

CEA Turkmenistan Scoping Visit September 26-October 2 2010



CEA
Construction Equipment Association

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Note: Some company / ministry visits may contain conflicting information – but they are an accurate report of the interviews conducted by the CEA.

Turkmenistan – an Introduction

CEA Scoping Visit

Following an invitation from the British Ambassador to Turkmenistan, HE Keith Allan, the CEA's Joanna Oliver MBE spent a week researching opportunities for UK Construction Equipment manufacturers in Turkmenistan. Part of the costs of Joanna's visit were generously funded by the Advanced Engineering Sector of UK Trade & Investment.

The Ambassador and his team produced a magnificent, albeit somewhat hectic, programme for Joanna, including meetings with the Deputy Prime Minister for Trade & Industry, several construction Ministers, the head of the Marine, River and Ports Board, the Chairman of the Turkmenistan Chamber of Commerce, Chairman of the Avaza Tourist Zone Development Board, head of the European Bank for Reconstruction and Development (EBRD), the President of Chevron Oil, Managing Director of Bouygues plus contractors and other interested parties.

Turkmenistan nestles peacefully on the shores of the Caspian Sea between Iran and Afghanistan. It boasts huge natural gas reserves (the world's fourth or sixth largest depending on the source) and a thriving cotton and textile industry. It is expanding its infrastructure rapidly.

The Turkmen capital, Ashgabat, is an astonishing modern city of large white marble buildings, built in the last decade to replace the old Soviet style city, much of which has now been demolished. Government buildings are especially ornate and Ashgabat boasts the highest concentration of city fountains (also in white marble) in the world.

A new airport is planned for the capital, together with improved roads, rail, irrigation canals and a continued building programme of apartment blocks, government offices, hotels, schools, hospitals, etc, is envisaged to continue across the country for at least the next 20 years. Virtually all projects are government funded and the contractor is awarded by tender organised by the relevant ministry.

In reality, most large contracts seem to be carried out by either Bouygues (most of the ministries, the new Ashgabat Mosque (the largest in Central Asia) and Presidential Palace and a new large mosque for the north of the country) and Polimeks. Opportunities exist to supply equipment to these two major contractors – but also directly with the government who purchase equipment for maintenance projects. Some smaller projects are funded by loans from the EBRD by companies who are interested in sourcing equipment from the UK.

Turkmenistan – an Introduction

Across the country, cities, roads, rail and air links are being upgraded and developed. The port and city of Turkmenbashi, the main port on the Caspian with a sea route to Baku in Azerbaijan (and onwards to Turkey and the west), is being completely redeveloped with a new container port, bulk handling facility, passenger terminal and fishing port planned. The old city will be razed and a new one built in its place.

A few kilometres down the coast from Turkmenbashi, a new tourist zone is planned called Avaza. Five large hotels have already been built with a further thirty planned. The resort will include golf courses, an indoor winter sports complex, a marina, water sports, tennis and many other leisure facilities. An eight kilometre artificial river has already been completed with pleasure boats cruising through the desert.

Joanna had meetings with:-

- MD and Equipment Manager of Bouygues Construction
- Country Manager Pamposh Construction.
- Chairman of Chamber of Commerce and Industry
- Neil McKain, EBRD Country Representative
- Martin Child, 2nd Secretary Regional Energy
- H.E Deputy Prime Minister for Trade & Industry
- Minister for Construction
- Minister for Construction Materials Industry
- The Vice-Hyakim of Turkmenbashi city
- Turkmenistan State Service on Sea & River Transportation and Turkmenbashi Sea Port.
- Chairman of the State Committee on “Avaza” Tourist Zone & visit to the construction site
- Chairman of Chamber of Commerce and Industry
- Jason Hunt, Eurotech (JCB) country representative
- MD, AI Toprak Construction
- MD, OMER Construction and Block Making

Major Opportunities

Ashgabat

- ▣ 15 years more building of new housing stock
- ▣ New Government ministry buildings
- ▣ New schools, hospitals, shops etc
- ▣ New International Airport
- ▣ New and upgraded roads
- ▣ New industrial facilities inc. textile and brickmaking factories
- ▣ Upgrading of heating / water system

Turkmenbashi

- ▣ City of 80,000 to be completely rebuilt
- ▣ Housing, schools, hospitals, entertainment, shops
- ▣ New port:- Container, fishing, gas shipping, passenger and bulk handling
- ▣ New oil refinery
- ▣ New fish canning factory
- ▣ Improved rail links
- ▣ Upgrading / extending irrigation canals and inland waterways
- ▣ Upgrading / new desalination plants
- ▣ 3 new tankers
- ▣ Upgrading of fishing fleet

Avaza

- ▣ Turkmenistan's "Dubai"
- ▣ 35 new hotels – only 5 built to date
- ▣ Support infrastructure
- ▣ Golf courses
- ▣ Indoor ski centre
- ▣ Offshore island hotel
- ▣ New and upgraded roads
- ▣ Water-sports centres
- ▣ Cinemas and entertainment centres
- ▣ Desalination plant

Practical Information

Doing Business

To do business in Turkmenistan one must first establish good contacts – especially with the Turkmenistan Government. Almost everything is controlled or at least overseen by the Government from the granting of a visa to travel around the country and the granting of permits and licences to conduct business.

The British Embassy, headed by Keith Allan, is well placed to assist companies wishing to establish themselves in Turkmenistan – and advise on how to make the first steps into the country. It is important to meet with both Ministers and, preferably, the appropriate Deputy Prime Minister to gain a good reputation in market before attempting to do any business. Participating in a trade mission is a good way of making the first introductions in Turkmenistan.

It should be noted that security is tight when visiting ministries and passports must be shown on arrival. It should also be expected that many meetings will be postponed, rescheduled or cancelled altogether, often at very short notice. Meetings can be rearranged at very short notice – especially with Government Ministers. For example Joanna was called to the Construction Ministry to meet the Minister at 9.00 pm on a Friday night at 30 minutes' notice. She was then invited to stay in Turkmenistan for an extra week to make some more visits and meet other Ministers. This is quite usual.

Communications

Communications are difficult – currently there is no international mobile phone network or roaming agreement. Hotels do not always offer Internet access, broadband is scarce and dial up connections are very slow. There are not many domestic web sites and most are in Russian. The Turkmen do not seem to respond to e-mails – especially ministers regardless of the language they are written in. If a reply is required then a letter should be written and posted.

Internet services are the least developed in Central Asia. Access to internet services are provided by the government's only ISP company "Turkmentelekom". It is estimated that in 2010 there are 80,400 internet users in Turkmenistan or roughly 1.6% of total population.

Mass media

There are a number of newspapers and monthly magazines published in Turkmenistan. Turkmenistan currently broadcasts 6 national TV channels through satellite. They are Altyn asyr, Yashlyk, Miras, Turkmenistan (in 7 languages), Turkmen Owazy and Ashgabat. There are no commercial or private TV stations. Articles published by the state-controlled newspapers are heavily censored.

Practical Information

Language

Language – although the official language is Turkmen, in reality many people in Ashgabat, especially those under 35 speak Russian. Business communications should be at least in Russian; and in Turkmen if you wish to be polite and make a good impression. A Russian or Turkmen translator is absolutely required at most meetings as fluent English is not common.

Transportation

There are only a few international flights to Turkmenistan and only one direct from the UK with Turkmenistan Airlines from London and Birmingham which continues on to Amritsar. Flights are difficult to book but there is an agency in Birmingham – Amritsar Travel who can book flights for you <http://www.amritsartravel.com> . Indirect flights are available with Turkish Airlines, Aeroflot and Lufthansa.

In Ashgabat there are taxis but you will need your destination written down – and / or a translator. If you are staying for a few days and have a number of meetings it is best to hire a driver and interpreter for the duration of your stay. If you are visiting other internal cities then flying is the best option and Turkmenistan Airlines are cheap and fairly reliable. e.g. a return flight from Ashgabat to Avaza is only around US\$40.

It is possible to drive the long distances between cities but it is not recommended and roads can be dangerous when driving at night. A driver should be pre-booked when travelling to other cities unless you have an interpreter.

International Arrival and Departure Procedure

You should obtain a business visa in advance and will need a letter of invitation, certified by the State Migration Service of Turkmenistan, from a Turkmen company or the British Embassy to secure one. In theory it is possible to get a visa on arrival, but the arrivals hall at Ashgabat airport is manic and the queues for visas were very long when the CEA visited. As most international flights arrive in the middle of the night it is not the best option.

If you have a visa you can go to the front of the scrum of humanity massing in the arrivals area (you will have to push your way through and ignore a few angry words and stares) and waive your passport open at the visa page at an official. You will then be directed to an immigration officer who will stamp your passport and direct you to another queue where you need to purchase an entry pass for \$12 in cash in US\$.

