Country Partnership Strategy Final Review

February 2023

Turkmenistan
(2017- mid-2022)

Asian Development Bank
CURRENCY EQUIVALENTS
(As of 31 January 2023)

Currency unit — Turkmen manat (TMT)
TMT 1.00 = $0.2857
$1.00 = TMT 3.50

ABBREVIATIONS

ADB — Asian Development Bank
CAREC — Central Asia Regional Economic Cooperation
COBP — country operations business plan
CPS — country partnership strategy
CIS — Commonwealth of Independent States
GDP — gross domestic product
CBT — Central bank of Turkmenistan
EBRD — European Bank for Reconstruction and Development
GNI — gross national income
IED — Independent Evaluation Department
IMF — International Monetary Fund
IsDB — Islamic Development Bank
MDG — Millennium Development Goal
MFET — Ministry of Finance and Economy of Turkmenistan
MRTT — Ministry of Railway Transport of Turkmenistan
PCR — project completion report
TAP — Turkmenistan-Afghanistan-Pakistan
TA — technical assistance
TCR — technical assistance completion report
TAIP — Turkmenistan-Afghanistan-Pakistan-India
TUTAP — Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan
USAID — United States Agency for International Development

NOTE

In this report, "$" refers to US dollars unless otherwise stated.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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EXECUTIVE SUMMARY

This Country Partnership Strategy Final Review (CPSFR) assesses the strategy and operations of the ADB-Turkmenistan Country Partnership Strategy (CPS) 2017–2021 and the country operations business plans (COBPs) including the subsequent extensions of the CPS 2017-2021 until the end of 2023.

ADB and Turkmenistan’s partnership has many distinctive aspects. Turkmenistan is one of a handful of upper middle-income country (UMIC) with lending operations by ADB. While financing needs of the country are not typical of other ADB’s developing member countries (DMCs), Turkmenistan faces many development challenges found in other countries, such as a narrow economic base, low level of private sector development and investment, weak institutions, and a repressed financial sector. While rich in hydrocarbons resources, the country is characterized by a geographical neighborhood that has a unique constellation of opportunities as well as regional challenges. ADB’s comparative advantage in regional cooperation and integration (RCI) has been a bedrock of the partnership between ADB and Turkmenistan.

This CPSFR covers both loan and technical assistance (TA) over the CPS period until mid-2022. It comprises two loans: one that was completed in the review period and the other one that was approved and is ongoing, two TAs that were completed during the review period, and four other TAs that were approved and are ongoing. A major axis of ADB’s engagement remained regional energy initiatives that are transformative in scope and complex in technical, financial, institutional, and political requirements. The initiatives have been adversely affected by recent developments in neighboring Afghanistan, which is a key member of all the regional energy initiatives.

Based on the considerations described below, the aggregate score of ADB’s strategy and assistance program in Turkmenistan during the review period is 1.95, which corresponds to a successful rating.

The review assesses the CPS 2017-2021 and its extensions as relevant, based on the following criteria: (i) consistency of the operation with the country needs, (ii) alignment with ADB’s Strategy 2020, (iii) appropriateness of the sector focus, (iv) enhanced partnerships among ADB, the government, and development partners, and (v) quality of the CPS result framework. The actual program during the review period was significantly smaller than planned, but overall effectiveness of ADB operations in Turkmenistan is assessed as effective, based on the achievements of outcomes and outputs of the completed or mature projects documented in the project completion and progress reports. Notwithstanding the effective rating, ADB’s completed lending project suffered delays from lengthy government procedures on review and approval, and lack of dedicated counterpart staff during project implementations.

ADB’s country operations are assessed efficient despite systemic issues with project implementation, including government bureaucratic procedures and lack of available economic data and information. The completed transport project was rated as efficient, and the two completed TAs were rated as efficient and less than efficient, respectively. The ongoing energy project and its attached TA faced similar implementation problems like the transport project, but they are on track to achieve project’s outputs within the revised schedule. The performance of Contract Awards and Disbursements has been satisfactory.

ADB operations in the review period are rated likely sustainable, based on the ratings of the completed lending and non-lending projects and expected rating of the ongoing project in the power sector. The assessment is premised on the medium-term sustainability of the various
sector programs, outputs and outcomes in terms of: (i) government ownership and commitments
to support the sector, (ii) adequate risk mitigation arrangements and funding for operation and
maintenance, and (iii) availability of institutional capacity.

ADB’s overall contribution to development impacts is assessed as satisfactory given its
contribution to development goals, inclusive economic growth, and sectoral impact. ADB program
remains small, but the lending projects have been in key sectors to support the country’s
development goals. The transport connectivity, for instance, has contributed to the increased flow
of freight in the region. The goals envisaged for power sector export have been adversely affected
by the developments in Afghanistan. The project, however, has contributed to the country
readiness to scale up export when it becomes feasible. Moreover, TA projects have introduced
important modernizing principles and practices in the financial sector and food safety.

The CPSFR identified four key issues, namely: (i) Turkmenistan is a UMIC with unique and
complex development challenges, including high vulnerability to climate change, requiring
integrated across-sector and themed solutions; (ii) Energy sector remains critical to the country
but its further development must take climate change and environmental sustainability aspects
into consideration including those requiring a long-term solution; (iii) ADB partnership in RCI
remains key but its results on ground were behind expectations due to complex and challenging
coordination arrangements, which require significant lead time and are outside the control of a
single country. RCI initiatives should better consider the country’s and regional contexts; and (iv)
high level of centralization in policy and decision-making processes, including on project
administration, adversely affected the implementation. This is exacerbated by information gaps,
lengthy administrative procedures, and low capacities of the implementing agencies. The CPSFR
also derived one key lesson, that improved focus on knowledge and capacity needs of
Turkmenistan can improve country operations.

Given the issues identified above, the CPSFR suggests five recommendations as follows:

(i) ADB should better customize and broaden its engagement through increased flexibility and
knowledge intensity to meet the client’s needs by providing integrated cross-sector and
themed solutions and a more active and knowledge based support anchored on a stronger
Resident Mission.

(ii) ADB should focus on reducing inefficiency and accelerating decarbonization of the energy
sector in line with national and international climate change targets through investments in
energy efficiency and renewable energy, policy-based loans, and low-carbon pilot projects,
while considering potential socio-economic impacts of the transition to ensure a just
transition away from gas.

(iii) Given the country’s development challenges and land-locked situation, ADB should
continue prioritizing RCI to foster country’s potential to be a major trade and transit hub.

(iv) Top priority should be given to reducing overall “bureaucratic burdens” to improve the
partnership quality between ADB and the Government by incorporating digitalization of
processes and decision-making along with ‘one-stop-service’ modality to reduce the number
of human interactions and decision-making hierarchy.

(v) ADB should intensify its high-quality knowledge and capacity-building partnership with the
Government in the area of human capital and private sector developments, in coordination
with other development partners, as these sectors are key to an inclusive, diversified, and innovation-based economy.

The identified issues and lessons and their corresponding recommendations can be summarized as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue and Lesson</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>As a UMIC with relatively unique development challenges Turkmenistan needs customized and integrated solutions covering both hard- and soft-infrastructures.</td>
<td>Better customized and broadened ADB engagement through increased flexibility and knowledge intensity to provide integrated cross-sector and themed solutions and active and knowledge-based support anchored on a stronger Resident Mission.</td>
</tr>
<tr>
<td>2</td>
<td>The country's natural gas assets risk being “stranded” without adequate connectivity to a diversified export market.</td>
<td>Reduce inefficiency, support diversification, and accelerate decarbonization to meet the national and international climate change targets by investing in renewable and energy efficiency, policy-based loans, and low-carbon pilot projects considering transition’s socio-economic impacts.</td>
</tr>
<tr>
<td>3</td>
<td>The timeline targets of RCI initiatives were too ambitious, considering complex and challenging coordination arrangements, historical progress and vulnerability of the region.</td>
<td>Continue prioritizing RCI by better considering the characteristics of the country and region.</td>
</tr>
<tr>
<td>4</td>
<td>Overly centralized decision and policy making process slowed down project development and implementation that was further exacerbated by information gaps, lengthy administrative procedures, and low capacities of the implementing agencies.</td>
<td>Reduce “bureaucratic burdens” through digitalization of process and decision-making to lower the number of human interactions and decision hierarchy.</td>
</tr>
<tr>
<td>5</td>
<td>Improved focus on knowledge and capacity needs of Turkmenistan can improve country operations and development outcomes.</td>
<td>Intensify knowledge and capacity-building partnership with the Government in coordination with other development partners.</td>
</tr>
</tbody>
</table>

Going forward, there are also other aspects requiring attentions from ADB and the Government. Firstly, a close partnership between ADB and the government is key to successful project planning, processing, and implementation. Secondly, there is a need to improve mutual understanding of respective requirements and processes to enhance the country partnership and operation. Thirdly, support for capacity development and knowledge of the implementing agencies need to be mainstreamed to reduce the overall delays and increase efficiency. Fourthly, ambitious RCI initiatives should consider country and regional contexts by learning from the past progress and adjusting the long-term commitments. Finally, human capital and private sector developments are key to inclusive economic growth and generation of quality employment.
I. INTRODUCTION

