



USAID
FROM THE AMERICAN PEOPLE

TURKMENISTAN

JULY-SEPTEMBER 2009

Quarterly Report



ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

CONTRACT NUMBER EEM-I-00-07-00005

This report was produced for the United States Agency for International Development (USAID). It was prepared by the Economic Reforms to Enhance Competitiveness project, implemented by Deloitte Consulting LLC. Views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

Table of Contents

Significant issues affecting implementation:	2
A. <i>Budget Development & Execution</i>	4
B. <i>Program Budgeting</i>	4
C. <i>Rural Development</i>	4
D. <i>Assistance to the Central Bank of Turkmenistan</i>	4
E. <i>Assistance to the Parliament</i>	4
F. <i>Assistance to the Economic Development Department of the Cabinet of Ministers, the Ministry of Economy and Development and the Institute for Strategic Planning and Economic Development</i>	4
G. <i>Assistance to the Supreme Control Chamber of Turkmenistan</i>	6
H. <i>IFRS Reforms</i>	7

Significant issues affecting implementation:

Supreme Control Chamber (SCC)

- The impediment to successful cooperation with the Chamber could partly be attributed to the lack of adequate coordination between the Chamber and the President's office.

Cabinet of Ministers and subordinate agencies (CabMin, ISPED, MOED, MinFin)

- The head of the ISPED was transferred to head the State Statistics Committee. Ex-Deputy Minister of Economy and Development was promoted to head ISPED, which can also be viewed as a positive development, because Mr Atayev is familiar with the Project through working jointly on the PSD Program during May-July 2009.
- The reaction by the Cabinet of Ministers to the EREC Project's informal requests for feedback on various proposed activities has been non-existent since mid-July when the Private Sector Development Program for the CabMin was prepared by the EREC Project. This silence is alarming following the CabMin staff attitude during May-July when the Project's Technical Advisor was working on the development of the PSD Program. EREC Project has not received any news as to the current status of the PSD Program either, except the fact that it has been submitted for the review and approval by Mr. Japarov, the CabMin Deputy Chairman. The Project submitted a proposed joint Activity Plan to the CabMin for October-December 2009 on September 10, but no response has been received on that. Neither did the CabMin react to a proposal to conduct a second part of the training on the selection, monitoring and analysis of public investment projects during October 5-16.

IFRS Transformation in Banking Sector

- EREC Project, in close consultations with USAID, is trying to continue negotiations with UNDP to make the tri-party agreement between USAID, UNDP and the Central Bank (CB) possible, as well as considering making a direct proposal to the CB, in which the two preferred options would be proposed – (1) a tri-party agreement and (2) a separate bilateral MOU between USAID and CB.

IFRS in the Oil and Gas Sector

- On July 1, an agreement was signed between USAID Turkmenistan and Chevron Nebitgaz Turkmenistan on co-funding the implementation of community development activities in Turkmenistan, including IFRS implementation in the oil and gas sector.
- None of the meetings the EREC Project has requested so far with government officials with the purpose of discussing new proposals under the GDA have been granted. Not having heard on the above mentioned meetings, the EREC Project altered some of its original plans and also sent a letter with GDA proposals to Deputy Chairman of the Cabinet of Ministers responsible for the oil and gas sector on September 30, 2009. The EREC Project is ready to launch the implementation of GDA activities, once the requested meetings take place and government endorsement is received to implement the proposed activities.