Practical Information

International Arrival and Departure Procedure

Having cleared immigration you pass into the baggage hall which must be one of the most chaotic in the world. The flight arriving from Istanbul, on which the CEA travelled, was full of large and aggressive women who have been shopping on behalf of their village for items unavailable in Turkmenistan and are waiting, armed with baggage carts, to collect the hundreds of black bin liners wrapped in tape that eventually arrive on the carousel. It is total mayhem. As soon as bags start arriving – which took well over an hour after arrival - the women climb onto the carousel shouting and hurling abuse at everyone and throw bags around and at each other. Any suitcases arriving are thrown in all directions by the women trying to identify their bags. It really has to be seen to be believed. Once you are finally reunited with your luggage you get in another scrum to clear customs and have your bags X-rayed. After an hour or two you emerge battered and bruised and hopefully find your pre-arranged driver from your hotel.

Registration

You should carry a copy of your passport and photo EU driving licence at all times as you may be stopped by the police and asked for identification. The British Embassy in Ashgabat does not issue passports but sends applications by diplomatic bag to Dusseldorf for replacements - so take great care not to lose yours.

All visitors must register within 3 days of arriving with the State Migration Service of Turkmenistan at their office at 57 Azadi Street, Ashgabat. This registration procedure is to be carried out by your employers, inviting organisation or individual. The British Embassy can advise. Tourists will be registered by their Turkmen travel agent.

You should bring two passport size photos for registration purposes. The State Migration Service of Turkmenistan requires a letter from your host organisation or individual confirming your departure from Turkmenistan. Failure to do this will result in a large fine and possibly detention, deportation or refusal of a visa for a future visit. If you are travelling as part of an official mission the organiser should do this for you.

If you are staying for more than three days it is advisable that you register with the British Embassy in Ashgabat for the duration of your stay (tel: +99 312 36 34 98; fax: +99 312 36 34 65; email beasb@online.tm).

Practical Information

Registration

Departures are equally chaotic with every passenger being funnelled through one small door before check in – again queuing does not exist and the angry shopping ladies just push straight to the front. There are multiple security checks and baggage X-Rays both before and after check in. You must clear customs and if you have purchased a carpet it must be accompanied by a certificate from the Turkmen Carpet Ministry to allow you to export it. Do not be tempted to buy a cheaper carpet without a certificate or it will be confiscated and / or you will be fined.

Facilities at the airport are basic and there is no access to the business lounge unless you are travelling on Turkmen Airlines.

This procedure can be eased by paying for a CIP Pass – ask at the Embassy for details.

General - Consular Assistance - British Embassy in Turkmenistan

The British Embassy is at Four Points Ak Altin Hotel, 301-308 Office Building, Ashgabat, Turkmenistan.

Office hours GMT: Mon-Thurs: 0330-0730 and 0800-1200, Fri: 0330-0730 and 0800-1030

Local Time: Mon-Thurs: 0830-1230 and 1330-1700 Fri: 0830-1230 and 1330-1530

Hotels

Hotels are of a reasonable standard, although somewhat Russian in design. A new Sofitel has just opened and judging by the TripAdvisor reviews is by far the best option. Joanna stayed at the President which was fine with large comfortable rooms and adequate food, but a little far out of the centre of the city. The Embassy rate was around £160 per night.

In Avaza there are presently five beach side hotels open. Joanna stayed at the Hazyna which is the one favoured by the Diplomatic community. The hotel is modern and rooms comfortable, albeit with a pervading smell of sewage in the bathrooms. The rate was around US\$120 per night.

Practical Information

Food

It would be fair to say that one would not visit Turkmenistan for the food. Much is of the old Soviet variety with large pieces of roast or BBQ meat being the most popular dish served, with a variety of salads. There is an Italian restaurant in Ashgabat which is recommended but Joanna did not visit. The food in the hotels in Avaza seems to be a set meal which arrives all together and was not very good. General advice would be to take a supply of cereal bars and biscuits from the UK.

Health

Typhoid and Hepatitis A are endemic and travellers should be vaccinated against infection. Food poisoning and upset stomachs are common in Turkmenistan. A good supply of Imodium is essential for travellers (along with a spare loo roll). Joanna was very sick with something like dysentery on her return to the UK and was admitted to the hospital emergency unit for tests. This was ascribed to either the food, or swimming in the Caspian Sea into which raw sewage is discharged.

Visitors should drink only bottled or boiled water and avoid unpasteurised milk products due to the presence of TB and Brucellosis.

Visitors should ensure they are vaccinated against TB as Medicins Sans Frontieres (MSF) report increasing cases of multi-drug resistant TB in the country. HIV and other sexually transmitted diseases are also increasing.

There is some doubt over the effectiveness of blood screening and transfusions should be avoided. MSF took the decision to withdraw from Turkmenistan in 2010 after 10 years in country and produced a damning report on their view of state of the failing healthcare system.

The Foreign Office reports that Turkmen healthcare is very poor and only used for medical emergencies before being repatriated. It is essential that visitors have adequate health insurance which includes Medevac in case of seriously injury or illness.

Money

Only the large hotels in Ashgabat take credit cards. You should take sufficient cash in US\$ (low denomination new or clean notes with no markings) to pay for your stay. This can be converted in to New Turkmen Manats at hotels or the airport. But you cannot take Manats out of the country or convert them back into dollars at a reasonable rate so do not change too much money. Most hotels and larger restaurants seemed to take US\$ - but give change in Manats.

Practical Information

Earthquakes

Turkmenistan is situated in an active seismic area and experiences frequent low level quakes. However, there have been several devastating earthquakes including one in 1948 which killed 50% of the population of Ashgabat and destroyed the city. A total of 176,000 people were killed – the 6th deadliest earthquake ever recorded in the world.

The UK in Turkmenistan

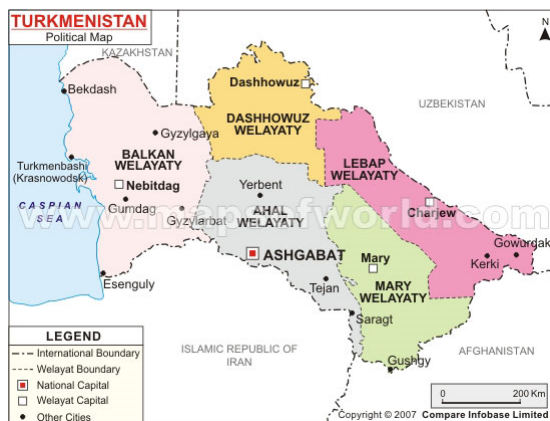
UK exports to Turkmenistan in the first 8 months of 2010 totalled £33.42 million (estimate).

Turkmen exports to the UK in the same period totalled £3.33 million (estimate).

British companies active in Turkmenistan include:

- Bristow Helicopters;
- British-American Tobacco;
- De La Rue;
- Augusta Westland;
- Hermes Datacom;
- Shell.

Turkmenistan – The Country



Turkmenistan is one of the five former Central Asian states of the USSR. It has a coastline on the Caspian Sea and land borders with Iran, Afghanistan, Uzbekistan, and Kazakhstan. The economy is supported largely by the extraction of hydrocarbons. Turkmenistan has the World's 6th largest reserves of natural gas.

Turkmenistan is divided into five provinces or *welayatlar* (singular *welayat*) and one capital city district. The provinces are subdivided into districts (*etraplar*, sing. *etrap*), which may be either counties or cities.

The country is largely made up of the Karakum Desert with mountains in the south on the border with Iran. Agriculture comprises mainly cotton which is irrigated. The irrigation of the CIS States is leading to rivers drying up and contributing to the depletion of the Aral Sea. Cotton is sold raw into the international market and processed in Turkmenistan.

Turkmenistan – The Country

Statistics

Population: C. 5,100,000

Independence: 1991 (from Russia / USSR)

Politics: One party state with planned economy

Languages: Turkmen, Russian.

Area: 488,100 sq km (= ±California)

Geography: mainly Karakum Desert, some agriculture in north and south.

Capital: Ashgabat

Major Cities: Balkanabat, Dashhowuz, Mary, Turkmenabat, and Turkmenbashy.

Minerals: Petroleum, Natural Gas, Sulphur, Salt.

Education: 99% literacy rate.

Life expectancy: 62.

Exports: Gas, Cotton, Textiles.

Religion: Sunni Muslim – with Turkmen additions

Ethnicity: 77% Turkmen, 9% Uzbeks, 7% Russians, 2% Kazakhs, 5% other

Currency: New Turkmen Manat

Membership of international groupings/organisations: Turkmenistan is a member of the OSCE, the UN, the IMF, OIC and EBRD, and enjoys “associate membership” status in the CIS. It initialled a Partnership and Co-operation Agreement (PCA) with the EU in May 1998. The PCA is not yet in force.

Economy and Economic Indicators

GDP (purchasing power parity):

\$36.9 billion (2010 est.) - (country comparison to the world: 101)

\$33.79 billion (2009 est.)

\$31.85 billion (2008 est.)

note: data are in 2010 US dollars

GDP (official exchange rate):

\$27.96 billion (2010 est.)

GDP - real growth rate:

9.2% (2010 est.) - (country comparison to the world: 7)

6.1% (2009 est.)

14.7% (2008 est.)

GDP - per capita (PPP):

\$7,500 (2010 est.) - (country comparison to the world: 126)

\$6,900 (2009 est.)