1. Turkmenistan is an upper middle-income country (UMIC) rich in natural gas with the fourth largest natural gas reserves in the world, and a major gas producer and exporter. It gained its independence on 27 October 1991 from the Soviet Union and became a member of the Asian Development Bank (ADB) in August 2000. The country has a historical and institutional legacy derived from the centrally controlled economy of the former Soviet Union, and a geographical neighborhood with distinctive constellation of export opportunities and regional challenges. The latter has made the country’s aspiration for a ‘permanent neutrality’ central to its foreign policy, including in regional cooperation and integration (RCI). Turkmenistan is the only country in the world whose commitment to neutrality is officially acknowledged.\(^1\)

2. Given its UMIC status, ADB classifies Turkmenistan as a group C country with access to regular ordinary capital resources (OCR) only. ADB is one of the leading development partners in Turkmenistan in terms of its cumulative assistance, with an active portfolio in 2017-2022 mostly in the energy sector. As of mid-2022, ADB has made a cumulative commitment of about $635 million in loans and technical assistance spreading across 15 projects (Table 1), of which $502.25 million (79%) is in the energy sector and $126.47 million (19.9%) in the transport sector. ADB’s partnership with Turkmenistan is relatively unique given the country’s context and the fact that it is one of handful UMICs that has had ADB loan operations.

<table>
<thead>
<tr>
<th>Table 1: ADB’s operations in Turkmenistan</th>
<th>Turkmenistan: Cumulative Commitments(^a,b,c,d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Total Amount No. ($ million)(^a)</td>
</tr>
<tr>
<td>Agriculture, Natural Resources, and Rural Development</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>–</td>
</tr>
<tr>
<td>Energy</td>
<td>3</td>
</tr>
<tr>
<td>Finance</td>
<td>2</td>
</tr>
<tr>
<td>Health</td>
<td>1</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>–</td>
</tr>
<tr>
<td>Information and Communication Technology</td>
<td>–</td>
</tr>
<tr>
<td>Multisector</td>
<td>–</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>4</td>
</tr>
<tr>
<td>Transport</td>
<td>4</td>
</tr>
<tr>
<td>Water and Other Urban Infrastructure and Services</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
</tr>
</tbody>
</table>

\(^a\) Grants and TA include ADB-administered cofinancing.
\(^b\) Includes loans and TA.
\(^c\) Using primary sector in the reporting of commitments.
\(^d\) From 2020, financing for TA projects with regional coverage is distributed to their specific DMCs where breakdown is available.

Source: ADB Member Factsheet: Turkmenistan, 2021.

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\(^1\) The neutrality of Turkmenistan was deep-rooted in its constitution. The United Nations General Assembly recognized it on 12 December 1995 in its special resolution making it the only state whose permanent neutrality was recognized. The UN also declared 12 December as the International Day of Neutrality.
3. To start the official engagement with the country, ADB prepared an economic report and interim operational strategy in May 2002 (ERIOS)², and four country operations business plans (COBPs) for 2014–2015, 2015–2016, 2016–2017, and 2018.³ ADB’s engagement since 2003 focused on the country’s key growth driver, i.e., natural gas, and government’s long-term priority to increase regional connectivity for its natural gas exports. In December 2016, ADB prepared a Country Operations Final Review 2002-2016 (COFR)⁴ for operations covered under the ERIOS. The COFR was submitted to the Independent Evaluation Department (IED) at the end of April 2017 after the government’s endorsement. The COFR highlighted the limited government demand for financing and considered the ADB’s operation in the country successful based on the relevance and efficacy of the strategy and operation, and satisfactory development impacts that were also assessed as likely sustainable. Lessons identified by the COFR highlighted the importance of a sustained ADB engagement in the government-prioritized areas even if the engagement did not translate into project financing in the near term. ADB could directly add value to the country’s efforts and developments through its full range of modalities, including knowledge support and TA. The COFR also acknowledged that responding to UMIC needs could result in a frequent change in the project programming.

4. The IED validated the findings, lessons, and recommendations of the COFR.⁵ It rated ADB’s overall program in Turkmenistan during 2002-2016 as successful (on the borderline), as less than efficient based on the reduced efficiency rating of the operations, and as less than satisfactory on the development impacts primarily due to delays in implementation and in the development of the program as a whole. The validation also provided recommendations for the design and implementation of the country partnership strategy (CPS), 2017–2021, specifically that ADB should provide knowledge intensive support for government’s economic diversification priorities, strengthen human capital through private sector development, and identify country operational risks along with strategies to manage them.

5. The current CPS, designed for 2017-2021⁶, incorporated the COFR findings and IED validation, and was guided by Turkmenistan’s National Program for Social and Economic Development (NPSED) 2011-2030⁷ and ADB Strategy 2020. In August 2021, the CPS was extended until 2023⁸ in response to the constraints of the COVID-19 pandemic, a thin portfolio with relatively limited activity, and other developments within the country. ADB plans to formulate a new CPS for 2024–2028, to be guided by results of this CPSFR and the new long and medium-term government strategies, such as “The National Program for the Socio-Economic Development of Turkmenistan in 2022-2052: Revival of a New Era of a Sovereign State”; and “The Program for the socio-economic development of the country for 2022-28”⁹ and ADB Strategy 2030. The new CPS will also be aligned with “The National Program of Social and Economic Development of Turkmenistan for 2011-2030”.

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⁸ ADB. Memo dated 7 December 2021 to ADB President “Request for extension of CPS 2017-2021 for Turkmenistan”. (Internal)
There have been three ADB projects completed during this CPSFR period of 2017 to mid-2022: one loan and two TA projects. There are five additional on-going projects consisting of one loan and four TAs, of which three are transaction TAs (TRTA) and one is a TA attached to an on-going loan project. The CPS had estimated a resource envelope of $450 million in OCR for the 2017-2021 period in addition to access to regional set asides and non-sovereign funding. No sectoral allocations were specified in the CPS.

### TABLE 2: Completed and Ongoing Projects in Turkmenistan during 2017-mid 2022

<table>
<thead>
<tr>
<th>COMPLETED PROJECTS (year of completion in parentheses)</th>
<th>Amount ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loan: North-South Railway Project (2017)</td>
<td>125,000.0</td>
</tr>
<tr>
<td>2. TA: Modernization of Sanitary and Phytosanitary Measures for Food Safety (2018)</td>
<td>225.0</td>
</tr>
<tr>
<td>3. TA: Supporting the Introduction of IFRS 9 Financial Instruments in Two Commercial Banks (2022)</td>
<td>225.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ONGOING PROJECTS (year of approval in parentheses)</th>
<th>Amount ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. TA: Strengthening Institutional Capacity for Policy Formulation and Implementation (2021)</td>
<td>500.0</td>
</tr>
<tr>
<td>5. TA: Preparing the Improving Nursing Quality and Capacity Project (2020)</td>
<td>750.0</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank

This CPSFR assesses the performance of ADB-CPS 2017-2021 for Turkmenistan, with its extensions until December 2023, to contribute to the formulation of the new CPS for 2024-2028 by evaluating past performance and identifying key lessons and recommendations for future strategic partnership themes, pillars, and operations. The coverage of the assessment incorporates all lending and non-lending projects that were completed, ongoing or approved during the period of review, i.e., from 2017 until mid-2022. The evaluation criteria applied in the assessment include five aspects of relevance, effectiveness, efficiency, sustainability, and development impacts. The program review also includes discussions on the performances of ADB and ADB’s Borrower, which is the implementation agency of the ADB-financed projects. Following the assessment, the review concludes with issues, lessons, and recommendations for the next CPS.

### II. STRATEGIC CONTEXT

Turkmenistan is a landlocked country, sharing borders to the north and northwest with Kazakhstan; to northeast and east with Uzbekistan; to the South with Afghanistan and Iran; and to the west with the Caspian Sea, the world’s largest inland water body. The country has abundant natural resources of gas and oil deposits. It has the world’s fourth largest reserves of natural gas. Geographically, much of the country is desert with a sparse population so that it has a low population density for the population only centered in a few urban areas. The country is politically stable with a relatively homogeneous population in terms of ethnicity and culture. It had robust economic growth in the past two decades prior to the pandemic. As a UMIC, Turkmenistan’s financing constraints are low relative to many other ADB’s developing member countries (DMCs).

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However, the country faces significant development challenges including those prevalent in the low-income countries.

9. First, the economy and exports are highly dependent on hydrocarbons. The country has the highest export to GDP ratio in Central Asia, but the exports are concentrated in hydrocarbons, such as natural gas, oil, and oil-related products accounting for nearly 90% of the total exports. The export destinations are mostly only to two countries: Russia and the People’s Republic of China (PRC). Russia was the main buyer of natural gas from Turkmenistan until 2008, and this role has now been taken over by PRC after the construction of the new pipelines that may carry 60-70 billion cubic meters (bcm) annually. In 2021, export to PRC accounted for about 75% (or 42.1 bcm) of the total, with the remaining export was mostly to Russia. The demand for natural gas in the export market is also vulnerable to diversification of import sources of the importers and/or increased gas production in the major buying and selling countries.