IFRS in HEIs

- The training proposed by the Project to the Academy of Sciences on Interactive Methods of Teaching Adults, which was supposed to be conducted by a trainer from Uzbekistan for Turkmen HEI professors undergoing the CAP course, was postponed by the government. No reasons were provided.
- The new leadership of the Academy of Sciences is proving to be rather ineffective and over-cautious in approving joint EREC-AoS activities. Several requests sent for his clearance have been passed further up to the Cabinet of Ministers for higher-level clearance. This new procedure is delaying such activities, as the start of a CAP course for a third group of HEI professors and the distribution of IFRS in Russian books among government agencies.
- Another agency the Project is trying to establish close cooperation with, the Academy of Civil Service (CSA). In its letter to CSA of August 3, 2009, the Project provided curricula and course materials for CAP courses, as well as made a proposal to develop course materials for the course "Finance for Managers". CSA hasn't responded to the Project.
- The Project is working on developing a comprehensive Action Plan aimed at the implementation of IFRS in university curricula in Turkmenistan. An accounting/IFRS and curriculum methodology expert would be hired by the Project to advise on the effectiveness of the activities within the Action Plan, which is supposed to be customized to address the needs of the local curriculum development system.

Significant meetings with counterparts & donors:

- Rustemmyrat Payzullayev, Deputy Minister, Ministry of Economy and Development
- Ashirkuli Kurbankuliev, ISPED Director
- Nurgeldi Meredov, Specialist of the Economic Development Department of the Cabinet of Ministers.
- Nurjemal Jalilova UNDP Economic and Social Program Officer and . Jeren Rejepova, Manager of the UNDP Project for Accounting Reforms
- Douglas Uchikura, President of Chevron Nebitgaz, Turkmenistan
- Nurgeldi Meredov, CabMin's Economic Department,
- Roger Martin and . Maral Meredova, economics professors
- Yuriy Aronsky, Vice-President of the Union of Economists
- Gurbanmyrat Mezilov, new Acting President of the Academy of Sciences of Turkmenistan
- Irina Begjanova, Chevron representative.
- T. Myalikov, Head of Methodology Department of the State Tax Service of Turkmenistan.
- Nina Kolybashkina, UNDP Assistant Resident Representative.
- Talaygul Jakypova and . Irina Aramyan, UNDP's national consultants;
- Head of the International Department of the Academy of Sciences.
- Chary Kosekovich, professor of accounting at the Turkmen Institute of Economics and Management.
- Veena Reddy, USAID's regional legal adviser

- Arnold Hoytink, EU TACIS Project, and Mr. Niall McKain, EBRD Resident Head of Mission.

A. Budget Development & Execution

- No activities during the reporting period.

B. Program Budgeting

- No activities during the reporting period.

C. Rural Development

- No activities during the reporting period.

D. Assistance to the Central Bank of Turkmenistan

- No activities during the reporting period.

E. Assistance to the Parliament

- No activities during the reporting period.

F. Assistance to the Economic Development Department of the Cabinet of Ministers, the Ministry of Economy and Development and the Institute for Strategic Planning and Economic Development

1. Highlights & accomplished tasks/activities against the work plan

- Private Sector Development Advisor completed his final mission on the elaboration of the PSD Program on July 10 by submitting the PSD Program as a deliverable to the Economic Department of the Cabinet of Ministers. Before the submission finalized comments and feedback to the program were received from representatives of agencies that participated in the development of the PSD Program, including Nurgeldi Meredov of CabMin's Economic Department, representatives of the MOED, the Union of Entrepreneurs and Industrialists and the Union of Economists. Also, additional follow-on support with the draft PSD Program was offered, but there was an informal feedback from the CabMin that the product is already of good quality and there is no need to improve it further at this stage. The PSD Program was translated into Turkmen and passed to the Deputy Chairman of the CabMin who is supposed to approve it and submit for the President's review and approval.
- "Introduction to Econometrics modeling software *EViews* and applied econometrics" training course was designed and carried out by EREC Senior Economist over seven 3 hrs sessions from July 2 to July 10, 2009 at the ISPED. Two representatives from the Central Bank, ISPED, Ministry of Finance, MOED and the State Statistics Committee

attended the course. As part of the course arrangements, the Project purchased a total of 10 copies of the “EViews v.6” for Turkmen government agencies, but handed over only 5 copies. (1 copy was passed to each representative from the Agency).

The focus on the training was on the utilization of the Project-provided *EViews* econometric software. Each session was concentrated on the development of capacity to use Eviews for data analysis and econometric estimation using a combination of standard examples and case studies developed by the trainer. Upon completion of the EViews training, the Project Consultant developed a medium-term training plan for Turkmen government institutions, including the MOED, ISPED, the MinFin, the Central Bank and the State Statistics Committee.