\$6,600 (2008 est.)

note: data are in 2010 US dollars

GDP - composition by sector:

agriculture: 8.3%

industry: 21.8%

services: 69.9% (2010 est.)

Labour force:

2.3 million (2008 est.) - (country comparison to the world: 114)

Investment (gross fixed):

19.7% of GDP (2010 est.) - (country comparison to the world: 119)

Budget:

revenues: \$3.018 billion

expenditures: \$3.263 billion (2010 est.)

Taxes and other revenues:

10.8% of GDP (2010 est.) - (country comparison to the world: 204)

Budget surplus (+) or deficit (-):

-0.9% of GDP (2010 est.) - (country comparison to the world: 57)

Economy and Economic Indicators

Inflation rate (consumer prices):

10% (2010 est.)

4% (2009 est.)

Commercial bank prime lending rate:

17.5% (31 December 2010 est.) - (country comparison to the world: 57)

15% (31 December 2009 est.)

Agriculture - products:

cotton, grain; livestock

Industries:

natural gas, oil, petroleum products, textiles, food processing

Industrial production growth rate:

7.3% (2010 est.)

(country comparison to the world: 53)

Natural gas

Production:

38.1 billion cu m (2009 est.) - (country comparison to the world: 24)

Consumption:

20.1 billion cu m (2009 est.) - (country comparison to the world: 35)

Exports:

18 billion cu m (2009 est.) - (country comparison to the world: 13)

Imports:

0 cu m (2009 est.) - (country comparison to the world: 193)

Proved reserves:

7.504 trillion cu m (1 January 2011 est.) - (country comparison to the world: 6)

Oil

Production:

202,400 bbl/day (2010 est.) - (country comparison to the world: 41)

Consumption:

119,000 bbl/day (2010 est.) - (country comparison to the world: 71)

Exports:

97,430 bbl/day (2009 est.) - (country comparison to the world: 64)

Imports:

0 bbl/day (2009 est.) - (country comparison to the world: 210)

Proved reserves:

600 million bbl (1 January 2011 est.) - (country comparison to the world: 44)

Economy and Economic Indicators

Exports - commodities:

gas, crude oil, petrochemicals, textiles, cotton fibre

Exports:

\$10.55 billion (2010 est.) - (country comparison to the world: 85)

\$8.946 billion (2009 est.)

Exports - partners:

China 28.6%, Turkey 10.6%, UAE 7.2%, Afghanistan 6.5%, Iran 6%, Italy 5.4%, Kazakhstan 4.5% (2010)

Imports:

\$8.277 billion (2010 est.)

(country comparison to the world: 98)

\$8.071 billion (2009 est.)

Imports - commodities:

machinery and equipment, chemicals, foodstuffs

Imports - partners:

Russia 21.6%, Turkey 20%, China 9.2%, UAE 7.7%, Germany 5.7%, Malaysia 4.6%, Ukraine 4.5% (2010)

Reserves of foreign exchange and gold:

\$17.6 billion (31 December 2010 est.)

(country comparison to the world: 60)

\$17.06 billion (31 December 2009 est.)

Debt - external:

\$517.7 million (31 December 2010 est.)

(country comparison to the world: 162)

\$575.7 million (31 December 2009 est.)

Source: CIA World Factbook.

Financial

Currency

Turkmen New Manat (TMT) = 100 tenge. Notes are in denominations of TMT 500, 100, 50, 10, 5 and 1. Coins are in denominations of 50, 20, 10, 5 and 1 tenge.

Exchange Rates

Fixed Exchange Rate of 2.85 TMT: US\$1. Currency revalued in 2009 at a rate of 1 new Manat to 5000 old Manat.

Credit cards:

Not generally accepted except in larger hotels and restaurants and government run shops – e.g. to purchase carpets.

Travellers' cheques: Not generally accepted.

Banking hours:

Mon-Fri 0930-1730.

Currency restriction:

The import and export of local currency is prohibited for foreigners visiting Turkmenistan. Import of foreign currency is unlimited subject to declaration, and export is limited to the amount declared on import.

Currency exchange:

The exchange rate for the US\$: Manat is fixed at 2.85 TMT: 1US\$. The preferred hard currency is US Dollars and visitors carrying other currencies may find it hard to change them. It is advisable to take new, clean US Dollar notes in small denominations. Foreign currency can be changed at banks and major hotels. US\$ are generally accepted – but change will be given in TMT. A poor exchange rate will be given if changing TMT back into hard currency.

Black market exchange

The Manat has a large disparity between its official and black market rates, with the latter being roughly 21% greater than the official.

Financial

Export Finance

ECDG Country cover for export finance is available for Turkmenistan and is listed as follows:-

| Market risk appetite (£million) | Cash or short term cover | Medium or long term cover | Consensus Category |
|--|-------------------------------------|--------------------------------------|-------------------------------|
| Case by case | Yes | Yes | Two |

Additional information

For cash or short term cover ECGD would expect payments to be secured by confirmed irrevocable letter of credit or equivalent security. For medium or long term cover they can only consider providing support for foreign exchange-earning projects.

The country cover indicates the current cover policy and risk appetite. The country cover indicators are not indicative of the nature of the risks of doing business in any individual country. This does not mean that doing business in a country in question is risk free, and you should carry out your own due diligence.

Updates for ECGD status can be found at <http://www.ecgd.gov.uk/country-cover>

Taxation

A Zero rate Double Taxation Agreement with the UK can charge a UK resident on payments of dividends, interest, royalties and management/technical fees is in place between the UK and Turkmenistan.

TUKTIC – Turkmenistan UK Trade & Industry Council

UK Business Delegation to Turkmenistan and the launch of the first Turkmenistan United Kingdom Trade & Industry Council

Ashgabat, 15 October 2010 – UK co-chair of the newly established Turkmenistan United Kingdom Trade & Industry Council, Ambassador Ronald Nash and British Ambassador to Turkmenistan Mr Keith Allan, met with the President of Turkmenistan Gurbanguly Berdimuhamedov on 13 October. They discussed opportunities for mutually beneficial co-operation in various sectors such as energy, construction, aviation, finance and banking, along with other aspects of the UK-Turkmenistan bilateral relations. During their visit to Turkmenistan, senior executives from more than 20 well-known British companies also had very fruitful meetings with government officials, including Deputy Chairmen of the Cabinet of Ministers Mr Baymurad Hojamammedov, Mr Deryageldi Orazov, Mr Nazarguly Shagulyev, Mr Hojamahmet Muhammedov, Mr Tuwakmamet Japarov as well as other Ministers and officials from various ministries and agencies.

During the meeting with President Berdimuhamedov, Ambassador Nash expressed Britain's wish to co-operate in the diversification of Turkmenistan's economy, and applauded Turkmenistan's success in diversifying gas exports. 'We discussed business opportunities with His Excellency, such as energy, construction, aviation, ports, development of infrastructure, security systems, communications, and finance among other vital areas' said Ambassador Nash. "There is clearly scope for increasing our work together, and I noted the interest of His Excellency on developing our cooperation in the area of education and training, and also the teaching of English. I believe UK universities would be good reliable partners in this particular area" said the Ambassador.



TUKTIC – Turkmenistan UK Trade & Industry Council

UK Business Delegation to Turkmenistan and the launch of the first Turkmenistan United Kingdom Trade & Industry Council

In turn, the British Ambassador, Keith Allan said he 'welcomed the establishment of the Turkmenistan UK Trade and Industry Council as a further positive indication of the development of the bilateral relationship between Turkmenistan and the UK. The UK's Special Representative for International Trade and Investment, His Royal Highness the Duke of York, is a great supporter of the Turkmen/UK business relationship and I know he is delighted that we have established the bilateral trade and industry council.' Ambassador Allan also added that 'UK companies have a great deal of expertise and experience to share with Turkmenistan and we look forward to productive exchanges during TUKTIC and associated meetings'.

Opening the Council meeting, Her Majesty's Ambassador Mr Keith Allan highlighted the importance of such events and expressed gratitude to the Government of Turkmenistan and UK companies for their support and active participation. "The launch of the first Trade & Industry Council in Turkmenistan will help to boost trade and investment between our two countries, and will add valuable structure to the relationship" he said. In his opening remarks, Mr Taganov, Chairman of the Chamber of Commerce and Industry of Turkmenistan also emphasised the importance of the development of UK-Turkmen relations, particularly in the diversification of the economy and attracting investors to the Turkmen market.

As an immediate demonstration of the value of the council and related meetings, the UK construction and agricultural machinery company JCB signed contracts (through its local distributor in Turkmenistan, EUROTECH LLP London, and other companies) to the value of approx. US\$2 Million for the delivery of up to 20 JCB construction & earth moving machines which will be used to further assist Turkmenistan with important construction and development projects.

Bouygues Turkmenistan – Michel Hochet, Managing Director and Philippe Machin, General Manager – Plant

70, rue 1995 – 744013 – Ashgabat – Turkmenistan
Tel: +(993) 66 30 35 47, email: m.hochett@bouygues-construction.com, p.machin@bouygues-construction.com
www.bouygues.com/en/group

Company

Bouygues Turkmenistan is a division of the French construction company, Bouygues Construction (pronounced Bweeg) and is a subsidiary of the Bouygues group. One of the world's leaders in the building, civil works and electrical contracting and maintenance sectors. Divided into seven entities, it has expertise in financing, designing, constructing, maintaining and operating buildings and structures. With 52,600 employees throughout the world, the Group generated sales of 31,353 million euros in 2009 and 31,225 million euros in 2010.