10. Second, Turkmenistan’s economic growth is therefore strongly linked to the prices of hydrocarbons. The economy grew rapidly until 2014, resulting in a fiscal surplus, rising international reserves, and a low inflation. The drop in energy prices subsequently led to a sharp decline in export revenues. Moreover, measures to overcome the pandemic in importing countries led to further contractions in the demand for and revenues from Turkmenistan’s exports. The government introduced macroeconomic management relying on reductions in public investment and expenditure, and import substitution, including foreign exchange controls. The increase in energy prices since 2021 as a result of the Russian invasion of Ukraine and other related factors have eased the government’s fiscal space, but the economic growth and stability remain vulnerable to volatility in the energy prices.

11. Third, the role of RCI is critical in enabling Turkmenistan to export its natural gas and electricity to and through its neighboring countries. The country has been exploring a Trans-Caspian pipeline and, with ADB partnership, expanding exports to South Asia through the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. ADB has also engaged with the government to explore energy exports through the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) power interconnection initiative under the Central Asia Region Economic Cooperation (CAREC) program. The critical role of Afghanistan in these initiatives has meant that any adverse developments in the country will directly affect Turkmenistan’s access to the South Asian market and beyond. Likewise, ADB’s role as a valued partner and facilitator in the Turkmenistan’s plans to expand South Asian exports are also influenced accordingly.

12. Fourth, the recent geo-political developments stemming from the Russian invasion of Ukraine have impacted energy markets in the immediate to long-run, creating implications that can be observed at two levels. Firstly, the competition in the energy market in Asia will intensify as Russia diverts its exports from Europe to Asia, including PRC. Secondly, the response and experience of the European economies for the increasing scarcity and price of energy will lead to the countries becoming more careful to review their energy security, including to diversify their sources of energy supply. All these factors further reinforce the need for Turkmenistan to diversify its energy export markets.

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12 ADB placed on hold its assistance in Afghanistan effective 15 August 2021, ADB Statement on Afghanistan | Asian Development Bank (published on 10 November 2021), Manila.
13 The immediate effects would primarily be through the prices of energy and remittances from Russia. “Asian Development Outlook 2022”, ADB, Manila, April 2022.
13. Finally, the strong reliance of the economy and exports on hydrocarbons has resulted in many other development challenges commonly observed among the resource-rich economies, namely, a narrowly based economy, lack of competitiveness, a strong role of state, administrative controls, and financial repression. All these challenges lower the efficiency of public and private investments and provide opportunities for officials to use their discretions for their personal benefits. As a result, business climate is not attractive to domestic and foreign investors. The development of institutions commonly featured in a modern market-based economy is nascent and hampered by the historical legacy of a centrally controlled economy with existing reliance on non-market mechanisms, especially for resource allocation and economic management. Like other countries in the region, role of civil society has considerable scope for expansion in the country. Turkmenistan ranked 111 out of 189 countries in the UN's Human Development Indicators reflecting the need to expand its investments in human capital. The Government recognizes these challenges and has put economic diversification and private sector development as priorities in its plans and strategies.

14. The new government formed in 2022 has developed new national strategy documents entitled “The National Program for the Socio-Economic Development of Turkmenistan in 2022-2052: Reviving a New Era of a Sovereign State” and “The Program for the socio-economic development of the country for 2022-28”. They both aim at strengthening the country’s competitiveness in international trade, creating an innovation-based diversified economy with an increased share of innovative products in the country’s exports, supporting private sector development including for export-oriented production, developing processing industries based on high-tech and environmentally friendly technologies, and raising the quality of people’s living standards.

III. ASSESSMENT OF CPS PERFORMANCE

15. The CPS 2017-2021 for Turkmenistan provided a strategic direction for ADB operations for 2017-2021, that was extended until the end of 2023. The CPS will help Turkmenistan become a key catalyst for regional cooperation and integration by diversifying its markets and repositioning the country as a trade and transit hub. The CPS prioritized three strategic pillars: (i) hydrocarbon market diversification and energy trade promotion; (ii) diversification of non-hydrocarbon sectors through transport infrastructure to improve market connectivity and strengthen institutions to spur private sector development; and (iii) knowledge support on economic diversification and reforms. Strengthening institutions for private sector development would initially focus on market-based financial intermediation for SMEs. The CPS highlighted RCI as a cross-cutting theme for operations and considered gender mainstreaming, climate change and environment, and private sector support as key for inclusive and sustainable growth.

A. Relevance

16. The review assesses the CPS 2017-2021 and its extension as relevant based on the following criteria: (i) consistency of the operation with the country’s needs, (ii) alignment with ADB’s Strategy 2020, (iii) appropriateness of the sector focus, (iv) enhanced partnerships among ADB, the government, and development partners, and (v) quality of the CPS result framework.

17. Consistency with country needs and national development plans. The CPS 2017-2021 was aligned with the National Program for Social and Economic Development (NPSED),

The period covered by the CPS corresponded to the NPSED’s second program cycle for 2018-2024. The NPSED aimed to achieve sustainable economic growth, strengthen the regional geopolitical situation, and improve the population’s living conditions. Its strategic priorities were to accelerate economic diversification, improve infrastructure, modernize institutions, and increase competitiveness. Among other objectives, the NPSED targeted sustained development of all segments of the economy, continued deepening of integration with the international community, increased investments in human capital, and careful use and conservation of natural resources for future generations. The CPS focus on infrastructure development in energy and transport was aligned with the country’s needs for enhanced regional connectivity and more diversified export markets. Institutional reforms for promoting economic diversification were recognized as a priority by the CPS. Given Turkmenistan’s strategic context, regional cooperation was central to a wide range of the country’s policy formulations. ADB’s operations and assistances in the review period were consistent with the country’s needs and responsive to evolving government priorities and external circumstances.

The COBPs for 2019-2022, 2020-2023, and 2021-2024, and the Indicative Country Pipeline and Monitoring (ICPM) Report for Turkmenistan for 2023-2025 were guided by the current CPS including by incorporating the government’s request to support the health sector in the face of the global COVID-19 pandemic.

Alignment with ADB’s strategic agendas. The current CPS and its accompanying COBP and ICPM were closely aligned with ADB’s Strategy 2020, Midterm Review of Strategy 2020, and the RCI Strategy. The CPS appropriately adopted ADB’s strategic agenda for inclusive and environmentally sustainable growth, and RCI. Using CAREC as a platform, ADB supported closer economic relations between Turkmenistan and its neighboring countries through investments and knowledge supports to strengthen connectivity, trade and integration in the region.

Appropriateness of the sector focus. Given the dominant role of energy and transport sectors in the country’s economy, ADB’s operations were directed to support these two sectors with a complementary and integrated support to the financial sector. The energy, transport, and financial sector interventions were aligned to promoting economic diversification by improving connectivity to markets and strengthening institutions for market-based economy including through private sector development. The sector choices were appropriate and based on the country’s development needs and the government’s priorities, as well as ADB’s comparative advantage and other development partners’ support. The current CPS focus on RCI as a cross-cutting theme was aligned with the government’s priorities of making the country as a transit hub and diversifying export destinations for its natural gas. The economic diversification includes policy and institutional reforms that are in line with the CPS’ emphasis on knowledge and capacity building. The current CPS sector and thematic work supported sector selectivity to reflect ADB’s focus on the country.

Coordination with the government and development partners. Working with the government, ADB coordinated the work with other development partners in the country to reduce unnecessary overlaps and create synergies for the benefit of the country, such as with the European Bank for Reconstruction and Development (EBRD), the European Union (EU), the International Monetary Fund (IMF), the United Nations Development Program (UNDP) and other

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UN agencies and entities, the Islamic Development Bank (IsDB), and the World Bank (WB). The coordinated work covered key areas of economic monitoring, knowledge generating and sharing, and policy dialogue, as well as in more specific work such as preparing studies, developing technical assistances, and organizing training programs or capacity buildings. Knowledge partnerships and other collaborations have also been forged with the CAREC Institute and ADB Institute to maximize the benefit from the existing platforms. Turkmenistan’s active participation in the CAREC platform provides a good opportunity for the country to engage in a high-level policy dialogue with other CAREC member governments and international development partners on key economic issues and other matters related to RCI, such as on energy, transport, health, and trade topics. The Turkmenistan government’s chairmanship of CAREC in 2018 culminated in a successful conduct of the Ministerial Conference in Ashgabat -the capital city- that was marked by the endorsements of the CAREC Integrated Trade Agenda 2030 and its Rolling Strategic Action Plan for 2018–2020.

