency, transparency, and efficient, comprehensible mechanisms for resolving disputes. Also, policy guidance and new legislation, once it is adopted, needs to be administered effectively.

- Second, the human resource base needs to be improved. Basic knowledge about the functioning of a market economy is often lacking. Many of the rudiments related to business planning, cost analysis, marketing, accounting, and other skills needed to manage and sustain a private business have yet to be properly introduced. Similarly, government officials charged with administering new laws and regulations need to be properly changed in their new roles and responsibilities.

- Third, inadequate access to capital and technology invariably emerges as a key constraint. Previously, government-owned businesses were "bailed out" by the infusion of cheap credit by government-owned banks, which in turn fueled inflation. Now firms have to finance their own operations and obtain credit for their own expansion; and to map out longer-term growth strategies.

Although lack of funding prevents USAID from fully addressing the full range of issues and concerns currently, opportunities do exist and do need to be developed within the context of a wider strategic framework. First, CAAEF is emerging as an important source of capital for private business in Turkmenistan; their own experience in working with the private sector can also inform program development in other areas. Second, USAID intends to initiate a trade and investment project in Turkmenistan in 1997. Reforms in trade and investment law would also benefit potential U.S. firms interested in doing business. Hopefully, these initial engagements in the legal and regulatory front will lead to other opportunities aimed at helping to improve the business environment in Turkmenistan.

II. Critical Assumptions

Continued work in this area hinges on at least two critical assumptions:

- First, the government complying with the international standards established by the World Bank and the IMF. Also, further progress will be made in both the privatization and financial markets areas.

- Second, Turkmen authorities continuing to be receptive to new ideas and approaches. As in other Central Asian countries, linking progress on a particular issue to Turkmenistan's credibility with international organizations and institutions is often a good approach for advancing policy dialogue. Hopefully, this interest will continue.

III. Causal Linkages

Lack of credit and concern over legal and regulatory environments are two concerns that go hand-in-hand. The quality of the human resource base for private sector development in Turkmenistan is also closely linked. Funding constraints prevent USAID from being as big a player in these areas as is the case in Kazakstan and Kyrgyzstan, but a combination of close cooperation with other donors combined with efforts to ensure that the experience and "lessons learned" from elsewhere are brought to bear on the Uzbek experience can make a difference. Close coordination in all these areas should ensure progress in achieving the Strategic Objective.

Strategic Objective 4.1

Special Initiatives

Health Earmarks
Improved Legal and Judicial Processes

A. Statement of Special Objective 4.1

Special Initiatives

B. Problem Analysis

Health Earmarks

USAID Regional Mission for Central Asia (USAID/CAR) anticipates receiving for the next several years Congressionally mandated earmarks in several areas: reproductive health, infectious disease, and medical partnerships. In the strategy submitted by USAID/CAR for Turkmenistan in 1993, health activities were placed within the Social Transition Strategic Assistance Area. Limited United States assistance resources were concentrated in health and family planning with particular emphasis on maternal and child health care. The rationale was to assist the country to begin the process of developing a health system appropriate for a market economy, and to introduce modern medical practices in fields which the Soviet system long ignored. Further, the strategy responded to tentative expressions of interest by the Turkmen in shifting the medical system toward greater private sector involvement, fee for service approaches, and health insurance schemes. Limited overall resources for Turkmenistan constrained full development of these initiatives.

Thus, in the 1997 strategy submission the health activities are placed under the Special Objective 4.1. This placement reflects a more accurate description of these activities. These earmark activities will continue to be shaped, to the extent possible, to support reform in the health sector. Since the Government of Turkmenistan has placed high priority on health reform, USAID will utilize these interventions to expose Turkmen to positive cooperative demonstrations of reform in this sector.

Under the reproductive health earmark USAID will focus on improving the availability of and access to modern contraceptives. In keeping with the Mission's overall strategy to promote market-oriented practices a modest program in social marketing of contraceptives will be initiated. Technical assistance and training will be provided to create an environment conducive to marketing of contraceptives through the private sector. When USAID initiated its Reproductive Health Services Expansion Program (RHSEP) in 1993 the only other donor in this health area was UNFPA which supplied contraceptives. UNFPA continues to provide some contraceptives. However, as the Government of Turkmenistan has undertaken some market reforms, USAID plans to use its reproductive health earmark within the framework of the larger market transition efforts in the specific area of trade and investment in the pharmaceutical sector, including contraceptives. It will use "lessons learned" from its contraceptive social marketing program in other Central Asian countries in designing the program and adapting it to the context of Turkmenistan. More specifically, the contraceptive social marketing program will:

- address regulatory and legal blocks to efficient conduct of pharmaceutical business (especially contraceptives); and

- develop and test marketing strategies geared to a "challenging" marketplace.

USAID will explore the possibility of conducting a Demographic and Health Survey in Turkmenistan. In conducting Demographic and Health Surveys in other Central Asian republics USAID has fostered the principles of a health system in a democratic society (i.e., citizen participation and openness of health data) as well a modern method of collection of health data. Depending on the magnitude of earmark funds, these funds may be used to support the development of advocacy nongovernmental organizations (NGOs) in women's health and general improvement of women's health status.