Bouygues Turkmenistan has executed the planning and construction of the Presidential Palace and many of the new white marble government buildings in Ashgabat to a very high specification.

Equipment Park, Requirements and Comments

Bouygues have a large capital investment in construction equipment, with a park of over 700 pieces of equipment – the largest of all Bouygues International divisions. They noted that much of their current equipment is aging and that they will shortly be looking to replace it. Equipment is purchased in France, Dubai and Turkey and imported into Turkmenistan on permanent import, mainly via their head office in France. They do also purchase some equipment in market if the service back up is in place.

Bouygues purchase backhoes, site dumpers, skidsteers, scaffolding and formwork but presently subcontract for larger earth moving equipment. However, this policy is under review and they may purchase in future. They are looking to consolidate their marques to allow for a better maintenance strategy.

They do not rent equipment in Turkmenistan as the cost is too high and companies insist on overseas / offshore payment in US dollars. They noted that, although there are three or four rental companies in Turkmenistan, the equipment is old and in poor condition and badly serviced.



Bouygues would be willing to purchase equipment locally subject to the dealer maintaining a full spare parts inventory and being able to provide sufficient trained service engineers to maintain equipment. They cite the lack of an international warranty on equipment purchased in Turkmenistan as a problem.

As much of the fuel available in Turkmenistan tends to be contaminated or adulterated, the equipment engine cannot be too sophisticated.

Instruction manuals can be currently written in Russian or Turkmen, but soon they will be required to be in Turkmen.

Bouygues do not currently purchase any Chinese equipment. They cite the lack of in country service engineers, spare parts inventory and no geographic warranty as issues.

They report that cement quality varies and there could be opportunities for imports.

Turkmenistan Projects and Operation's

Bouygues presently have 19 on-going projects in Turkmenistan and employ 10,000 people in country. Of these 70% are locally employed, as required by Turkmen employment law. Salaries for local employees are fixed by the government even for private companies. Non-indigenous labour is mainly professionally qualified and includes workers from India, the Philippines and the Maghreb with some European supervisors.

Projects are mainly for government buildings in Ashgabat and the Avaza Tourist Zone. They do not build roads except for service roads on the building projects. Bouygues anticipate at least 15 more years of work in Turkmenistan. They have tendered for the building of a new airport in Ashgabat to commence in 2012. As they are not specialists in infrastructure projects they would look for a suitably experienced partner.

The President has decided that a large mosque be built in the north of the country – Bouygues will probably tender for this as they built the very impressive Ashgabat Mosque and former President's mausoleum.

All buildings must comply with Turkmenistan's strict seismic regulations. The country has suffered from a number of devastating earthquakes in the last 100 years including the 1948 quake which was the 12th most deadly in history leaving over 110,000 dead and the capital in ruins.



Bouygues tender for government projects by a process of open tender and have been very successful when bidding for “big ticket” projects. All designs for government buildings must first be approved by a Minister and are then given final approval by the President. Although cost is a factor and the government expected value for money, the overall design of the building is considered to be of primary importance when tendering. The specification of government buildings is very high.

They reported that although they have always been paid for the government projects, payment can be three to six months late. Each payment requires 12 individual signatures from various ministries. Payment is made into overseas banks as the local banks were not considered to be up to an international standard for receiving payments. To get a project signed off on completion between 40 and 55 signatures are required from ministries – making it a tortuous and lengthy procedure.

Opportunities for UK Manufacturers

Purchases all construction equipment used in building and civils –subject to the conditions above. May be looking to purchase larger equipment.

Equipment is usually purchased by head office – but may be interested in purchasing locally. Contact Philippe Machin for more information on requirements. P.machin@bouygues-construction.com

May be interested in safety and testing equipment.

Cement Supply – cement is usually sourced in Uzbekistan but quality is variable and delivery unreliable.



Pamposh Group of Companies www.pamposh.net
Kishor Kumar, Country Manager, and Mr Suraj, Site Manager.

Pamposh Caribbean LLC, 16 Sinclair Road, Shrewsbury, MA- 01545 USA, tel: -1-508-925-4721
Pamposh Constructions India PVT Limited, 15 Local Shopping Centre, M.G. Bhawan II, Pushp Vihar
Commercial Complex, Near Pushpa Bhawan, New Delhi – 110062, tel: 91-11-29052199
Pamposh Caribbean Limited, Anguilla, British Wesindies, tel: - 1-508-925-4721

The Company

Working solely with Bouygues in Turkmenistan, Pamposh are involved as a sub-contractor on labour rate basis in some of the most prestigious projects of Turkmenistan, which include the Parliament Building and other government buildings, Nissa Hotel, Congress Centre, Buren Oilfield Development Project and the Kiptchak Mosque – the largest in Central Asia.

Established in 1982, the Pamposh Group has carved a niche for itself in the construction sector by providing manpower for civil construction projects.

Pamposh undertake all kinds of activities related to Civil Construction works. These include:

- Civil Sub-contracts and executing construction jobs on Labour Item Rate Basis.
- Developing, Maintaining and operating the infrastructure for construction activities and execution of main works.
- Sourcing and arranging the construction materials from India and abroad.
- Providing and managing the construction personnel: - engineers, managers, foremen, supervisors, operators, skilled and semi-skilled workers etc.

Pamposh have been active for 17 years in Turkmenistan employing around 900 Indian workers and in excess of 1,000 Turkmens. They have partnered with Bouygues since 1993. They have a particular expertise in structural concrete work, formwork, and concrete pumps.

Problems faced by Pamposh in Turkmenistan include; a lack of trained indigenous labour, no national schools or universities teaching engineering and dealing with corrupt local officials. They also have big problems at certain times of the year getting a regular supply of concrete from Uzbekistan.



Opportunities for the UK

- None on equipment supply as equipment is supplied by their partners – Pamposh only supplies manpower and product sourcing.
- Construction Products – one of Pamposh's services is the management of the procurement of construction products. Some of these sourced from outside the country of operation. There could be opportunities here for UK suppliers – contact Head Office in India for details of opportunities.
- However – the lack of trained engineers in Turkmenistan could be an opportunity for UK universities. Indeed during the CEA's scoping visit Joanna met with representatives of Bath University which has a School of Engineering and was interested in recruiting students.



Eurotech Group
Jason Hunt, Country Representative

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www.eurotechnologies-international.com

The Eurotech Group are dealers for a wide range of equipment in Turkmenistan. They are a registered company in the UK under the name of IPC Agri for the CNH dealership. They bring together manufacturers of complimentary products and services in the fields of Oil and Gas equipment, Services, Construction Equipment, Power Systems, Drilling Equipment, Measurement, Automation, Pipes, Pipe-Laying, Earth Moving, Welding, Power Generation, spare parts and service.

Eurotech employ over 160 engineers based in service centres in all five provinces of Turkmenistan. They also maintain a large spare parts inventory.

They have represented JCB in Turkmenistan for two years selling mainly backhoe and wheeled loaders. Sales are improving but tend to be for small numbers of equipment. JCB support them through their Moscow office. Sales are to both large and smaller construction companies and directly to government who have bought a number of wheeled long reach excavators for canal clearing.

Eurotech is trying to build the JCB brand in Turkmenistan by attending exhibitions and government events. They had branded a backhoe in Turkmen national colours for a celebration attended by the President.

Equipment is priced in New Manats (Turkmen currency). They reported the issues with Vendor Deferred Payments (see European Bank for Reconstruction and Development report) and lack of support from the UK government for credit insurance. They noted that customers of some Japanese manufacturers receive support from the Japanese government offering customers credit for equipment. Marques include non-competing products from:

Construction Equipment

- JCB
- BOMAG
- John Deere
- Leibherr
- Powerscreen
- Manitowoc



Agriculture

- CNH

Metering

- Elster
- Emerson
- Honeywell

Drilling

- NorDrill

Power

- MTU
- Cummins Filtration
- Cummins Power Generation

Drill Bits and Fluids

- Baker Hughes

Welding and Pipes

- Lincoln Electric
- Grant Prideco

EUROTECH provide a full range of after-sales service to all products sold. The companies service agent in Turkmenistan, IPC AGRI, employee's qualified service technicians to support the CE and POWER SYSTEMS business that are factory trained by the manufacturer, are fully equipped with 4x4 service vehicles, available 24/7.

A Service Dealer for Cummins, MTU, Perkins, JCB and John Deere engines. Fuel system repairs, diagnostics and repair services to diesel fuel systems fitted to most CE, truck and other commercial equipment.

Spare parts, lubricants and filters for equipment partners are available from local stock, or on emergency air-freight delivery to Turkmenistan and a full range Shell lubricants and Fleetguard filters are available for most makes of equipment.

Opportunities for UK Manufacturers

- Eurotech are interested in representing additional non-competing marques.
- They are also interested in attachments and complementary products and parts to enhance the equipment – e.g. safety, measuring, testing etc.
- They are interested in speaking to potential service and parts support partners.