22. **Quality of the CPS results framework.** The CPS results framework was reasonably developed and contained country goals to which the strategy was aligned. Sectors of ADB support were identified with the sector outcomes were clearly indicated using indicators and targets, together with their baseline figures and ADB’s intervention areas. The results framework, however, left some scope for improvement especially on the attributable links between indicators and targets. For example, the target for “Developed efficient, safe, and reliable railways and road transport networks” was measured in terms of total national transit tonnage, which is dependent significantly on the extraneous factors such as demand for imports and exports (through the country) of the neighboring land-locked economies, whereby the political and economic developments can be volatile. Targets for progress on TAPI were also arguably optimistic, given the complexity of the issue and the pace of its past developments. Moreover, ADB resources for the core sectors were not specified, partly based on underlying expectation that the projects (like TAPI) could tap into additional co-financing from other partners, and potentially from the non-sovereign window of ADB.

23. In the **transport sector**, the IED Validation Report in 2019 rated the North-South Railway Project as relevant. The North–South railway line was to improve Turkmenistan’s access to Kazakhstan, the Persian Gulf countries, Russia, and South Asia by developing an integrated and efficient railway system in the region to increase regional trade to support more sustainable economic growth in Turkmenistan. The project supported the government’s medium-term development strategy and was aligned with the ADB’s Sustainable Transport Initiative Operational Plan. Compared to the road transport, the railway line is more accessible, affordable, and safer, as well as produces fewer emissions per ton hauled. The PCR highlighted that the selected technical design of the project was the most appropriate for it considered the national railway networks, consistency in the standards of adjoining sections at each end of the railway, and the traffic forecast. The validation holds the same view with the PCR and assesses the project as relevant.

24. In the **energy sector**, the ongoing National Power Grid Strengthening Project approved in 2018 aims to reinforce the transmission network, which is an essential prerequisite for improving the reliability of the power supply for domestic consumers, current, and expanded future exports of electricity. Specifically, its objective is to (i) build about 1,400 kilometers (km) of new 110-kilovolt (kV), 220 kV, and 500 kV transmission lines; (ii) construct eight new

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substations; and (iii) expand three existing substations. The project covers four of five regions of Turkmenistan to help establish an interconnected national transmission grid to improve reliability and efficiency of the energy network. The project is relevant domestically and regionally for Turkmenistan has been an exporter of baseload power to its neighboring countries, notably Afghanistan.

25. **Technical assistance.** The TA provided by ADB to Turkmenistan was appropriate and relevant to the country’s needs. Two TAs were completed during the review period: one was in the financial sector (small scale TA 6578) and the other one was in the agriculture sector (TA 9084). Four other TAs were approved and are ongoing, of which one was a Knowledge and Support Technical Assistance (KSTA) and 3 were Transaction TAs (TRTAs). The small-scale TA for *Supporting the Introduction of International Financial Reporting Standard (IFRS) 9 Financial Instruments in Two Commercial Banks* was completed in 2022 and rated relevant. The project was to meet the government’s request for many national financial enterprises in 2020 were non-adopters of the IFRS 9, undermining the integrity of their reported financial statements. The TA emphasized delivery output of the receiving “Rysgal” and “Senagat” banks of independent auditors’ qualified/unqualified opinions based on adoption/non-adoption of IFRS 9. The other completed TA on *Modernization of Sanitary and Phytosanitary (SPS) Measures for Food Safety* (TA 9084) was rated relevant because it responded to the government’s request and was aligned to the government’s priority on public health and diversification of international trade in agrifood. The KSTA project for *Strengthening Institutional Capacity for Policy Formulation and Implementation* (TA 6876), approved in 2021, is relevant in addressing country needs identified in the CPS. It intends to support the Government in strengthening the institutional capacity of the Ministry of Finance and Economy and other government agencies, especially for evidence-based policy formulation and implementation through policy studies and capacity developments. The three core themes under which the subprojects are to be selected include (i) economic diversification, (ii) macroeconomic and investment management, and (iii) structural transformation.

26. **Cross-cutting themes of gender, private-sector development, and climate change and environment.** The current CPS proposed to base its gender-related activities on the government’s National Action Plan on Gender Equality 2015-2020 by collaborating with the development partners, such as UN Agency for Women, on a project-based approach to address the gender issues. The CPS recognized that an opportunity for non-sovereign operations was still constrained and there was a strong need to improve business environment and financial sector for future operations. In the hydro-carbon sector, non-sovereign operations could play a key role once the TAPI project came alive. The CPS proposed to support environmentally sustainable growth through knowledge work at the initial stage while the government plans on adaptation and mitigation were being developed. Environment and climate change would also be incorporated in infrastructure projects supported by ADB.

27. The CPS did not explicitly incorporate some areas that are part of Turkmenistan’s unique development challenges, such as human capital development and agriculture sector, which accounts for almost half the population. These areas could be included in the economic diversification, but they did not get the visibility that they need to help the country addressing its development challenges.

[^20]: ADB. 2022. Amendment to the Loan Agreement (Ordinary Operations) for Loan 3734-TKM: National Power Grid Strengthening Project
B. Effectiveness

28. The effectiveness assessment is based on achievements of outcomes and outputs in the completed or mature projects as documented in the project completion and progress reports. The overall program in the review period was significantly smaller than expected but the government has shown strong ownership for the projects developed and implemented. The overall effectiveness of ADB operations in Turkmenistan is assessed as effective, based on the effective rating of the completed projects and likely effective rating of the ongoing projects. The completed investment project in transport sector and TA 6578 in the financial sector were rated effective in their PCRs.23 The PCR for TA 9084 in agriculture sector rated the project less than effective due to slow response from the implementing agency and lack of access to inspection laboratories.24 The ongoing project in the energy sector and its associated TRTA (TA 9637) are expected to achieve their outputs and outcomes and therefore effective, while the remaining TRTAs and KSTA are still in their early stages of implementation. The ability of the CPS to achieve its intended outcomes and outputs in the energy sector was constrained by the adverse developments in Afghanistan. It led to ADB putting on hold its operations in that country disrupting progresses on regional energy initiatives and on result chain from outputs to outcome in the results framework. The less than effective rating of the SPS project also reflects the difficulty of project in agriculture sector that is also common in other countries in the region. Cumulative loan disbursements to Turkmenistan amounted to $452.6 million as of 30 November 2022, and its lending portfolio in 2016-2022 consisted of energy and transport sectors, with their respective shares of 80% and 20%. The CPS results framework targeted doubling transit tonnage by 2030; modernizing railway tracking system which was achieved; reducing road fatalities on CAREC corridors by 2021, for which data is unavailable; and introducing market-based financial intermediation in 2-3 financial institutions, which was not achieved due to the delay in the development of SME financing project. Knowledge-partnership outcomes of the CPS were partially achieved due to disruptions of the COVID-19 pandemic.

29. Transport. The North-South Railway project was approved in March 2011 for the total of $125 million, became effective in August 2011, and was initially targeted for a closing by March 2013. The closing date was delayed to November 2016 due to contract cancellation and suspension of work for non-payments. The financial closing of the project was in March 2017. Notwithstanding the delay, the project was rated as effective in the PCR25 for achieving outputs and outcome. The outputs were (i) safe and efficient movement of trains with the installations of signaling, power, and telecommunication systems between Bereket and Buzhkun; (ii) well-maintained and safe tracks; and (iii) supported project management and institutional capacity improvement. Achievement of all outputs led to achievement of outcome, namely, “an efficient, safe and reliable railway transport network developed and operated in Turkmenistan with better connectivity with neighboring countries”. The first outcome target was an increase in total national transit tonnage to 6 million tons by 2015 (i.e., by the third year of the project implementation), which was exceeded in 2017. The second target was 1.6 million tons of minerals transported, which was exceeded by reaching to 2.2 million tons in 2018. The third target of developing a performance tracking system was also achieved on time. The fourth target was reduced carbon emissions, with 3 of 4 project outcome targets were achieved while the last one was on track.

30. Energy. The current lending project in the energy sector (TKM: National Power Grid Strengthening Project) was approved on 8 November 2018 for $500 million with three outputs: (i)

power transmission infrastructure strengthened; (ii) project and financial management capacity of executing and implementing agency improved; and (iii) regulatory framework and awareness of energy efficiency in Turkmenistan improved. The project outcome is reliability of power supply improved and export volume of electricity increased. Due to the COVID-19 pandemic, there have been delays in the manufacturing and shipment of goods. Moreover, learning from the financial reporting delays in the transport project, the new project included a TA on strengthening financial management in implementing agency. Nonetheless financial management rating of the project was “at risk” until October 2022 because of the delays in submission of audited project financial statements (APFS) for fiscal years (Fys) 2019 to 2021. With their submissions, the financial management rating is now at “for attention”, pending submissions of annual entity financial statements (AEFS) that are IFRS compliant by Turkmenenergo, the implementing agency, for Fys 2021 and 2022. AEFS for Fys 2019 and 2020 are to be waived due to the challenges in the first-time IFRS adoption and lack of statutory/regulatory requirements for submission of IFRS compliance. According to the project’s mid-term review, approval of the reporting change is in 2022, when the Financial Management rating of the project will revert to “on track”. Project disbursements are also delayed, reaching at 71% instead of 100% per original schedule. Following the mid-term review and at the request of the Ministry of Energy, the disbursement schedule was revised changing project rating from “at risk” to “on track”. Implementation delays have affected project outputs, which were targeted for 2021 and are yet to be achieved. However, the government has confirmed that all outputs will be achieved within the closing date of June 2024. Notwithstanding the difficulties and delays, the project and its attached TA are expected to achieve their outputs and outcome by 2024, suggesting the project will be likely effective.

