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BOOSTING SMALL BUSINESS COMPETITIVENESS

Peer Review of Turkmenistan's Investment Landscape

1st Workshop

Tuesday 19 November 2024
Ýyldyz Hotel, Ashgabat, Turkmenistan



OECD Eurasia Competitiveness Programme

Agenda

Introduction to the project

Assessing the investment climate

Supporting the creation of an Investment Promotion Agency

Next steps

About the OECD
A forum to address economic, social and governance policy challenges

38 Member countries



This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map

Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

Broad policy expertise

Horizontal policy domains

- ✓ Competitiveness
- ✓ Investment
- ✓ Public Governance and Territorial Development
- ✓ Entrepreneurship, SMEs and Local Development
- ✓ Employment, Labour and Social Affairs
- ✓ Trade
- ✓ Education
- ✓ Tax Policy and Administration

Sector-specific policies

- ✓ Agriculture
- ✓ Industry
- ✓ Science and Industry
- ✓ Financial and Enterprise Affairs

A forum where governments can compare policy experiences and address the economic, social and governance challenges of globalisation as well as exploit its opportunities

Objectives of the peer-review of Turkmenistan's investment landscape

Economic reforms, peer-exchange, visibility of the country's reform efforts

Support economic reforms	Develop analysis and recommendations
Support peer exchanges	Invite profiled experts from OECD and Eurasia countries to share experience on reforms
Provide visibility	Discuss the results of the analysis during a ministerial event at Eurasia Week 2025

Focus on investment climate at large, particularly investment promotion

Private sector survey and OECD best practices to be used

1 Assessing broadly the investment climate

- **Survey the private sector**, 30+ (EU and CA) firms' interviews are planned
- Derive from the results **key recommendations to the government** on improving the overall investment climate

2 Advising on the creation of an Investment Promotion Agency

- **Draw on OECD experience and best practices** to advise Turkmenistan on the institutional settings to promote the country to foreign investors
- In particular, offer ideas on the Policy potential **design of an Investment Promotion Agency**

An OECD report will be prepared and peer-reviewed during OECD Eurasia Week 2025

The Turkmenistan's peer-review during OECD Eurasia Week in Q3/Q4 2025
At a glance

- **Ministerial delegations from Central Asia will be invited to:**
  - Share experiences and discuss economic challenges in the region
  - Provide experience and further learn from the experience of OECD and Central Asia countries
  - Discuss best practices with OECD experts