AK Toprak Construction (no web site)
Mr Annageldy Annaev, Owner and Mr Orazmyradov Dovlet, Director

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AK Toprak are a Turkmenistan based company with strong links to Tamoz in Turkey (www.tamoztr.com). They are Turkmenistan representatives for Hyundai and Doosan and Chukurova CE and Daikin air-conditioning systems. AK Toprak was founded in 1997 as an importer and service company for air-conditioning systems for buildings. The company expanded into sales heating systems, generators and water pumping systems. They are presently expanding their operations into construction. AK Toprak are looking for more marques to represent in Turkmenistan.

The company has a US\$50-\$70 million annual turnover and has US\$2 million of finance available for the purchase of equipment. In Turkmenistan they supply to the Ministries of Trade, Oil, Gas & Mineral Resources, and Food and their agencies. They are currently in negotiations with the Ministry of Energy & Industry.

AK Toprak have won a \$US23 million contract to upgrade and renew the housing stock heating systems in Ashgabat City. Note: In Turkmenistan houses and apartments are built by the State and discounted loans are available for tenants to purchase over a 30 year span. Heating and heating systems are provided free by the state. The project will be implemented jointly with a German company who will provide 230 workers. AK Toprak will provide 40.

The company own a tender from the ministry of Roads to supply equipment. This comprised 8 wheeled loaders, 2 wheeled excavators, 6 backhoe loaders, 17 telehandlers, 42 units of Hyundai dump trucks, mixer trucks and cranes.

AK Toprak also have a sister company in Istanbul – TAMOZ. Although all of their operations have been self-funded to date, they have applied for assistance from the ERBD to allow the construction of two large ambient warehouses plus a refrigerated warehouse to facilitate the import of meat from India. They will build the warehouse themselves but need equipment. They own a 1 hectare plot of land to site the warehouses.



Opportunities for the UK

- AK Toprak are looking to increase their CE marques, especially for compact equipment, and are interested in speaking to UK manufacturers looking for dealers in Turkmenistan.
- Interested in representing a 4x4 car marque.
- Cylinders for tandem rollers
- Asphalt finishing equipment
- Asphalt batching plants
- Asphalt hot boxes.



**Chamber of Commerce and Industry of Turkmenistan
Mr Palvan Taganov – Chairman**

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www.cci.gov.tm

The Chamber of Commerce is a Government organisation to promote trade and inward investment to Turkmenistan. The web site is in Russian – but translates well with Google Translate and lists a number of current and forthcoming projects and events in Turkmenistan.

They organise a large Investment Forum annually to encourage inward investment to the country. A number of international delegations from the region attended in addition to one from South Korea.

The Chamber has kindly offered to assist UK manufacturers with the following:

- Letters of invitation if they wish to visit Turkmenistan on business.
- Information on banks and payments.
- Financing of Equipment
- Information on legal representation.
- Introductions and co-operation agreements between UK and Turkmen enterprises.
- Assisting with multi-sector trade missions to Turkmenistan.

The caveat to the above offers of assistance is that the Chairman and his Chamber staff only appear to speak Russian and Turkmen and it should be remembered that this is a Government run organisation.



Meeting with the Vice-Hyakim (Mayor) of Turkmenbashi city

Turkmenbashi is Turkmenistan's only major port – a city of around 90,000 people in the Karakum Desert on the shores of the Caspian Sea. It is the terminus of the Trans Caspian railroad connecting the city to Ashgabat and countries further east. It is the container port for shipping to Baku in Azerbaijan. Passenger ferries also run to Baku. Western Turkmenistan has major oil and gas reserves and the country's largest oil refinery is situated in Turkmenbashi.

It has a modern airport which was recently rebuilt to accommodate passengers to both Turkmenbashi and the new Avaza Tourist Zone (see separate report). The road system is in poor repair great need of renewal.

The Hyakim said that the port and much of the city was to be completely redeveloped. This would be state funded with a few small (unspecified) private projects. A UK company, Royal Haskoning, had done some renovation work on the port in 2004 and the Haykim was receptive to UK companies tendering for the redevelopment work.

Many old buildings would be demolished and new ones built. We were assured that the historic area of the city would remain intact, including a large government building constructed by Japanese prisoners of war. We were given a briefing by a state architect who noted that buildings would only be allowed to be four, one or twelve stories high for aesthetic reasons. They must meet seismic standards.

Planned projects included:-

- Roads
- Bridges
- Hospital
- Housing
- Shops
- Entertainment centres
- Government buildings
- Fishing Port
- Commercial port (container, bulk handling and passenger) further details of Port replacement to be found in meeting with Turkmenbashi Port Authority.
- Schools – 10,000 pupils by 2020



Planned projects continued;-

- Oil refinery
- Petrochemical by product processing
- Sewage and water treatment
- Drinking water distribution and desalination plant
- Fish canning factory
- Two new oil tankers
- 1 liquefied gas tanker

Although some work is already underway, there did not seem to be a firm timeframe for the reconstruction, we were informed that work would be completed by 2015. Ministries will issue tenders for the re-construction of Turkmenbashi. The large Turkish contractor Polimeks is very active in Turkmenistan and already working on projects in Turkmenbashi and Avaza.



**European Bank for Reconstruction and Development (EBRD)
Neil McKain, Head of Resident Office**

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EBRD Operations

The EBRD is active in Turkmenistan and has supported 23 projects with a total project value of €641.8 million. Projects include industry, commerce, agribusiness, energy, financial institutions and infrastructure. The CEA visited one of the EBRD projects – a construction and block-making company, Omur financing new equipment to grow the business – see separate report. In Turkmenistan the EBRD support private entrepreneurship with a specific focus on micro, small and medium-sized businesses.

Since its establishment in 1991 the EBRD has become the largest financial investor in their region of operations which stretches from central Europe and the Western Balkans to central Asia. They have the ability and willingness to bear risk on behalf of their clients, and help the countries in the region to become open, market economies. EBRD is owned by 61 countries, the European Union and the European Investment Bank. They provide project financing for banks, industries and businesses, both new ventures and investments in existing companies. They also work with publicly owned companies.

Each of the EBRD projects is tailored to the needs of the client and to the specific situation of the country, region and sector. Direct investments generally range from €5 million to €230 million. They provide loan and equity finance, guarantees, leasing facilities and trade finance. Typically EBRD fund up to 35 per cent of the total project cost.

The Bank invests only in projects that could not otherwise attract financing on similar terms. For each project EBRD finance, they assign a dedicated team of specialists with specific sectoral, regional, legal and environmental skills.



The principal forms of direct financing provided by the EBRD are loans, equity and guarantees:

- **Loans** are tailored to meet the particular requirements of a project. The credit risk may be taken entirely by the Bank or partly syndicated to the market.
- An **equity** investment may be undertaken in a variety of forms. When the EBRD takes an equity stake, it expects an appropriate return on its investment and will only take a minority position.
- **Guarantees** are also provided by the Bank to help borrowers gain access to financing.

EBRD Turkmenistan Evaluation

Turkmenistan: key developments and challenges

The Turkmen economy has grown strongly in the last few years, with double-digit GDP growth recorded every year between 2004 and 2008, mainly on the back of increasing hydrocarbon prices and higher negotiated off-take volumes.

Macroeconomic performance

Large public investments in construction and infrastructure and growth in the service sector – particularly transportation, communication and retail – have supported double-digit growth in the non-hydrocarbon sector. The current account surplus has been in strong surplus since 2004, and was nearly 19 per cent of GDP in 2008. Imports of goods and services were boosted by higher domestic demand and better access to foreign exchange. However, higher hydrocarbon earnings have led to a 20 per cent increase in export receipts. Turkmenistan successfully negotiated further significant increases in gas off-take prices and volumes for 2009 onwards and has, for the first time, linked these agreements to loans from off-takers to finance hydrocarbon infrastructure. Foreign direct investment (FDI) inflows continue to mainly finance investments in offshore oil and gas production in the Caspian Sea.

As gas exports prices converge with European levels, international reserves have further increased. Exchange rate unification was completed on 1 May 2008 at the rate of 14,250 Manat per US dollar, a level broadly consistent with the country's strong external position. With liberalised petrol prices and higher food prices, inflation at one point reached 13 per cent in 2008. Credit grew strongly up to 2008, mainly reflecting increased directed lending to the cotton sector.

A small fiscal deficit was budgeted for 2008 and 2009, but government revenues outperformed expectations and government investments were delayed, leaving the actual budget for 2008 in surplus. Tax collection has also improved, benefiting from streamlined tax and customs procedures.

Outlook and challenges

The overall outlook for 2010 is favourable given that Turkmenistan's gas export prices are still catching up with European market prices. With new onshore and offshore hydrocarbon discoveries, medium-term growth prospects remain positive. However, a technical accident in the main gas pipeline to Russia in April 2009 disrupted gas supplies and highlighted Turkmenistan's vulnerability regarding their biggest hydrocarbon off-taker. This has led to increased efforts to diversify Turkmenistan's exports.