31. Financial sector and knowledge support. The KSTA on “Strengthening Institutional Capacity for Policy Formulation and Implementation” amounting to $500,000 was approved in December 2021. The KSTA and the other two completed TAs in financial sector and SPS, constitute to the interventions in the remaining prioritized pathways of the CPS, i.e., institutional modernization for economic diversification and knowledge support to the government. A financial intermediation loan to modernize financial-sector institutions to support SME finance was prepared, but it could not reach the approval stage due to lack of institutional capacity (i.e., absence of international financial reporting standards in the recipient banks) and agreement with the government on procedural protocols. The work on the proposed $20 million project is ongoing with a target for Board’s approval in 2023. Given Turkmenistan’s UMIC status, unique policy environment, and the need to develop a new ADB and Turkmenistan CPS for 2024-2028, it is likely that the COVID-19 restrictions also had an impact on the selection of the appropriate knowledge support acceptable to the government.

32. Completed technical assistance projects. TA 9084 for modernization of SPS measures for food safety was approved in March 2016 for $225,000 and closed in March 2018. This was the first ADB TA for the Ministry of Health and Medical Industry as the executing agency. The PCR rated the project as less than effective, due to slow responses from the government for the project activities, delayed requests for trainings (i.e., after closing of TA), and lack of access to inspection laboratories. ADB experience in other countries has also shown that SPS is a difficult area for high effectiveness, particularly due to multiple government agencies involved with their interests are not always aligned. TA 6578 on Supporting the introduction of IFRS 9 Financial Instruments in two commercial banks was approved in October 2020 and completed on 10 March 2022. The TCR issued in June 2022 rated the TA successful, relevant, effective, and efficient. It was demand driven and had a strong strategic alignment, furthering ADB-Turkmenistan

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partnership. Focused on results, the TA design enabled the delivery of the planned outputs to contribute to intended outcome and within the budget and according to the schedule stipulated. The ongoing KSTA project, approved in 2021, cannot be evaluated due to insufficient time elapsed and continuing travel difficulties related to COVID-19.

33. **Regional cooperation.** ADB’s operations in the energy sector in Turkmenistan have been inextricably linked with RCI. ADB has invested considerable time and resources into the development of regional projects, such as **Turkmenistan-Afghanistan-Pakistan-India** (TAPI) gas pipeline to diversify Turkmenistan’s gas export markets, and **Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan** (TUTAP) and **Turkmenistan–Afghanistan–Pakistan** (TAP) for power interconnection projects. These regional initiatives demonstrate a strong engagement of ADB, including those conducted under the CAREC umbrella. Their progress, however, has been challenging due to technical, financial, and complexity of the regional initiatives with several countries involved. Moreover, the initiatives have also been strongly affected by COVID-19 pandemic and the adverse developments in Afghanistan, which cannot be resolved in the short term. Progress on the ground has therefore been below targets envisaged by the CPS.

34. The first regional project of TAPI is to diversify Turkmenistan's gas export markets, while Afghanistan, Pakistan, and India would also benefit from enhanced and long-term energy security. ADB has been involved in TAPI since 2001 in various capacities, including more recently as a transaction advisor. ADB considers TAPI as a project of strategic importance and key for RCI to improve regional energy security. The planned 1,600 km TAPI pipeline would stretch from Turkmenistan-Afghanistan border to Pakistan-India border, with a potential export up to 33 bcm of natural gas per year over a commercial operation period of 30 years. Once operational, the project would bring multiple benefits to the participating countries, including in helping to reduce carbon emissions in Pakistan and India by supporting the use of natural gas instead of coal and other carbon intensive sources for energy generation.

35. The second ADB’s regional project of **TUTAP** is a power interconnection project to boost energy supply, improve energy security and efficiency, and promote cross-border trade in energy. TUTAP was designed to be built in phases, and one of the phases (i.e., $140 million) was approved by ADB in 2012 for a 300-MW power interconnection between Afghanistan and Turkmenistan. The 500-kv line would have had a capacity to transmit up to 1,000 MW power. In its complete stretch, the line was to go from Mary–Kerki of Turkmenistan to Andkhoy–Sheberghan–Mazar-i-Sharif of Afghanistan. The 450-km Turkmenistan segment along with a 500-kv substation at Kerki was commissioned in 2015, while the Afghanistan segment completed in 2021 but only up to Sheberghan. A Power Purchase and Sales Agreement (PPSA) between Turkmenistan and Afghanistan was signed in 2015 for power trade until 2028.

36. The third proposed regional project involving Turkmenistan is **TAP** power interconnection, with a potential capacity of 2,000 MW. An MOU among the three heads of the governments was signed in December 2015. As a follow up, a Joint Ministerial Statement confirming scope and timelines among the three countries (as well as designating ADB as a project secretariat) was to be signed in December 2017, but it eventually did not materialize resulting the role of ADB in TAP has not been formalized.

C. **Efficiency**

37. ADB country operations delivered under the current CPS 2017-2021 are assessed as **efficient** based on the ratings of completed and ongoing projects. The completed transport project was rated as **efficient** with an economic internal rate of return (EIRR) exceeding the threshold of
9%, while the two completed TAs were rated **efficient** and **less than efficient**, respectively. Some issues delayed the implementation of the completed transport project and they are linked to the government bureaucratic procedures, centralized decision making, and capacity of implementing agencies. Project development has also been affected by lack of available economic data and information disseminated by the government. The ongoing energy project and its attached TRTA have also had implementation problems, but they are on track to achieve project outputs within a revised schedule. The performance of contract awards and disbursements has been satisfactory.

38. **Portfolio performance.** Overall, portfolio quality of ADB’s operations in Turkmenistan was **satisfactory.** Projects were delayed due to structural constraints, but the government’s strong ownership led to above average contract awards and disbursement, and successful ratings of completed projects. However, during the CPS review period, sovereign operations planned under the COBP s did not reach their approval and implementation stages due to reasons such as lack of agreement with the government (e.g. SME project), changes in ADB position towards operations in Afghanistan (e.g. TAPI, TUTAP, and TAP projects), macroeconomic effects of COVID-19 pandemic on Turkmenistan (e.g. lockdowns, travel bans etc.), and delays in the provision of statistical data and information by the government (e.g. planned project in the health sector).

39. **Transport.** The selected technical design for the completed North-South Railway Project was deemed as the most appropriate in the PCR for it considered the national railway network, consistency in the standards of contiguous sections at each end of the project and forecast traffic. The project implementation was, however, delayed by 40 months due to contract cancellation and work suspension as a result of delayed payments. The contractor’s lack of experience in the international project and the fact that this is the first project for Ministry of Railway Transport (MRT) financed by ADB contributed to the difficulties in the project implementation. The EIRR was recalculated from 16.6% at appraisal to become 9.6% at the completion because of lower traffic and implementation delay. The delay increased ADB’s costs of project administration with increased numbers of review and consultation missions. Project rating as effective was supported primarily by the EIRR at completion exceeding the threshold of 9% used by ADB. IED validation made in December 2019 confirmed the project’s effective rating.

40. **Energy.** On the ongoing National Power Grid Strengthening Project, the executing agency plans to complete the project by the closing date of the loan in June 2024. All indicators of physical output of the project are likely to be completed, except the Balkan 500 kV substation, which may necessitate a 6-month loan extension.

41. **Technical Assistance.** The TA on IFRS 9 was rated **efficient**, as the project was completed within the cost and time set agreed. For the lump-sum payments linked to the milestones, 100% utilization was achieved. The other completed TA supporting modernization of SPS measures was rated **less than efficient** due to incomplete utilization of funds affecting the achievements of two outputs, namely, lack of access to laboratories prevented acquisition of machinery, and training workshops, which could not be held due to late government’s request that was received only after the TA closure.

42. **Contract Award.** Under the CPS review period Turkmenistan’s procurement performance was **satisfactory.** On the only active lending project during the review period, the National Power Grid Strengthening Project, contract awards were rated as “on track”.

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43. **Disbursement.** Although the disbursement of the National Power Grid Strengthening Project was assessed “at risk”, Turkmenistan's disbursement ratio at 28.1% in 2021 was still higher than ADB-wide average of 19.3%. The “at risk” rating was mainly due to the delays in equipment delivery because of COVID-19 restrictions. The project rating will change to “on track” once the government’s request for revised schedule is reflected in the monitoring system. Introduction of ADB’s new Client Portal for Disbursement has yet to be effective since local legislation still does not recognize electronic signatures. Until this issue is resolved, withdrawal applications will be done manually through the Resident Mission. Disbursement performance is therefore considered *satisfactory*.

*Figure 1: Contract Award Ratios for Sovereign Loans (as of 31 December 2022)*

**Note:** Contract award ratio is the ratio of total contracts awarded or committed (for financial intermediation loans) during the year over the total value of contract awards or commitments available at the beginning of the year including newly signed projects (loans and grants) during the year. Data on contract award ratio includes grants with co-financing administered by ADB. Source: PPFD.