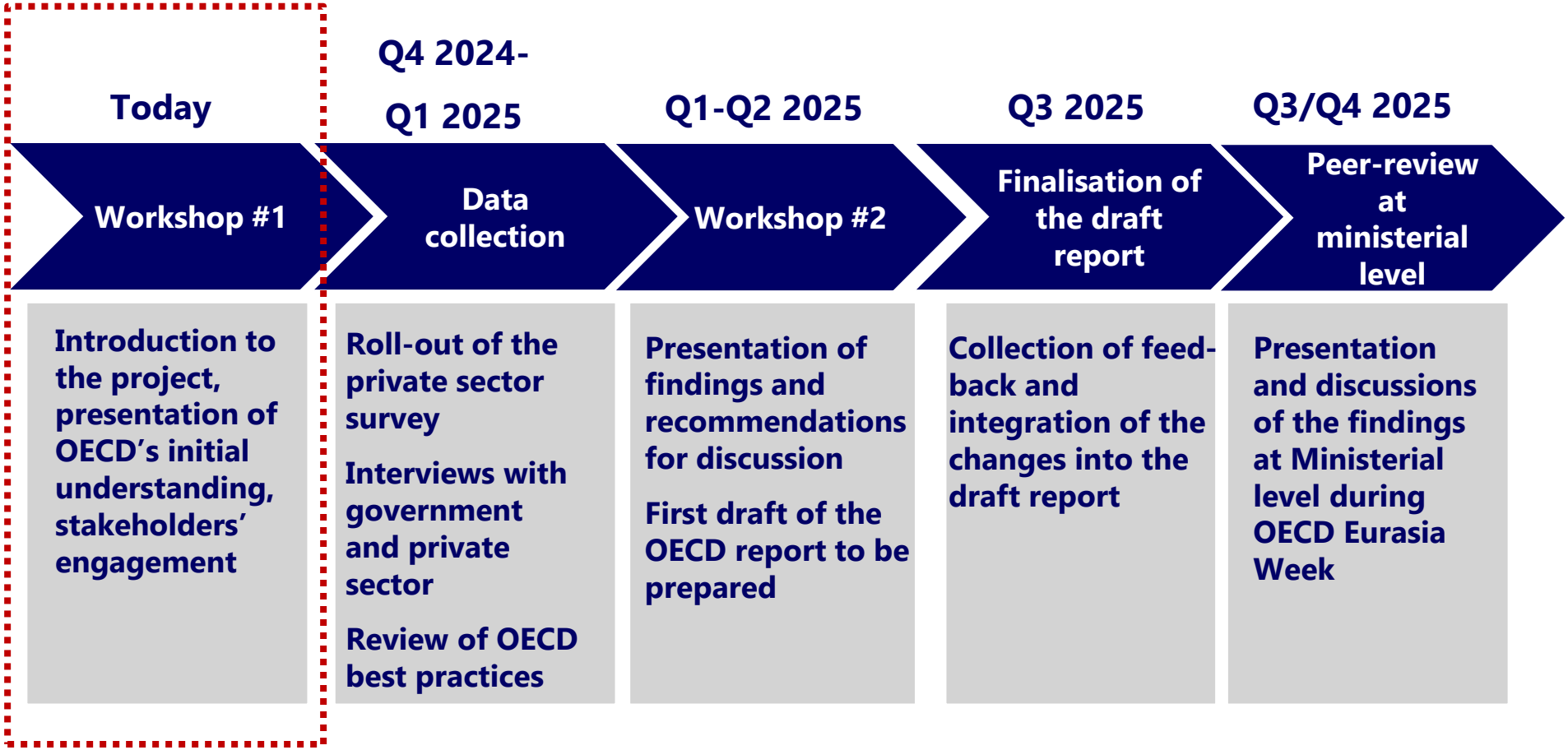




OECD report on Turkmenistan's investment landscape to be the focus of one peer-exchange session

Schedule of the project

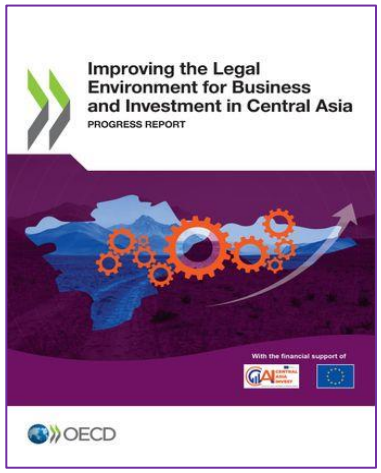
Workshops, data collection, consultations, and final peer-review are planned



Our starting point on Turkmenistan

OECD work on the legal environment for business in Central Asia (2020, 2023)





Main recommendations for Turkmenistan

1) Introduction of a **one-stop-shop** for new firms could help streamline business registration and licensing processes.

2) Enhanced **public-private dialogue** could help policy-makers adapt to business needs; **the creation of a business ombudsman** could be one of the solutions.

3) Creating **a level competitive playing field** for private business and SOEs will foster a more dynamic and diversified private sector.

4) More can be done to further improve and streamline **investment legislation and contract enforcement** mechanisms.

5) A well-designed **Investment Promotion Agency (IPA)** could act as a trusted gateway for attraction and retention of investors.

6) Implement **trade facilitation reforms** to diversify investments, including simplification of trade processes and expansion of financial products.