Turkmen economics consultant and mathematician, Dr Maral Meredova was also contracted for this training. In particular, she was helpful in introducing participants to basics of econometrics and statistics and facilitated the interpretation of complicated mathematics terminology. Overall reaction to the training was very positive. In their comments, participants noted that they would be glad to receive further economics related trainings.

- The training on Public Investment Projects (PIP) was conducted between July 13-23, 2009. During the training, the consultant covered the following modules as part of his visit: Public-Private Partnership Concepts & Case Studies, Options Analysis, Needs Analysis, Cost Benefit Analysis and Value Assessment. Participants also had an opportunity to build their own models to analyze the life cycle cost of a hospital project to the Government, including identifying and allocating a cost for project risk.

The aim of the training was to teach representatives from various institutions from the Government of Turkmenistan to improve their ability to *select, monitor* and *evaluate* Public Investment Projects, including Public-Private Partnerships. The Turkmen institutions included The Ministry of Economy & Development, The Central Bank, The Ministry of Finance, The State Bank for Foreign Economic Affairs and The Institute of Strategic Planning and Economic Development. Representatives from the Supreme Control Chamber could not attend the course do it due to complicated internal government protocol procedures. EREC Project provided the SCC with a copy of training materials after the training.

Given the ongoing intensive construction policy of Turkmenistan, the training course was timely and drew broad interest among Turkmen economic specialists.

Throughout the training, Deputy Minister of economy and development was very helpful in facilitating a successful training, both from logistical and attendance aspects. On the first day of the training, a major Turkmen TV news program broadcasted a short piece of the training session. Upon completion of the training sessions, Deputy Minister expressed his satisfaction with the training content and methodology. He thanked Project staff and hoped that in the nearest future cooperation between GoT and EREC will be resumed. He also invited the trainer to be a guest speaker at the training sessions arranged by MOED, as part of Turkmen-German “InWent” program. The consultant accepted the invitation with great pleasure.

- EREC Project finalized the content the EREC-CabMin Activity Plan for October-December, 2009 and sent it to CabMin via MFA.

2. Future activities & events

- EREC Project will follow up further with the CabMin and other related institutions to learn about prospects for assistance/cooperation on the implementation of the PSD Program.
- It is suggested that participants in EViews training sessions receive additional training in theoretical aspects of both economics and econometrics. EREC Project will commence a math and economics theory course for them in September – October 2009.
- As a follow-on work for the PIP training sessions, EREC Project will deliver the remaining sessions required to enable attendees to complete the course and receive their certificates. Other institutions may also take part in the future - particularly the Supreme Control Chamber - and further training focusing on developing Turkmen officials' capabilities to work on specific PIP functions should be proposed.
- EREC Project will arrange a presentation at the First Investment Forum of Turkmenistan on October 15-17.
- EREC Project will meet with Mr. Japarov to discuss the Activity Plan approval and implementation. Once the Activity Plan is approved by the Turkmen government, EREC Project will start working on the Plan activities, including (1) a math and economics theory course by a local econometrics specialist for the group of Turkmen specialists from five different agencies identified to attend a series of econometrics trainings, (2) visits by international technical advisors.

G. Assistance to the Supreme Control Chamber of Turkmenistan

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project finalized the content of the EREC-SCC Activity Plan for October-December, 2009 through discussions with the SCC contact person and the Project's Regional Public Sector Audit Advisor. The Activity Plan was submitted to SCC on September 14, and formal government approval for the Plan implementation was received.
- EREC Project made necessary preparations for the visit of PIP Advisor between October 5-16, 2009 to conduct the training for SCC specialists on the selection and monitoring of public investment projects, including public-private partnerships.

2. Future activities & events

- EREC Project will conduct training for SCC specialists on the selection and monitoring of public investment projects, including public-private partnerships.