*Figure 2: Disbursement Ratios for Sovereign Loans (as of 31 December 2022)*

**Note:** Ratio of total ADB sovereign loan and grant disbursements in each year/period to its undisbursed balance at the beginning of the year/period. The undisbursed balance as the denominator includes undisbursed balance of effective loans and grants, and undisbursed balance of loans and grants that were approved but not yet effective at the beginning of the year. Source: CTL.
D. **Sustainability**

44. **Transport.** The project was rated *likely sustainable* by PCR, which noted that “The MRT will operate the project as part of its railway network with financing of all operating and maintenance costs borne by the government”. The government maintains low levels of debt and according to the PCR, “the MRT is sufficiently solvent to increase the length of its network, purchase additional new rolling stock, and upgrade its technologies. Importantly, the railway is strongly committed to asset maintenance with its schedules followed fully”\(^{29}\). The PCR also noted the project railway would be largely for freight and would attract considerable traffic with the freight tariffs were adequate to meet all project costs. Passenger tariffs in Turkmenistan are low and cross-subsidized by freight revenues as it is common in many countries. The MRT was reassigned in 2019 from the Ministry to the Turkmen Railways Agency and the Demiryollary Open Joint Stock Company.

45. Project financial internal rate of return (FIRR) calculated at completion was 8.61%, higher than 7.71% calculated at appraisal stage. However, the validation identified some risks to sustainability of the North-South Railway Project because the rail traffic was diverted rather than created and the FIRR did not consider it adequately. Hence, the project was validated as *likely sustainable*. Combined with assessments of environmental, technical, and institutional sustainability, the project rating remained *likely sustainable*.

46. On the environmental sustainability, the project supports environmentally sustainable growth of Turkmenistan for the project components had limited adverse environmental impact. The project was deemed technically sustainable since its components installed, and the track machinery procured were tested and proven technology with less likely to become obsolete in the near future. Institutional sustainability is assured as the project owner, the MRT, is a government agency that can be expected to continue its functions in the economy.

47. **Technical Assistance.** The TA on IFRS 9 was rated *likely sustainable* on the grounds that it established the basis for the banks involved to comply with IFRS. The TA on SPS was also rated *likely sustainable* based on the continued engagement of the CAREC program in the food safety and SPS issues.

48. **Other projects.** The ongoing project in power sector is expected to be *likely sustainable* given its strong ownership by the government, which requested the project, the importance of the sector to the country’s economy and exports, and the institutional strength of the implementing agency: Turkmenenergo.

49. **Overall,** ADB operations in the CPS period were rated as *likely sustainable*, based on the ratings of the completed lending and non-lending projects and expected rating of the ongoing projects.

E. **Development Impacts**

50. Based primarily on the projects and sectoral and thematic impacts, ADB’s overall contribution to development impacts was assessed as *satisfactory*. ADB program remains small, but the lending projects have been in key sectors for supporting the country’s development goals. The transport connectivity, for instance, contributed to Turkmenistan’s ability to provide transit of

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\(^{29}\) Turkmenistan: North-South Railway Project Completion Report, Project Completion Report, ADB, July 2018.
an increased flow of freight in the region, but the goals envisaged for power sector exports were affected by the developments in Afghanistan although the project interventions contributed to the country readiness to scale up exports. Moreover, TA project introduced important modernizing principles and practices in the financial sector and the SPS methods introduced through the other TA created long-term benefits.

51. Two of the four CPS development impact indicators were achieved, namely an increase of the non-hydrocarbon sector’s share in the economy (increasing to 70%) and power exports increase to 4 billion kWh by 2021 (the actual increase was 5.5 billion kWh). Full attribution to the ADB’s program is difficult given the investment project in financial sector was delayed, while the power sector project is still ongoing. Another indicator was partially achieved, with the annual growth of freight and passenger traffic falling short from the targeted 3-4%. The (transit) freight traffic was also affected by factors in neighboring countries and the COVID pandemic. The last indicator of targeting capacity for natural gas exports to South Asia was the most affected by disruptions to regional initiatives by the unanticipated developments in Afghanistan.

52. Until the disruption in Afghanistan, ADB’s operations in RCI through TAPI and TUTAP initiatives remained strong. Incremental progress was made in institutional milestones, such as setting up of holding company for TAPI, signing of power-purchase agreements, and continuing policy dialog among participating countries. The ongoing KSTA will contribute to the knowledge inputs to the government policy formulation and the CAREC regional TAs contributed to the knowledge partnership. Given the knowledge intensive needs of Turkmenistan, more could have been done but the COVID pandemic restrictions constrained more engagement. ADB contributions to inclusive growth, gender and environment and climate change operated primarily at a project level, and the development impact of completed and ongoing projects were satisfactory.

53. **Transport.** The PCR of the North-South Railway Project rated the project’s development impact satisfactory. About 3,200 people live in nine villages about 3–10 km from the railway line. With the increased rail passenger service, local inhabitants are benefited from the increasing mobility resulted from the railway. Although poverty reduction was not specifically targeted in the project’s design, improved rail passenger transport will allow easier access to markets and other areas of the country, including to visit family and friends, and improving access to health and educational facilities. In addition to train crews, the railway is expected to employ 175–200 people at its 11 stations along the line north of Bereket, and about 110 workers are working in the stations and along the line. As traffic increases, some of the new positions will be filled by people from local areas, and small shops and food outlets will also be set up at the new passenger and freight stations. The railroad has also contributed to the doubling of international traffic. The IED validation also viewed the development impact satisfactory, in line with the PCR rating.

54. **Energy.** There is no assessment yet on the development impact of the National Power Grid Strengthening Project, which is still ongoing. It is expected, however, that the project will promote energy trade and market diversification through the establishment of interconnected national transmission grid to improve reliability and energy efficiency of the network to support trading electricity with Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, and Uzbekistan, as well as increasing electricity exports to Afghanistan. The development impact of the project will be an improved reliability of the network that will be proportional to the volume of exports in the future.
F. Performance of Non-sovereign Operations

To promote private sector investment and development in Turkmenistan, ADB has been exploring the potential of non-sovereign operations together with commercial co-financing. To date, however, ADB has not been able to provide any non-sovereign loans to the country. This is mainly due to the lack of framework agreement between ADB and the Government, complexities in the dual exchange rate system currently adopted, uncondusive business and investment climate, and a centrally controlled economy as shown by extensive administrative and other controls.

G. ADB and ADB’s Borrower Performance

55. During the CPS review period, ADB performed well as a development partner of Turkmenistan. ADB and ADB Institute (ADBI) actively engage in the country in many aspects of engagements, including in producing knowledge products and knowledge solutions relevant for Turkmenistan. Overall, the performance of ADB and the borrower has been satisfactory. Projects were designed well by ADB and responsive to the needs of the government. ADB worked closely with the government in carrying out procurement and supervision of the projects, including by stepping in with additional support when necessary. Government and implementing agencies performed well in implementing and facilitating project objectives, considering there has been a learning curve for a new type of project, a regulatory environment requiring modernization, and relatively high-level of centralization in decision making process.

56. Transport. The PCR rated the performance of the Ministry of Railway Transport (MRT), the borrower and the executing agency satisfactory. The project was implemented according to the arrangements envisaged at the appraisal stage, but with some considerable delays. As a result, ADB’s project administration cost was adversely affected as the number of missions increased and additional TA funds were needed. The validation assessed the performance of the borrower and the executing agency less than satisfactory, but the PCR rated ADB’s performance highly satisfactory. ADB fielded 25 missions during the project implementation, including one mission each for reconnaissance, loan negotiation, loan inception, and project completion; four missions for consultation; and 17 missions for project reviews. Communication and coordination between ADB and MRT were effective, and ADB responded to MRT’s requests and consultations promptly and constructively. MRT benefited from ADB’s guidance and cooperation in resolving implementation issues, including in providing timely funds to assist project manager on technical issues. ADB mobilized additional individual consultants to support MRT on contract management and environmental safeguard compliance. The project was implemented in a difficult bureaucratic environment requiring ADB’s close monitoring.

H. Overall Assessment

57. Assessments of relevance, effectiveness, efficiency, sustainability, and development impacts of ADB’s operations approved and active in the CPS period are summarized in Table 3. The weighted average of each assessment criteria is presented at the bottom of the table. The overall score is 1.95, which is consistent with a successful rating for the CPS and the program.

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30 EBRD has been able to provide some non-sovereign loans to the countries for it has been benefited from what resembles as an exchange rate guarantee from the government.