Sources: Improving the Legal Environment for Business and Investment in Central Asia (2020, 2023)

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In 2020 three priority areas for reforms were identified

Investment regulation, business registration, operational environment for SMEs



Challenges

2020 Recommendations

1 Enforcement of investment regulation

Ensure enforcement of the Law on investment and improve information availability

- ➔ **Consolidate investment legislation** into a single **code**
- ➔ **Clarify** the implications of new **laws and bylaws** for investors
- ➔ **Keep the Ministry of Justice legal database up-to-date, with translations** available in Turkmen, Russian and English
- ➔ **Create an investment promotion agency** to provide potential investors with a trusted source of information and support

2 Business registration

Streamline business registration and licensing

- ➔ Review business **registration and licensing legislation** with a view to streamlining procedures and eliminating redundant requirements
- ➔ Ensure consistent application of **regulations and procedures** for all firms, by establishing self-regulatory organisations.
- ➔ Create a **Business Ombudsman** with oversight for inspection agencies and regulations

3 Operational environment for SMEs

Simplify the operational environment for the SMEs

- ➔ Systematically consider **SME needs** when making regulatory changes (e.g., SME test for regulatory impact assessment)
- ➔ Develop **SME-targeted public instruments** to access finance, infrastructure and legal advice
- ➔ Ensure **reliable and accountable law enforcement** by the creation of the Business Ombudsman

In 2023 the OECD assessed progress made

Improved communication and simplification of procedures were observed



	Challenges	Progress observed	2023 updated recommendations
1	**Investment regulation**	✓ The government has **increased communication** about changes in the legislation	❑ **Create an Investment Promotion Agency** to increase FDI ❑ **Improve contract enforcement** through the modernisation of the court system
2	**Business registration**	✓ The government has **revised and simplified some procedures** for business registration and licensing	❑ **Further simplify business registration procedure** and improve access to regulatory information ❑ **Improve access to regulatory information** by using the government's websites ❑ **Level the playing field** between domestic and international firms
3	**Operational environment for SMEs**	✓ The post-pandemic period has provided some **relative relief** to businesses	❑ **Expand** the range of available **financial instruments** ❑ Capitalise on the Middle Corridor's renewed interest to **further integrate into global trade** ❑ Expand **digital infrastructure**

In 2024-2025, the private sector survey will allow to continue the monitoring effort

Focus on recent dynamics, progress observed, remaining challenges

Topics covered in the survey	Content
I. Overall business climate	… overall business dynamics and changes to the investment environment in recent years
II. Operational environment	… regulatory and legal framework, infrastructure and technology, competition and SOEs
III. Trade policy and WTO accession	… the impact of trade policy on business
IV. Business support	… investor perceptions of the effectiveness of government programmes
V. Outlook	… forward-looking assessment of prospects for doing business in Turkmenistan

30+ (EU and CA) firms' interviews are planned

In 2024-2025, the private sector survey will allow to continue the monitoring effort

Examples of key questions

1. How would you assess the dynamic of the business climate since 2022?
2. What do you see as the main areas of improvement/deterioration?
3. How do regulatory factors, such as access to foreign currency, currency conversion or restrictions on international transactions, affect your ability to manage day-to-day business operations?
4. How does Turkmenistan's current trade policy impact your business operations?
5. What reform priorities would you most like to see the government address?
6. How would you rate the level of communication and collaboration between businesses and the government?

Business climate assessment
Positive signals have been observed recently

Initial observations

WTO

As a WTO candidate **Turkmenistan demonstrates its commitment to accelerating reforms in trade and improving the investment climate**

- As part of accession to WTO Turkmenistan **cooperates closely with IOs** such as ITC, UNECE, UNDP, ADB **on trade facilitation, e-commerce and SME development.**
- Turkmenistan has joined **the OECD Trade Facilitation Indicators** which will help to address transport and logistics bottlenecks across the Caspian Sea and the north-south trade corridors.
- In 2023, Turkmenistan launched a **Trade Information Portal** to streamline procedures, making the country more open and accessible for international trade in alignment with WTO standards.