More broadly, Turkmenistan's undiversified economy remains vulnerable to commodity price fluctuations. The main macro risks are therefore related to potential renegotiations of gas off-take prices, lower than planned investment in hydrocarbon infrastructure and weaker than expected international demand for hydrocarbons. Channelling FDI into the non-hydrocarbon sector and creating a business environment that fosters the private sector outside of oil and gas remains a major challenge. Continued inflationary pressures and real appreciation are also a longer-term risk to the competitiveness of the private sector.

An example of a recent EBRD project, announced in November 2011, is to support small a construction services company in Turkmenistan with a US\$ 3 million loan to finance new bulldozers, trucks and cranes.

The EBRD is supporting the real economy of Turkmenistan with a US\$ 3 million loan to a private construction services company, Shazada. The company will use the loan to finance its capital investment programme through the purchase of new heavy machinery and trucks.

Shazada is engaged in substantial infrastructure works around the South Yolotan-Osman natural gas deposit fields. The company is planning to expand its successful subcontracting business to take advantage of the current construction boom connected to infrastructure investments. This rapidly growing company employs about 150 people.

"The loan to Shazada will allow the company to purchase equipment it currently rents, expand its fleet and improve profitability. Support for exactly this kind of business – a private, medium-sized, fast-growing local enterprise – is the EBRD's priority in Turkmenistan. It is in the best interest of the country to continue improving the business environment for entrepreneurs and diversify the economy," said Frederic Lucenet, EBRD director for manufacturing and services.

“The EBRD loan will enable Shazada to purchase new equipment which will increase the company’s capacity, improve the quality of provided services and become more competitive both with local and foreign companies in the growing large-scale construction market of Turkmenistan,” said Mikhail Surovikin, Director of Shazada.

Turkmenistan is one of the so-called early transition countries of the EBRD, and is still facing many challenges on its way towards becoming an open market-oriented economy. Turkmenistan still has a state-dominated economy, but the government has adopted a strategy of support for SMEs (small and medium-sized enterprises) and is planning to develop a privatisation strategy. The government has also declared its intention to gradually increase the share of the private sector in the non-oil and

Source EBRD last updated April 2010

Specific Issues Associated with Selling Goods to Turkmenistan

Vendor Deferred Payment – this is a government requirement for the purchase of imported goods. Its effect is that the risk of the sale rests with the vendor and the goods must have been received by the purchaser before payment can be made.

Credit Availability – a purchaser must give 120% of the value of the goods in collateral before being granted a loan to purchase the goods. This is affecting the growth potential of many viable small companies wishing to expand.

There currently is no dealer funded leasing system in Turkmenistan. Anything imported for lease attracts 15% VAT. There is no VAT on equipment sales.

BNP Paribas is strong in Turkmenistan and can offer credit insurance.

ECGD is operational in Turkmenistan – but must be secured by a letter of credit for short term projects or by guaranteed foreign exchange earning programmes.

EBRD Turkmenistan strategy

The factual information was correct as of 23 March 2010, when the Turkmenistan country strategy was adopted.

Over the years the Bank has been concerned with Turkmenistan's failure to make progress towards multi-party democracy, pluralism and a market-based economy in keeping with Article 1 of the Agreement Establishing the Bank. Recent progress in the political and economic spheres, triggered by the change in leadership in December 2006, provides an opportunity for deeper engagement, though several challenges remain.

Since the new administration took office there have been political and economic changes taking place in the country, aimed at reversing social and economic policies of the previous regime. A new Constitution recognises the principle of separation of powers and the legislature has been strengthened. Wider access to the internet is permitted.

However, much remains to be done in the area of democratic competition and accountability, strengthening the rule of law and guaranteeing protection of human rights and media freedom. Despite positive changes, the situation with implementation of the adopted laws and with upholding the rule of law and respect for human rights remains a serious concern, as assessed by specialised human rights organisations.

In the economic sphere, the Turkmen government has taken initial steps in a reform process designed to foster private sector development, with the aim to increase the private sector share of non-oil and gas GDP to 70 per cent by 2020. Following the recent unification of the exchange rate, the government has introduced a new foreign investment law, lifted the ban on international banking operations of commercial banks and started to liberalise a small number of controlled prices. These are positive steps. However, much more remains to be done to establish the basis for market-oriented economic development.

Since the adoption of the last country strategy Turkmenistan has experienced double-digit economic growth supported by very high world commodity prices. The global financial crisis has had virtually no direct impact on financial institutions, as the banking system is dominated by state owned banks that are not integrated in the global financial system. Both foreign direct investment and the economy as a whole are focused on the hydrocarbon sector.

In its Strategy, the Bank will work together with private sector investors, the Turkmen authorities and other IFIs and donors to address the following key transition challenges:

- Diversification of the economic base is the key challenge, with 85 per cent of exports originating from the oil and gas sector.
- Competitiveness of the private sector is low by international standards due to hindrances in business entry and exit and there are generally poor standards of transparency and corporate governance.
- The business environment remains difficult and the playing field for private and state-owned businesses is not level; it is critical to further strengthen the legal and regulatory framework for markets.
- Financial sector development is at an early stage; it is necessary to increase financial depth and reduce state interference and control in order to facilitate the introduction of private sector banks and non-bank financial institutions and increased competition.
- Promoting sustainable development and the introduction of international best practice of the private oil and gas sector.
- Modernisation of infrastructure, which constrains private sector development and operates under below-cost prices and non-transparent practices. Commercialisation and energy efficiency improvements are necessary to ensure long-term sustainability.

The Bank's activities in addressing these challenges will continue to be guided by its mandate and its adherence to the principles of Article 1. The focus in all its operations will be on finding private sector oriented solutions and extending market discipline where possible. In working with the state institutions, the Bank will establish clear criteria for its involvement that are consistent with its mandate to further entrepreneurship, competition and commercial practices. The Strategy outlines a **calibrated strategic approach** that will allow the Bank to increase its engagement with Turkmenistan on the basis of concrete implementation of sector-specific reforms designed to promote the further development of a market economy. In line with the requirements of Article 1, the Bank's strategic approach will be carefully calibrated to increase its operational scope in a measured and incremental way, as the Turkmen authorities make progress in political and economic reform.

The objectives over the Strategy period will include the following, with certain areas of activity to be phased in as progress in meeting sector conditions is documented:

- **Development of private sector micro, small, medium-sized and large businesses**, in particular through enhanced access to commercially-based finance for MSMEs and direct funding.
- **Strengthening of financial institutions** including the establishment of new bank for private sector development, adequate provision of trade finance and MSME credit lines. The Bank should continue to engage in policy dialogue and to pursue its efforts to develop a proper understanding on the part of the Turkmen authorities that a well-functioning, strong and sustainable financial system based on market principles is the key to the future development of the country's private sector. This will also improve the opportunities to introduce a market-oriented interest rate system for SME/CLs.
- **Improvement of business environment for the private sector** in particular in the banking and industry sectors, by improving transparency and corporate governance, by promoting regulatory reform and FDI, by enhancing the commercialisation and privatisation of state owned industries and by encouraging trade liberalisation.
- **Promotion of energy efficiency** across selected commercial sectors of the economy particularly in its highly inefficient manufacturing and infrastructure sectors.
- **Improvements in selective important regional transport infrastructure**, which is a part of CAREC corridors, with other IFIs or key bi-lateral donors, including key Caspian Sea port infrastructure projects.

An important dimension of the Bank's activities in the current Strategy period will be proactive **policy dialogue** with the authorities, donors and NGOs on the need for acceleration of reforms and importance of enhanced political and economic openness. As a part of the strategy exercise, the Bank conducted several missions and active discussion with local and international NGOs, most of whom suggested EBRD's more active engagement in Turkmenistan. The Bank will continue to closely monitor progress in these domains against a set of reform benchmarks.

In the political sphere:

- Progress toward genuine political pluralism and meaningful political accountability, including the strengthening of checks and balances in the political system, removal of impediments to registration and free functioning of NGOs and even-handed application of the rule of law.

- Substantial progress in increasing media freedom and freedom of expression.

- Further significant progress in improving the country's human rights record. The priority areas requiring urgent attention include:
 - the release of political prisoners
 - free access of the International Committee of the Red Cross (ICRC) to places of detention
 - lifting the remaining restrictions on foreign travel
 - freedom for the media and free functioning of civil society groups

In the economic sphere:

- Progress in private sector development including lowering barriers to entry of new private businesses, reducing and streamlining of regulatory burden on existing private businesses, progress towards independent competition authorities, and functioning secured transaction legislation.
- Progress in strengthening the financial sector and increasing financial depth through expansion of commercially-based MSME finance and introduction of private sector banks and non-bank financial institutions.
- Significant reduction in state intervention in the economy, including through directed lending in state-owned banks, subsidised interest rates, price controls and production targets in the agriculture and textile sector, and state procurement of agricultural inputs.
- Improving transparency in the budgetary process and public sector finances in general, including the publication of investment rules and governing principles of the stabilisation fund and other operating foreign exchange funds. Improving accountability and efficiency in the provision of public services by steps towards fiscal decentralisation.