31 This matter has been re-submitted for Government’s consideration in November 2022.
### Table 3: Overall CPS and Sector

<table>
<thead>
<tr>
<th>A. Sector/Area</th>
<th>% of ADB funding</th>
<th>Relevance</th>
<th>Effectiveness</th>
<th>Efficiency</th>
<th>Sustainability</th>
<th>Development Impact</th>
<th>Overall</th>
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<td>2</td>
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<td>1.5</td>
<td>2</td>
<td>2</td>
<td>1.8</td>
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**Weighted Average Sector Score (Sovereign)**

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<th>B. Cross-cutting objectives</th>
<th>Relevance</th>
<th>Effectiveness</th>
<th>Efficiency</th>
<th>Sustainability</th>
<th>Development Impact</th>
<th>Overall</th>
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<tr>
<td>Regional Cooperation and Integration</td>
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**Combined score (A+B)**

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<th>Effective</th>
<th>Efficient</th>
<th>Likely sustainable</th>
<th>Satisfactory (Low end)</th>
<th>Successful</th>
</tr>
</thead>
</table>

**Note:**

a: Includes completed and ongoing KSTAs

b: Based on completed transport project

### IV. ISSUES, LESSONS AND RECOMMENDATIONS

#### A. Issues

58. **As a UMIC with relatively unique development challenges, Turkmenistan’s needs integrated across-sector and themed solutions.** With its resource-based exports, Turkmenistan does not have resource constraints typical of many other ADB’s DMCs. The country has undertaken a high level of public expenditures, including for infrastructure, while maintaining a conservative stance towards external public debt, which is estimated at less than 30% of GDP. The country needs knowledge-intensive customized support and integrated across-sector and themed solutions that build on and complement the engagement to date. For example, for the first ADB investment project, the North-South Railway Project, the government requested ADB to finance only the design, procurement, and installation of the power supply, signaling, and telecommunication systems for 311 km of the northern section once the tracks were laid down using the government funds. Based on its experience with UMICs, ADB believed its participation in the project components would benefit the country by bringing in international bidding and procurement standards. ADB recognizes that UMICs offer an opportunity for ADB to anchor its financing on knowledge to increase knowledge intensity of its operations. Turkmenistan also faces significant challenges from its legacy as a non-market economy dominated by public sector, administrative controls, and need for greater transparency that result in an investment climate that has not been conducive for private sector developments. Economic diversification remains a high priority due to the narrow economic and export base. Policy, structural, and institutional reforms to address these challenges are typically knowledge intensive, requiring time and strong political commitment. ADB’s KSTAs and its RCI engagement in regional energy projects have

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drawn upon its experience and knowledge resources to offer bespoke solutions to country needs. Economic diversification and development of human capital and the non-hydrocarbon sectors remain a priority to be addressed. Strengthening technical and digital skills of the work force and empowering women would be an important ingredient in human capital development along with inclusive access to quality healthcare.

59. The energy sector has enabled Turkmenistan to become UMIC, but the country’s natural gas assets risk being “stranded” without adequate and wider connectivity to a diversified export market. Moreover, the rising importance of climate change globally and the declining long-term trends in the costs of renewable energy have added to the urgency for the country to diversify its export and production. Aside from the two main buyers, PRC and Russia, the government has been seeking a northern market route through the trans-Caspian pipeline and markets in the south through TAPI. However, high project costs, lack of secured financing, and unresolved or adverse political development in the region are likely to constrain success in the short- to medium-terms. ADB has long been a valued partner in the energy sector and the government would like the partnership to continue but continuing the “business as usual” approach may no longer productive or even viable given the many political and technological changes affecting the sector.

60. Targets for regional cooperation initiatives were too ambitious in timeline, vulnerable to exogenous shocks and political constraints. ADB has decades long experience with large RCI programs, such as CAREC, and Turkmenistan recognizes the convening power of ADB in its efforts to diversify energy export markets through TAPI and TUTAP. ADB has acted as TAPI secretariat since 2003 and as a transaction advisor since 2013, helping to establish the TPCL (i.e., an entity established and owned by gas companies of Turkmenistan, Afghanistan, Pakistan and India to develop, own, and operate the TAPI pipeline in Afghanistan and Pakistan), select Turkmengaz as the consortium leader, and finalize the Shareholders and Investment Agreement. In 2020, ADB approved a regional TRTA to develop Phase 1 of TAPI, but its implementation was suspended in 2021 following political changes in Afghanistan. Energy sector and regional energy interconnection will remain a priority for Turkmenistan, but the country is facing geo-political challenges that cannot be resolved in the short term.

B. Lessons

61. Improved focus on knowledge and capacity needs of Turkmenistan can improve country operations. Project development is affected by Turkmenistan’s lower need for external financing, and by structural constraints (for example, dual exchange rates, lack of market-based institutions, lack of data and transparency, and centralized decision-making). Constraints to Turkmenistan’s ambitions for economic diversification and private-sector development require comprehensive knowledge and evidence-based policy inputs as well as a nuanced understanding of its underlying structural and capacity constraints. For example, ADB and the government engaged in the formulation of a financial-intermediation loan, but the project could not reach approval because of issues such as who would sign the loan agreement, bear the foreign exchange risk, and reporting standards of participating institution. Following TA support to build capacity for reporting standards and improved clarity of mutual needs, the project is being redesigned for approval in 2023. Similarly, timely capacity-building by ADB in contracting and project management facilitated improved implementation efficiency for the railway and power projects. ADB’s KSTA on policy formulation has direct relevance to government needs. Improved understanding of Turkmenistan’s structural and capacity constraints for policy, regulatory and institutional reforms will identify priority engagement areas and capacity deficiencies, both of which can enhance quality of ADB’s engagement and country operations. The Resident Mission
and other ADB teams have been working with government officials to foster greater understanding of capacity and knowledge needs but there is considerable room for further improvement.

Table 4: Summary of Issues, Lessons and Recommendations

<table>
<thead>
<tr>
<th>No</th>
<th>Issue and Lesson</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue: What did NOT work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>As a UMIC with relatively unique development challenges including those of the low-income developing countries, Turkmenistan requires customized and integrated solutions covering both hard- and soft-infrastructures.</td>
<td>To meet the client’s needs, ADB should better customize and broaden its engagement through increased flexibility and knowledge intensity to provide integrated cross-sector and themed solutions for unique UMIC context and active and knowledge-based support anchored on a stronger Resident Mission.</td>
</tr>
<tr>
<td>2</td>
<td>The country’s natural gas assets risk being “stranded” without adequate connectivity to a diversified export market.</td>
<td>ADB’s support should focus on reducing inefficiency, diversifying gas including for domestic use and accelerating decarbonization of energy sector in line with the national and international climate targets through investments in energy efficiency and renewable energy across sectors, policy-based loans and low-carbon pilot projects by considering potential socio-economic impacts associated with the transition to ensure for a just transition away from gas.</td>
</tr>
<tr>
<td>3</td>
<td>The timeline targets for regional cooperation initiatives were too ambitious considering intrinsic challenges and high complexity, historical progress and vulnerability to exogenous shocks and political constraints.</td>
<td>ADB should continue prioritizing RCI by better considering the country’s independence and neutrality status and vulnerabilities of the main country’s commodity and stability of the region, which has been subjected to various interventions.</td>
</tr>
<tr>
<td>4</td>
<td>Overly centralized decision and policy making process has slowed down project development and implementation that was further exacerbated by information gaps, lengthy administrative procedures, and low capacities in the implementing agencies.</td>
<td>To improve the partnership quality between ADB and the Government, top priority should be given to reductions in the overall “bureaucratic burdens” including through digitalization of process and decision along one-stop-service modality to reduce the number of human interactions and hierarchy in the decision-making process.</td>
</tr>
<tr>
<td>Lesson: What DID work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Improved focus on knowledge and capacity needs of Turkmenistan can improve country operations and development outcomes.</td>
<td>ADB should intensify its quality focused knowledge and capacity building partnership with the Government in coordination with other development partners.</td>
</tr>
</tbody>
</table>

C. Recommendations

62. To meet Turkmenistan’s unique challenges and therefore needs, ADB should customize and broaden its engagement through increasing flexibility and knowledge intensity, while maintaining sector selectivity given the limited resources. The unique context of Turkmenistan requires integrated cross-sector and themed solutions and active and knowledge-based engagement anchored on a stronger Resident Mission. ADB needs to be able to customize its projects to meet the needs of Turkmenistan as a UMIC with unique institutional and political-economic context. ADB has recognized that its engagement with UMICs needs to be more knowledge intensive rather than quantity focused. This can be anchored on niche but transformational projects containing innovation and knowledge value added incorporating digitalization, gender mainstreaming, climate actions, and disaster resilience as part of modern
solutions. Notwithstanding the recent setbacks, TAPI and TUTAP provide good examples of demand-led responses to the country’s needs. Under the new partnership strategy, **sector selectivity remains important given the limited resources, but the unique UMIC context of Turkmenistan calls for unique solutions.** For example, economic diversification, private-sector development, and inclusive economic growth remain priorities for the country, but they require multi-sector and cross-theme solutions, which are prioritized in the reorganized ADB’s implementation of Strategy 2030. The partnership between ADB and Turkmenistan needs therefore to expand beyond the key sectors of transport and energy to also cover other sectors. Investing in agriculture and water management, human capital including health, education, and social protection with strong focus on gender mainstreaming and empowering women, and managing urban development to make cities as new drivers of growth, are other examples of priority where ADB could provide valuable partnership. ADB should also work with the Government to support its efforts toward private sector development and more market-based economy including improving the efficiency of state-owned enterprises, supporting public-private partnerships, and finding a path for nonsovereign operations in Turkmenistan, which will be crucial to complement the support on the sovereign side. The envisaged agenda for the new CPS requires a strong resident mission to manage a comprehensive and high-quality engagement by effectively implementing the solution oriented UMIC operations in a complex environment. This is also in line with ADB’s on-going organizational review to increase the role and responsibility of the Resident Mission. In this context, a consideration should be given to placing at least a leading energy or solution expert to enhance its resource envelope and to lead customization of knowledge and capacity building.