TCTC

Turkmenistan continues advancing regional integration including with the West-East and North-South Corridors development

- In October 2024, the EU launched the **TCTC Coordination Platform in Turkmenistan**, which reflects and supports the government's commitment to increased regional connectivity.
- The **single window for export-import operations** has become operational, facilitating the registration of over 5000 export and import firms to conduct cross-border trade.
- As a result, the **transport sector grew by 7.3% YoY,** with an 8.2% increase in sea freight.

Sources: Trade Facilitation in Central Asia (OECD, 2023). EU-ITC Agreement (2023), Regional Economic Prospects (EBRD, 2024)

Business climate assessment

Firms have expressed concern about foreign exchange regulations

Initial observations

- Foreign exchange regulations can affect the growth and competitiveness of firms in non-resource tradable sectors. The longstanding official rate of 3.5TMM to the dollar appears to be substantially overvalued.
- Liberalisation of the foreign exchange market could offer significant benefits:
  - Enhanced competitiveness of non-resource exports.
  - More efficient resource allocation among domestic firms and sectors, making for a more level competitive playing field.
  - Easier repatriation of profits for foreign investors, which would make Turkmenistan a more attractive investment destination.
  - Easier conversion of local currency to USD to import supplies or equipment.
  - Increased accuracy of economic data, contributing to more informed policy-making.

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Investment in Turkmenistan
FDI potential in Turkmenistan and ongoing reforms

FDI potential in Turkmenistan

- **WTO accession procedures** are progressing, ensuring **new significant opportunities to attract FDIs**.
- Turkmenistan has started to show **interest in renewable energy projects**, particularly solar and wind, creating an opening for foreign firms specialising in clean energy technologies.
- Recent **Fitch's rating** of Turkmenistan as "B" with a positive outlook **suggests potential investment appeal**, especially given the nation's robust sovereign balance sheet and substantial natural gas reserves.

Turkmenistan is working to create a competitive environment for business and investment

- The government has shown interest in **diversifying its economy and encouraging foreign investment** through new regulatory frameworks (*creation of SEZs, programmes to support digitalization of the economy and development of PPP*).
- Turkmenistan has introduced reforms to strengthen its transparency and regulatory framework, such **as enhancing protections for intellectual property and easing restrictions on joint ventures**.
- International forums, including recent events in Paris and Ashgabat, have been **used to promote these legislative changes and showcase opportunities for foreign investors**.

Source: EBRD (2024), UNCTAD

Investment in Turkmenistan

Despite recent progress, regulatory transparency remains a challenge

- In 2023 **fixed capital investment in Turkmenistan was up by 20.8 per cent year on year**, reaching 17.5 per cent of GDP.

This increase is largely attributed to government-backed projects in energy and infrastructure sectors.

- **FDI inflows to Turkmenistan saw a 47.3% year-on-year growth in 2023,** marking a recovery from the post-COVID decline.

Despite new interest from China, Russia, and UAE-backed projects, strict capital controls and limited market access have limited investment growth across non-energy sectors.

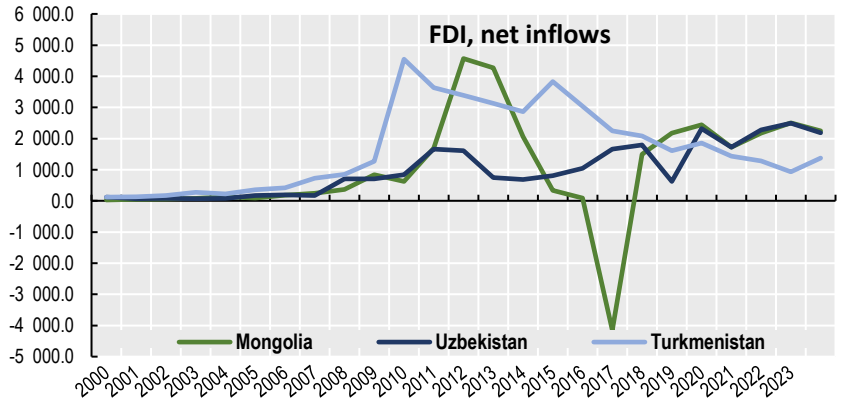
- **90% of investment is public**, while only 10% comes from the private sector.