The Bank will actively and continually monitor developments against these benchmarks and report to the Board of Directors on an annual basis on progress/regress. The monitoring will be done in the context of Country Strategy Updates. This will further enable the Bank's management and shareholders to calibrate the appropriate strategic response to changes in the situation on the ground.

In view of the proposed strategic approach and operational content, Turkmenistan should be a full beneficiary of the ETC Initiative, with the benefit of optimising the development of the private sector and required institutions, including the provision of Technical Assistance from the EBRD and, hopefully, other bilateral donors. In that context it is proposed, following Board adoption of this Strategy, to ask donors in the ETC Assembly of Contributors to consider including Turkmenistan as a recipient of ETC Fund resources for technical assistance.

The Bank will continue to ensure that all EBRD operations in Turkmenistan meet sound banking principles, have transition impact, are additional and are subject to the Bank's Environmental and Social Policy and incorporate, where appropriate, Environmental and Social Action Plans. The Bank will continue and enhance its cooperation with other IFIs and international organisations through co-financing and policy dialogue, and will seek to mobilise donor grant financing from other multilateral and bilateral donors.

Turkmenistan



March 2011

The EBRD's focus in Turkmenistan is to support the growth and diversification of the private sector as specified in the Bank's strategy for the country, agreed in 2010.

Highlights of 2010

In 2010 the Bank signed eight new investments in Turkmenistan, a record number for the country. Six of these projects directly supported small and medium-sized enterprises (SMEs) in the agribusiness, manufacturing and services sectors. For example, a US\$ 1.9 million loan to Salkyn, a major ice cream producer, is helping the company expand and improve sales (see case study overleaf).

The EBRD is now working with local partner banks to improve access to finance for SMEs and in July 2010 launched a US\$ 4 million SME financing facility in the country. The facility provides capital for on-lending to local companies and will also help its partner banks - such as the state commercial bank Turkmenbashi and private bank JSCB Senagat - to develop their SME services and improve lending procedures. The EBRD facility is complemented by an SME credit advisers programme to improve lending procedures and enhance corporate governance in general. Grants to support the programme are provided by the US, Japanese and Swiss governments.

As well as providing capital, the EBRD also provides technical assistance to enhance management and financial practices in Turkmenistan. For example, the Bank's TurnAround Management (TAM) Programme provides international experts to work with eight medium-sized Turkmen companies from retail to manufacturing, and a Business Advisory Service (BAS) Programme to develop a local market for consulting services is

due to become operational in March 2011. The Bank also finances a programme to improve Turkmen accountancy standards which provides on-the-job training and improvement of accountancy and financial procedures in client companies.

In 2011 the EBRD will continue to support private entrepreneurial initiatives in Turkmenistan with a specific focus on micro, small and medium-sized enterprises (MSMEs). The Bank aims to continue to enhance its access to commercially based finance and direct funding and is working to create a new private MSME bank with the Union of Entrepreneurs. As a specialised institution the MSME bank will meet the financial needs of the sector, providing access to finance and banking services that meet international standards.

The EBRD is also working on the implementation of the Turkmenbashi Port Shipyard project, in collaboration with Turkmenistan's State Maritime and River Transport Service. The project aims to diversify services, provide for the maintenance needs of the fleet and replenish the number of floating devices of different functionality.

Both projects have crucial significance for promoting transition in Turkmenistan. Efficient transport and financial infrastructure is essential to economic development and to improving the business environment and investment climate in the country, which remain the major objectives of the EBRD's activity in Turkmenistan.

At a glance

Number of projects

29

Net business volume

€130.2 million

Total project value

€556.9 million

Gross disbursements

€126.7 million

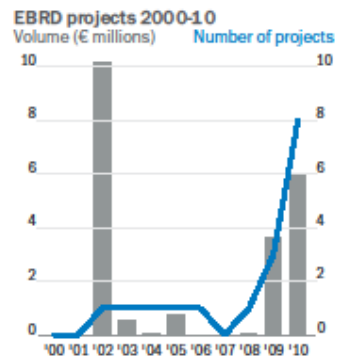
Current portfolio

€22 million

Portfolio share in private sector

83%

Cumulative, as at March 2011
Includes regional projects



Turkmenistan State Service of Marine and River Transportation

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The Caspian Sea has coastlines in Turkmenistan, Kazakhstan, Iran, Azerbaijan and Russia.

Turkmenistan is at a natural crossroads of Europe and Asia with a sea port at Turkmenbashi on the Caspian sea. The port is the only marine hub for Turkmenistan products to the rest of the World. At present the only UK company active in Turkmenbashi port is Royal Haskoning.

A new naval base will be built in Turkmenbashi by the Turkmenistan Ministry of Defence. This port would be the base for the defence of the Turkmen coast line. The upgrade of the naval base was at the request of the President.

When complete the ship yard would be able to service 30 to 40 ships per year, two ferries, there would also be a six berth dock, and this would require deepening and widening of the present channel.

Bulk handling opportunities at the port would be set up in line with current EU requirements, this would include; packing services for cement and urea stored in silos. Financing of the port was currently in place from the EBRD and there was also interest from Japanese and Korean companies. The World Bank had a memorandum of understanding in place for US\$62 million of finance for the RO-PAX terminal and ferries. A loan had also been secured from a number of Arab countries for US\$1 billion. It was not stated exactly which countries, but Qatar was hinted at. Investment would be made in new tug boats, liquid propane gas tankers, ecological support vessels in case of oil spills, supply vessels and emergency vessels. A feasibility study into the loading of compressed natural gas was underway. Opportunities for UK companies included port design and construction services, bulk materials handling, container handling, spare parts, marine engines, boat spares and port management services in addition to the actual physical construction of the port and surrounding infrastructure.



The port of Turkmenbashi was currently handling around 8 million tonnes of goods per annum. There has been an increase of 22% in the amount of goods handled through Turkmenbashi in 2010. The new port would have facilities for both passenger and cargo handling. These would include warehousing, brokerage, customs, freight forwarding, a passenger terminal (for both international and local transportation of passengers), port management buildings and health and safety centre.

A control tower would be built to service the new port and we were shown a design of this. The tower was 45 meters high, containing a control room, services, an observation deck and conference centre.

The cargo handling area would have facilities for both dry goods and the transportation of hydrocarbons. The main sea link from Turkmenbashi was Baku in Azerbaijan. It was 240 kilometres across the Caspian Sea to Baku. The port of Baku has recently been refurbished, but is still not large enough to receive the planned freight increased from Turkmenbashi.

The reconstruction of the port of Turkmenbashi was expected to be completed in 2016, it was unclear how this would be achieved as nothing was yet on time. A new ship yard was planned to facilitate the building of RO-PAX ships. The new port would be greatly expanded from the existing one. A total of 2 square kilometres of reclaimed land would be required to accommodate the new buildings. A polypropylene handling facility was planned to allow the reconstruction of polypropylene bottles. A ship repair centre would also form part of the ship yard.

Currently the ships belonging to the Turkmen fleet had been fabricated in Russia mainly in the port of Odessa. It was noted that, due to the high desirability of shipping containers for use as housing or storage facilities, all freight forwarders would be likely to insist that the customer took responsibility for the container as soon as it has landed in Turkmenbashi. Historically many containers were never seen again once they left the port.

The Turkmen national fleet including fishing boats currently stood at 110 vessels. Although the Turkmen natural gas is currently exported in liquefied form, there was a desire by the European Union and others to build a pipeline under the Caspian Sea. However the current Turkmen thinking was that additional liquified natural gas container ships was the preferred transport method of choice. The RO-PAX terminal was considered highly desirable due to the existing lack of vehicle ferries.



Transport freight from Turkmenistan to Azerbaijan by land, takes around 3 weeks and involves a journey through Iran. The sea crossing would take 2 to 3 days. There were no other suitable ports presently on the Caspian apart from Baku. Currently around 25,000 vehicles a year transit Iran and it was hoped that a high number of these would choose to use the Trans-Caspian route.

However the port of Baku is currently not large enough to accommodate this number of vehicles. There is a ferry from Kazakhstan to Turkmenbashi, from the port of Aktal, which can accommodate 300 people per day. However the road from Aktal into Kazakhstan is very bad.

Turkmen products exported from Turkmenbashi, in addition to hydrocarbons included cotton and textiles from Uzbekistan which arrived in Turkmenistan from Uzbekistan by rail. If the port of Turkmenbashi expanded as the government hoped that it would, new rail and road links from Ashgabat and other major Turkmen manufacturing centres would need to be established.



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Avaza is a planned holiday resort on the Caspian Sea about 10 miles from the port of Turkmenbashi. Presently only 5 of the 30 plus hotels planned have been built and little infrastructure surrounds it, other than an 8 kilometre inland river, lake and yacht club. Whilst the Caspian has a beautiful coast line with sandy beaches much work is needed to bring it up to a standard required from a tourist resort. The President has committed at least US\$1 billion to complete the first stage of the Avaza project.