63. **Energy sector should retain its high importance, but its further development must be strongly linked to climate change and environmental sustainability and should emphasize the potential role that Turkmenistan has for decarbonization in the region.** Energy sector has been the main source of the government’s income and the main driver of economic growth of the country. It has been an anchor of the partnership between ADB and Turkmenistan as one of the most demand-driven area of engagement even if comprehensive success has been elusive due to the challenging context. Energy exports will therefore remain a growth driver of the economy and a top priority for the government. Given the long partnership, ADB should remain engage in the sector but should also incorporate recent political developments in the region and technological changes globally with a focus on energy efficiency, renewable energy, reduction of gas losses and diversification of gas including for domestic use. The energy transition will be critical for the country to address climate change, which is high priority for ADB, the government and the global development agenda. This is an area that ADB can bring expertise, knowledge, and financing to the partnership. Supplying natural gas to large developing countries such as Pakistan, India, and other that use coal and other carbon intensive sources of energy might have a large positive impact on decarbonization of the region. Likewise supporting exports of clean and efficiently generated electricity could also support further carbon emission reduction in the region. Enhancing energy efficiency and promoting renewables may complement the initiatives to diversify export and domestic markets including for more environmentally friendly used of gas and its derivative products.

64. **Given Turkmenistan’s development challenges and land-locked nature, ADB should continue prioritizing RCI taking a note of the country’s neutrality status, strategic location and potential to be a major trade and transit hub.** Regional connectivity and cooperation with the neighbors in the region are critical to mitigating constraints of Turkmenistan’s landlocked geography. ADB has long experience in promoting RCI through the CAREC program, of which Turkmenistan is an active member. The program is well positioned to help the country strengthening its RCI including in becoming a champion on key aspects of RCI, as was already
demonstrated in the dispute resolution area. Promoting regional connectivity through transport, energy, trade and trade facilitation are key focus areas of CAREC. More recently, CAREC has also been developing regional aviation connectivity and tourism that will benefit Turkmenistan further. CAREC also plays an important role in the management of strategic assets such as water, which is key importance to Turkmenistan. ADB needs to continue to support Turkmenistan in taking advantage of its strategic location, connecting East and West as well as North and South routes to reduce barriers to integration and cooperation.

65. **To improve the quality of partnership between ADB and the Government, reducing the overall “bureaucratic burdens” is a top priority.** This includes through digitalization of process and decision making in the context of one-stop-shop service modality to reduce the number of human interactions and hierarchical levels in the decision making. ADB and the Government of Turkmenistan have a good relationship since the country joined ADB. Over the last two decades ADB has been a valuable development partner in the country including as a multilateral financial institution. However, there is a room for improving the quality of engagement that should be prioritized to maximize the long-term potentials of the partnership. ADB and the government have their respective administrative, fiduciary, and procedural protocols. The respective system can be viewed by partner as “excessively bureaucratic” that can reduce the engagement quality, limit the partnership opportunities, and lower the overall efficiency of the joint operations. All these can manifest in still-born, long gestation, and cancelled projects. To improve the engagement quality, there are at least two operational strands, starting with improved knowledge and understanding on the mutual processes, objectives, and constraints. The Resident Mission could lead these initiatives on an on-going basis, but the new strategy should explore options for building targeted initiatives through knowledge support and capacity building (such as financial management). Additionally, there could be a need to establish a “workable get-around” for a smooth and efficient operation to avoid cumbersome administrative protocols. The ‘agreed mechanism’ is to increase the speed and efficiency of operations that can be made specifically for a project or, preferably, for the partnership. The organizational review under Strategy 2030 provides a good opportunity for ADB to leverage its commitment to increase delegation and efficiency to enhance the quality of the partnership. As part of the new strategy formulation, mutual understanding between ADB and the Government may be based on an “operational memorandum” or “operational guidelines” that must be followed by both sides to facilitate better, faster, and more efficient operations.

66. **ADB should intensify its quality focused knowledge and capacity-building partnership with the Government in coordination with other development partners.** Consistent with ADB’s UMIC policy, ADB’s contribution to Turkmenistan’s development challenges is likely to be enhanced by increased provision of quality knowledge support and well-targeted capacity improvements. Turkmenistan’s development objectives of economic diversification, institutional modernization and an innovation-driven economy pose wide ranging information needs and capacity gaps. Other partners are actively engaged in providing knowledge and soft infrastructure (e.g., policy, regulations, and institutional strengthening). Closer coordination with development partners will ensure resources are well utilized by avoiding duplication and leveraging existing knowledge into the knowledge-intensive partnership envisaged by ADB. The need to have the government active in knowledge partnerships is worth reiterating in this context. Knowledge engagement will benefit only with the government participating actively in setting the agenda and owning the results. Instruments to increase government’s participation in knowledge partnerships should be explored, such as customized reimbursable TAs for specific areas or issues, and TAs with matching contributions between government and ADB, and other development partners where feasible and appropriate.
## ADB Loans and Technical Assistance During 2017-mid-2022

<table>
<thead>
<tr>
<th>No.</th>
<th>Loan/TA Number</th>
<th>Project Name</th>
<th>Type</th>
<th>Amount ($ 000)</th>
<th>Approval Date</th>
<th>Status (as of 30 June 2022)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2737</td>
<td>North-South Railway Project</td>
<td>Loan</td>
<td>125,000.0</td>
<td>15-Mar-11</td>
<td>Completed</td>
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<tr>
<td>2</td>
<td>9084</td>
<td>Modernization of Sanitary and Phytosanitary Measures for Food Strategy</td>
<td>TA</td>
<td>225.0</td>
<td>11-Mar-16</td>
<td>Completed</td>
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<tr>
<td>3</td>
<td>9175</td>
<td>Power Sector Development Project</td>
<td>TA</td>
<td>350.0</td>
<td>22-Sep-16</td>
<td>Completed</td>
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<tr>
<td>4</td>
<td>6578</td>
<td>Supporting the Introduction of IFRS 9 <em>Financial Instruments</em> in Two Commercial Banks</td>
<td>TA</td>
<td>225.0</td>
<td>19-Oct-20</td>
<td>Completed</td>
</tr>
<tr>
<td>5</td>
<td>3734</td>
<td>National Power Grid Strengthening Project</td>
<td>Loan</td>
<td>500,000.0</td>
<td>08-Nov-18</td>
<td>Active</td>
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<tr>
<td>6</td>
<td>6876</td>
<td>Strengthening Institutional Capacity for Policy Formulation and Implementation</td>
<td>TA</td>
<td>500.0</td>
<td>08-Dec-21</td>
<td>Active</td>
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<tr>
<td>7</td>
<td>9524</td>
<td>Preparing the CAREC Corridors 2, 3 and 6 (Turkmenabat-Mary-Ashgabat-Turkmenbashi) Railway Modernization Projects</td>
<td>TA</td>
<td>975.0</td>
<td>11-May-18</td>
<td>Active</td>
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<tr>
<td>8</td>
<td>9637</td>
<td>Improving Energy Efficiency and Capacity</td>
<td>TA</td>
<td>1,500.0</td>
<td>08-Nov-18</td>
<td>Active</td>
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<tr>
<td>9</td>
<td>6665</td>
<td>Preparing the Improving Nursing Quality and Capacity Project</td>
<td>TA</td>
<td>750.0</td>
<td>09-Dec-20</td>
<td>Active</td>
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<tr>
<td>10</td>
<td>9992-REG</td>
<td>Preparing the TAPI Gas Pipeline Project (Phase 1)</td>
<td>TA</td>
<td>150.0</td>
<td>18-May-20</td>
<td>On hold</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank
### Country Partnership Strategy Results Framework: Performance Record

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas export capacity to South Asia, bcm</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>33.0</td>
<td></td>
</tr>
<tr>
<td>Power exports, billion kWh</td>
<td>3.5</td>
<td>2.7</td>
<td>1.8</td>
<td>5.5</td>
<td>8.0</td>
<td>10.0</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of private sector contribution to non-hydrocarbon GDP, %</td>
<td>62.2</td>
<td>68.0</td>
<td>66.0</td>
<td>71.0</td>
<td>71.0*</td>
<td>71.3*</td>
<td>70.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual growth rate of freight transportation volume, %</td>
<td>0.6</td>
<td>2.5</td>
<td>1.9</td>
<td>0.7</td>
<td>4.4</td>
<td>3.7</td>
<td>3.0-4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual growth rate of passenger transportation volume, %</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
<td>0.9</td>
<td>(7.3)</td>
<td>5.9</td>
<td>3.0-4.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* estimate