- EREC Project will work on other activities included in the EREC-SCC Activity Plan for October-December, 2009.
- If the SCC adopts Action plan, the following activities will be carried out by the end of this year:
 - Training on Evaluation, selection and monitoring of public investment projects (PIPs), including express methodology for Value for Money (VfM) of the projects
 - Training on Performance audit along with studying cases involving audits performed in developed countries and focusing on practical appliance
 - Training on Public procurements audit along with studying cases involving public procurements audit performed in developed countries.
 - Training on Forensic audit and its methods
 - Training on practical aspects of control & revision activities (inspecting organizations' and/or activities' compliance to legislation, efficient expenditure of resources)

H. IFRS Reforms

1. Highlights & accomplished tasks/activities against the work plan

- On August 3, 2009 EREC sent a letter to CSA officially handing over course outlines for “Accounting Principles”, “Financial Accounting 1”, “Managerial Accounting 1” and “Finance for Managers” courses, as well as curricula themselves for Accounting Principles, FA-1 and MA-1. With the same letter, EREC also conveyed minutes of the July 2 meeting, names and CVs of the potential trainers for these courses and the official Russian IFRS translation. CSA was also asked to formally confirm that they are interested in EREC developing a “Finance for Managers” course curriculum. Once confirmation is received, EREC will have a foreign advisor develop the curriculum to pass to CSA.
- CAP/CIPA examinations were conducted in early July. The results will be known in several months.
- EREC Project consultant finished her work with the HEI professors’ working group on upgrading university curricula. As a result, a full set of curriculum materials (including course outline, teacher’s guidebook and base materials) were developed for the Accounting Principles course, individually customized for five Turkmen universities. The developed material is being translated into Turkmen. Curriculum materials for Financial Accounting 1, Managerial Accounting 1 and Tax & Law courses are yet to be developed/adapted for Turkmen HEIs.
- In early July, EREC banking experts, in cooperation with the UNDP Project team, developed the Action Plan for the IFRS Implementation in the Banking Sector. As a result, progress has been achieved in getting informal Central Bank buy-in for signing/adopting the Action Plan. Further review and development (jointly with the UNDP team) of the Project regulating documentation: split of the initial Action Plan into

two regulating document – Action Plan for EREC and UNDP and the draft CBT Order and IFRS Conversion Program for banking system of Turkmenistan, targeted for the approval by the Central Bank of Turkmenistan.

- EREC Project organized a study tour of Turkmen Central Bank specialists to Kazakhstan between July 14-21, 2009. Four Central Bank specialists, the UNDP Project Manager and a local consultant providing assistance during the process of IFRS implementation in the Turkmen banks visited the National Bank of Kazakhstan. The program consisted of a series of training programs and discussions with counterparts, including about issues such as IFRS-compliant accounting, development of methodological guidelines and training activities for accountants, and other issues specific for IFRS accounting in the banking sector. EREC Project also presented a set of books on IFRS implementation to the Turkmen group. The Central Bank Chief Accountant, who led the group, actively engaged in the development of a plan for conversion of the Turkmen banks to IFRS upon his return to Turkmenistan.
- EREC Project developed its initial strategy for provision of technical assistance to the ministries and agencies of the oil & gas industry of Turkmenistan to introduce and implement IFRS for the period from August 2009 to July 2010. EREC Project received informal positive feedback from appropriate specialists within the oil and gas ministry and state-owned enterprises regarding their reaction to the Project's planned proposal on IFRS in the oil and gas industry.
- Two EREC regional experts developed the Step-by-Step Action Plan for September-December 2009 for the two pilot banks, Senagat and TVEB. The plan describes each activity that needs to be carried out in the two banks in order to complete the transformation of 2007 and 2008 financial statements according to IFRS. The plan also envisages a series of trainings and consultancy support in the development of regulatory and normative documents for the two banks. UNDP national consultants and pilot bank specialists already began operating according to the Step-by-Step Action Plan.
- EREC Project developed a TA Strategy as part of Chevron-USAID GDA and drafted proposed TA activities (within the scope of USAID-Chevron GDA) on IFRS Implementation for the ministries and agencies of the Economy Block (Ministry of Finance, State Tax Service, and State Statistics Committee) possibly to be addressed to Mr. Japarov, Deputy Chairman of the Cabinet of Ministers of Turkmenistan. The TA Strategy and Timeline was presented to USAID and Chevron.
- EREC Project commenced Financial Accounting 1 training for banking specialists in the northern Dashoguz Region.