Limited private investment could restrict innovation and long-term diversification, typically driven by private sector engagement.

- **China accounts for over 70% of exports, including 80% of hydrocarbon exports (2022)**

Greater diversification of trade in terms of products and markets could enhance resilience.

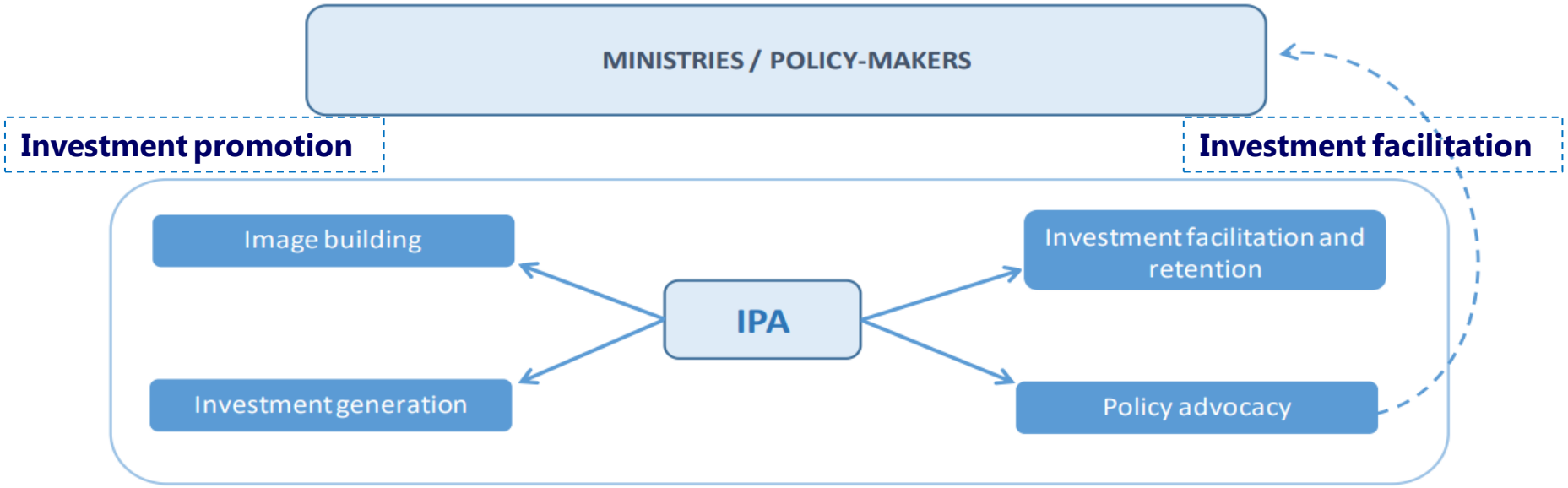
FDI	2020	2021	2022	2023
FDI Inward Flow (million USD)	1,436	1,287	936	1,378
FDI Stock (million USD)	39,314	40,601	41,537	42,915



Source: Government of Turkmenistan, US State Department, UNCTAD

The OECD framework for Investment Promotion

Investment promotion agencies (IPAs) help investors and policy makers maximize the benefits of FDI for sustainable development and inclusive growth



1. **Investment promotion** to create awareness, improve the image and generate interest.

2. **Investment facilitation** to secure and fast track investment projects, to scale up their impact and to improve the investment and business environment.

Source: OECD

Building an IPA in Turkmenistan

The IPA survey provides insights on investment promotion efforts across Eurasia



Key findings:

- Eurasia investment promotion agencies are **young agencies** – most were created in the last 10 years
- Most of them are governmental agencies, and overall they have **relatively limited institutional independence** – increading this independence over time could be beneficial
- Generally have **fewer resources** than OECD IPAs, which suggests a need for greater strategic focus
- Their staff often **lacks private sector profiles**
- Eurasia IPAs recognize the **importance of the overall business climate** in attracting foreign investment
- **Enhancing their use of digital tools** would enable IPAs to better communicate and monitor their activities