We stayed in one of the hotels which was the equivalent to a 3 to 4 star European standard hotel. Apart from half a dozen other guests we appeared to be the only other occupants. We met with the Director of the Avaza Development Zone and were shown a huge scale model of the projected finished resort. Avaza is hoped to be the “Dubai of the Caspian”. The finished resort plans to include over 30 hotels, golf courses, cinemas, an indoor ski slope, off shore island with a hotel, resort facilities, and other leisure activities including water sports. Much of the success of Avaza would rely on the completion of the port of Turkmenbashi bringing in visitors from other parts of the Caspian Sea and also improvement of the road, rail and air links to Turkmenbashi.

This would open up the resort to visitors not only from Turkmenistan but also from the surrounding Caspian region in search of sun, sea, and sand! It was also anticipated that Avaza would be promoted as a major conference destination both for national and international delegations. Avaza can be reached by daily flights from Ashgabat to Turkmenbashi.



Turkmenbashi airport is of a high standard and has been recently rebuilt and refurbished to service the resort. A new desalination plant will have to be built and commissioned. Even if only a fraction of the resort is built, the capacity for waste, water and sewerage treatment will have to be greatly increased. The 8 kilometre long artificial inland river also includes a network of restaurants, bars, artificial beaches and water sports areas along with the opportunity to cruise the river up to a man made waterfall. A marina to service yachts from small to luxury size will also be created. A gas turbine power plant will be commissioned with the capacity to generate up to 254 megawatts of electricity per day which will power the whole tourist zone. Its operation will be supported by 3 main and 12 auxiliary power sub stations.

The actual Avaza construction area will occupy 1,700 hectares out of a total of 5,000 hectares of area for the tourist zone allotted by the state - 2,000 hectares will be for a nature conservation zone and will be the territory of the national park. The remaining space will be laid down to landscaped gardens using a drip irrigation scheme of grey water.

Avaza is certainly staggeringly ambitious project. Whether it comes to full fruition and if it does, whether the guests will come, remains to be seen. The adage “if you build it they will come” may be challenged on this occasion.

Avaza may have some small potential for wildlife holidays with 407 bird species found in the area. In addition the Caspian is home to the famous sturgeon, producer of caviar. The Hazar nature reserve is close to Avaza.

Obviously opportunities for UK manufacturers and consultants depend on the speed and scale of the actual developments. However if even half of the resort is built there will be major opportunities for the suppliers of equipment through the present contractors, Bouygues and Polimeks and also sub contractors. There will also be great opportunities for consultants in the field of resort design, construction and management.



Meeting with Deputy Prime Minister of Turkmenistan with responsibility for International Partnership, Inward Investment and Textiles.

The Deputy Prime Minister (DPM) said that he knew I had visited the Turkmenistan Chamber of Commerce and met with Mr Tuganov and that we talked about bilateral trade and signing a memorandum of understanding. We also discussed JCB and the DPM said that he was familiar with the company and that he knew that one of the government ministries had ordered some JCB long reach excavators for dredging irrigation canals.

The DPM noted that the President kept a close check on all areas of construction in Turkmenistan. He said that he personally was responsible for the 70 textile factories in Turkmenistan and for ensuring that they were maintained with the latest textile machinery and technology. He expressed an interest in any companies from the UK in the textiles sector, primarily in cotton. He noted that Turkmenistan was a large producer of cotton which was then processed into clothing and linens and that many of these products were exported.

The Turkmenistan textile industry was listed on the Turkmen stock exchange and commodity exchange. There are auctions of cotton every Monday and Thursday in Ashgabat and 6 new textile factories are planned valued at US\$70 million each. Some of the cotton produced in Turkmenistan is produced into medical supplies including cotton wool and bandages. A new poly-cotton factory was opening soon which costs US\$80 million.

Turkmenistan produced 1 million tonnes of raw cotton a year. 50% was used locally and 50% was sold on the international exchanges. Most of the exported cotton was bought by Turkic countries. A cotton seed oil processing factory had been built recently by Polimeks, the Turkish construction company. The factories in Turkmenistan were manufacturing cotton products for Ikea, Levi, Wrangler, Lee Jeans and other well know jeans manufacturing companies. Over 2,500 people were employed in factories manufacturing jeans for big named brands.



The DPM noted that Polimeks had been awarded the construction contracts for a major new sports contract and a desalination facility.

The DPM noted that Turkmenistan was very famous for its high quality hand woven carpets. There was a Ministry for carpets which came under his department. The Turkmen carpet manufacturing industry was a joint stock corporation. The French construction company Bouygues had build a carpet museum for the Carpets Ministry. The Turkmen carpets were woven out of sheep's wool from a special breed of sheep found in Turkmenistan and a new line was silk carpets. No synthetic materials were used in carpets manufactured in Turkmenistan.

Other factories planned by the DPMs department in the textile sector were a specialist for the processing and spinning of wool. A dying factory, a viscose weaving factory to meet orders from Russian dress manufacturers, a new line of velveteen to meet the domestic market for traditional Turkmen ladies wear had been launched. The DPM noted that his department would send some Turkmen carpets to the TUKTIC meeting when it was held in London in 2012.

Although the meeting with the DPM tended to focus on textiles it was important to meet with senior government members such as Deputy Prime Ministers and doing business in Turkmenistan is all about establishing and fostering good relationships.

OMUR, Construction company and manufacturers of bricks
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Mr Sylapow said that he was presently trying to source a roadrailer, a site dumper, telehandler and wheeled loader. He already owned some pieces of construction equipment including 6 cement mixers and a crane. All of his equipment was self funded. His company has built a US\$7 million building in the far north of Turkmenistan. He has also built a school in Daşoguz for US\$5 million which has 900 students, two apartment blocks of 48 flats in total. He had been asked to carry out a feasibility study to build a kindergarten for 160 children.

He noted that he had just purchased a Caterpillar backhoe and had one more on order. Both these machines had been purchased from new and paid for in advance. He also had Hyundai equipment including skid steers.

He expressed a desire to purchase haulers, piling hammers (although he thought he would source these from China) and articulated dump trucks. He was tendering for building schools and houses and currently completing some villas on the outskirts of Ashgabat

The other element of his business was a brick and block making company using equipment sourced from Belarus. We were given a tour of the block making factory which seemed fairly basic although a loan from the EBRD was helping him mechanise the production of the bricks and therefore relying less on manual labour. Nearly all of the brick making and block making process was currently done manually. This was not ideal in the extreme temperatures experienced in Turkmenistan.



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The Department for Construction appoints the contractors for nearly all of the major construction projects in Turkmenistan with Presidential oversight. The Deputy Minister (DM) noted that a rural development programme was underway and due to run until 2012, concentrating on 15 developing areas to improve the infrastructure. This programme had started in 2008 and in the first year, 3.5 billion New Turkmen Manat (TKM) had been spent. In 2009, 2.5 billion TKM had been spent on this programme. The DM noted that his department was always looking for good quality equipment and new technology; again he mentioned that his department had done business with JCB.

As the Ministry for Construction was a relatively newly established ministry they did not yet have a big plant inventory. He noted that shipping, delivery and payment were always problems in Turkmenistan and that many overseas manufacturers found their system of payment difficult to work with. It appeared that prices were based on a price index maintained by government and that payment was often deferred until the equipment had arrived and was actually in place and working. In reality this meant a 3 month delay in payment for equipment used on most government projects.

The DM's Ministry constructed feasibility studies for all construction projects to be undertaken by his ministry but also for any construction projects required by other ministries. His department was in charge of registering and licensing all construction companies and contractors who wished to work in Turkmenistan.

The somewhat unusual payment terms has tended to mean that global manufactures were less willing to spend a lot of money on training distributors and after-sales engineers to service the equipment and maintain a large spare parts inventory. This was a wide spread problem across Turkmenistan. There was also a lack of specialist engineers and architects in Turkmenistan. The Construction Ministry was trying to encourage students to study these subjects overseas and currently about 200 Turkmen students were doing so.



The DM stressed that to be successful in Turkmenistan it was essential to build up a good relationship with government ministries at DPM level downwards. He said one visit would never be enough but was just the start of building such a relationship. He stressed that companies would need to be flexible to deal with the current Turkmen payment terms. The DM noted that there were many opportunities for UK universities to develop training programmes for Turkmen students.

Joanna asked the DM for a shopping list of equipment that his department would require. He expressed an interest in attending an inward trade mission to the UK to visit some factories of potential suppliers and see the equipment actually in operation. It was hoped that he would be able to visit the TUKTIC meeting in early 2012.

He also expressed an interest in setting up a student exchange programme possibly with either Bath or Loughborough University.

We were then joined by the Minister for Construction Products. He expressed his opinion that Turkmenistan would benefit from UK manufactured construction equipment as he felt that equipment produced in the UK was of a high standard and reliable. However he again cited the lack of local representation to maintain and repair the equipment. He said that it was essential to minimise down time on the equipment and that a full inventory of spare parts was very important if a manufacturer wished to succeed in the market. The Minister asked Joanna to stay on in Turkmenistan for a further 5 days in order to visit construction sites and meet with engineers and examine how a feasibility study was conducted. Unfortunately this was not possible during this trip but it was hoped to follow this up in future visits. The Minister expressed a need for construction products as well as equipment and said that there was a high demand for construction materials such as bricks, tiles, cement, concrete, glass, and blocks.