2. Future activities & events

- A formal response from CSA on the proposal to develop a syllabus for "Finance for Managers" course and CSA's feedback on the two proposed trainers is awaited. Once response is received, EREC's consultant Alex Fawcett can begin developing the syllabus for "Finance for Managers" and the Project will be set to arrange the trainers,

coordinate timeframes and begin conducting the AP, FA-1, MA-1 and “Finance for Managers” courses for CSA.

- EREC Project has decided to wait with pushing for the distribution of Russian IFRS books until USAID representatives meet with the new Acting President of the Academy of Sciences and until the new charter of the AoS is approved.
- EREC Project advisors and UNDP Project manager will further update the Action Plan following informal discussions with the Central Bank (throughout August) and formal submission of the Action Plan to the Central Bank.
- EREC Project is planning a meeting with the Academy of Science to discuss (among other issues) the possibility of organizing a seminar on IFRS in the oil and gas sector for oil and gas sector managers and CAP courses for oil and gas sector specialists and accountants on the basis of the AoS’ IFRS Training Center.
- Similar meetings are planned with the Ministry of Oil & Gas and Mineral Resources, SC “Turkmenneft”, SC “Turkmengas” and other related state-owned companies, Main State Tax Service, State Statistics Committee, State Control Chamber to introduce EREC and USAID-Chevron Alliance and propose further cooperation in the areas related to the introduction and implementation of IFRS in the oil & gas industry of Turkmenistan.
- EREC Project will take steps to increase the level of co-operation between the Project Parties (EREC, UNDP, CBT, Senagat Bank, TVEB) by organizing joint meetings and discussions of the Project regulating documentation.
- EREC Project will look for opportunities to bring International Expert/Consultant to hold a presentation on IFRS and other related issues at: International Investment Forum in Ashgabat in October 2009 or Oil & Gas Conference 2009 in Ashgabat in November 2009.
- EREC Project will prepare a letter with proposal to Deputy Chairman of the Cabinet of Ministers of Turkmenistan on extracting industries, to offer the possibility of organizing seminars and training (IFRS and CAP/CIPA) for the industry’ management and specialists and development of general industry-wide strategy on IFRS implementation as per the TA Strategy. EREC Project will request an official meeting for October to discuss the proposal.
- EREC Project will initiate proposal on TA activities in relation to the Economy Block ministries and agencies (Ministry of Finance, State Tax Service, and State Statistics Committee) through Deputy Chairman of the Cabinet of Ministers of Turkmenistan).
- EREC Project will initiate proposed activities through provision of the presentation and seminar for senior management of the oil & gas industry of Turkmenistan on the introduction of IFRS and Project’s SOW (October-November).
- EREC Project will continue working on resolving the issue of further cooperation with UNDP and the Central Bank. The Project preferred option is a tri-party agreement between USAID-UNDP-CBT.
- EREC Project will formally submit the IFRS Conversion Program once the cooperation format issue will have been dealt with.

- EREC Project will continue collaboration with the UNDP Project and the pilot banks in order to ensure timely implementation of activities included in the Step-by-step Action Plan for Phase 1.
- EREC Project will commence a CAP course for the 3rd group of university professors
- EREC Project will commence a Tax&Law course for the 1&2nd groups (now combined into one group) of university professors.
- EREC Project will request a meeting with the AoS Acting Chairman to discuss all outstanding issues and the Chevron-USAID GDA.
- Once the approval of the government is received for the GDA proposals, EREC Project will begin implementing them according to the GDA Timeline.