*The OECD has carried out a regional benchmark of Investment promotion agencies in the Eurasia region, building on similar exercises performed in other regions (OECD, MENA, LAC)

Building an IPA in Turkmenistan

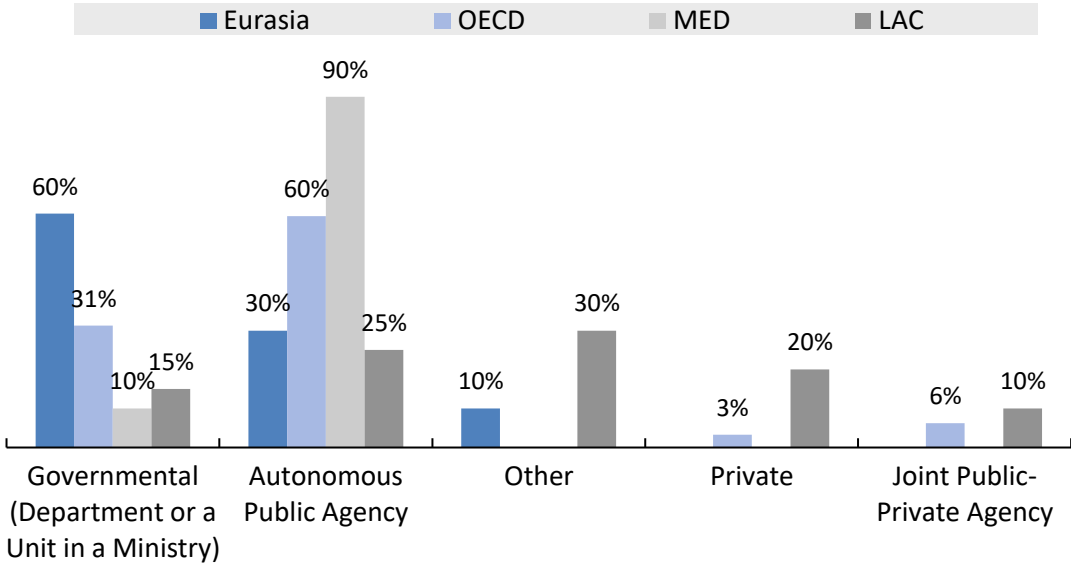
For today's discussion – IPA's legal status and institutional format

IPA's legal status

- IPAs typically established as **a legal entity** through a government law
- **Clear mandate** and institutional relationship
- Many IPAs **have additional mandates**

IPA's institutional format

- **Autonomous**: Public agencies are allocated a budget and operate independently
- **Tied or Governmental**: Public agencies operate as a department or unit within a ministry
- **Both**: need a clear reporting structure ideally linked to a relevant minister or even prime minister.
- There is **no single model** that constitutes best practice: successful agencies operate under a range of institutional arrangements.



In Turkmenistan, **the Ministry of Finance and Economy has a very broad mandate on investment form investment policy development to attracting, supporting and protecting foreign investment.**

Legal status and institutional format for IPA

The legal status is one of the most important aspects of an agency's governance

- OECD best practices indicate the importance of **mandate clarity** and **strong coordination with key regulatory agencies** at the national and local level
- **Support from the highest levels of government** (for example, office to the president or prime minister) or from a strong and respected ministry is critical for IPAs' performance
- OECD found that **IPAs that are legally closer to their government** (i.e. those that are part of a ministry) tend to use **more systematically dedicated staff for policy advocacy**
- Agencies that are part of the government have a more **direct access to policymakers** which makes it faster to take decisions
- Similarly, **IPAs also report to different line ministries across countries**, but this does not seem to influence significantly their policy advocacy efforts