USAID/CAR would look forward to guiding further earmarks for medical partnerships to serving the overall Mission strategy for Turkmenistan as well as putting in place building blocks for a more aggressive health reform agenda. In this context, further medical partnerships should be directed toward the areas of family practice, medical education, nursing education, medical protocols in order to support the improvement of quality of care. This can best be accomplished by partnerships of health care educational institutions and associations specifically in the family health, obstetrical, pediatric, and pharmaceutical areas.

Under the infectious disease earmark USAID plans to focus on the public health priorities of prevention and control of infectious diseases with additional funds made available to address outbreaks and epidemics of infectious diseases as well as training to develop capacity to prevent such incidents from occurring. These funds will be used for work in surveillance and control focusing on specific disease entities. Support will be provided for regional approaches to control of communicable diseases. In addition, these funds will be used for emergency response to outbreaks of communicable diseases.

Citizen's Participation

Although Turkmenistan has a constrictive political climate, change is occurring slowly. With the embassy's support, USAID will undertake modest efforts, such as providing legislative databases to the parliament, support to community-based organizations and NGOs, and possible assistance to the Institute for Democracy and Human Rights. This work would normally fit well under SO 2.1 (Citizen Participation). However, USAID cannot commit itself to achieving this strategic objective in Turkmenistan. This initiative is an exploratory step.

TURKMENISTAN PERFORMANCE DATA SO 4.1: BASELINE, TARGETS, AND ACTUAL RESULTS 1998

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1995		FY 1996		FY1997		FY 1998		FY 1999	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 4.1	Special Initiatives including earmkarks														
4.1.1	Family Planning	1. Decrease in abortion rates	Definition:Induced abortions per 1000 women ages 15 -49 Unit: General Abortion rate	1994	33.7	NA	32.8	NA	32.0	30.0		TBD			
		2.Increase in Couple Years of Protection (CYP)	Definition: Couple Years of Protection is the theoretical number of couples receiving contraceptive protection for a year. It is calculated using contraceptive specific denominators: 15 cycles of oral contraceptives equals one CYP; 100 condoms equals one CYP; 4 doses of Depo-Provera and six doses of Noresterat equals one CYP. Unit: Couple Years Protection	1996	0.00				0	TBD		TBD			
	Medical Partnerships	3. Number of health providers trained in management and clinical practices	Definition: Number trained by AIHA. Unit: Number	1994	0	NA	NA	NA	55	120	65 year to date	completed			

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1995		FY 1996		FY1997		FY 1998		FY 1999	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
	Infectious Disease	4. Percent of oblasts using modern approaches to disease surveillance	Definition: Increase in the number of oblasts using computer-based applications for case specific diseases	1994	0%	0%	0%	25%	0%	100%	50%	tbd	completed		
		5. Decrease in vaccine preventable diseases	Definition: Improve and maintain the vaccine coverage for children under 2, using DPT as a proxy. Unit: Percent of children under 2 years old who have completed primary series for Diptheria, Pertussis, and Tetanus (DPT) A) MoH data B) corrected to world standards.	1994	NA		80%	-	80%	87%		87%			
		April 17, 1997													

Strategic Objective 4.2

Cross-Cutting Programs

Eurasia Foundation
Participant Training

A. Statement of Strategic Objective 4.2

Cross-Cutting Programs

B. Problem Analysis

Eurasia Foundation

The Eurasia Foundation makes small grants on an on-going basis which are directed to support the transition from centrally planned to market economies; encourage improvement of public service delivery and greater citizen involvement in civic decision-making; and improve the flow of information available to citizens. An underlying theme of many programs is improving management in the indigenous organizations, be they in the private, public, or non-profit sectors. The priority areas for small grants are generally: business development, business education and management training, economics education and research, public administration and local government reform, nongovernment organization development, rule of law, media, and electronic communications. The Eurasia Foundation has awarded a limited number of small grants in Turkmenistan during FY 1996 and very limited funding is available for this purpose in FY 1997.

Participant Training

In 1996, nearly 130 Turkmen participated in short-term, U.S. -based training programs. Approximately 400 participants are anticipated in 1997 in a combination of in-country, third country, and U.S. based training. While highly appreciative of U.S. -based training, Turkmen officials have expressed interest in expanding in-country training programs and in long-term technical assistance that will help them achieve specific reform goals. The training will be adjusted in 1997 and 1998 to respond to this concern, and will include considerably more opportunities for both in-country and third-country training. From 1999 onwards, the program will also emphasize in-country and third-country training. The purpose will be to assist officials to implement the policies that our technical assistance will have helped create. If appropriate, focus will shift from exposing decision-makers to the positive effects of reform and persuading them to actually adopt policy changes toward greater emphasis on implementing the policies that our technical assistance will have helped create.

Part III: Resource Requirements