Source: OECD, WBG

Building an IPA in Turkmenistan
For today's discussion – IPA's core functions

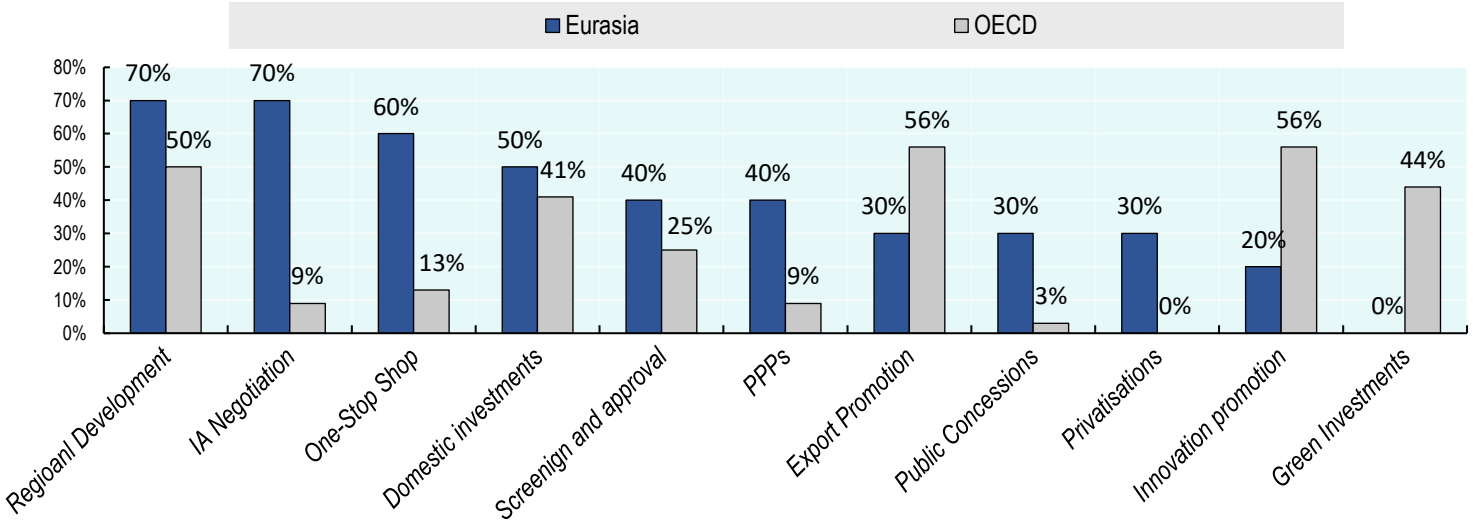
IPA's core mandates

- **IPA's profiles varies across countries**, depending on the country-specific strengths, weaknesses and competitive position
- **IPA has eight mandates on average**, with the largest number of IPAs from low-income countries having more than 5 mandates compared to 1 to 5 in high-income countries
- **Eurasia IPAs tend to spend more resources on image building and policy advocacy** (more than their OECD peers).

Additional mandates

In line with strategic priorities of the country, Eurasia governments combine investment promotion mandates with:

- **regional development promotion**,
- **international agreement negotiations**,
- **investment screening and approval**, as well as in **public-private partnership** (PPP) projects, public concessions and privatisation programmes.



Source: OECD-IDB IPA Survey (2020), State of Investment Promotion Agencies : Evidence from WAIPA-(2020)

Core functions of IPA

Case of Kazakhstani IPA KazakhInvest: **investment facilitation and retention**

KAZAKH INVEST
NATIONAL COMPANY

Kazakhstan is a Central Asian leader in investment cooperation with the OECD, with KazakhInvest actively driving investment reforms through participation in OECD working groups.

For Turkmenistan, Kazakhstan's example highlights how an Investment Promotion Agency (IPA) can be instrumental in policy advocacy and fostering investment-friendly reforms.

KazakhInvest was established in 2017. Its main features:

- **Single Negotiator status** with major investors on behalf of the Government of Kazakhstan.
- **Outsourcing promotional activities** to prioritize facilitation and retention.
- **Active role in regulatory development**, including simplifying administrative procedures.
- **Successful agency-led initiatives**:
  - ✓ Developing the National Digital Investment Plan.
  - ✓ Establishing Special Economic Zones (SEZs).

Core functions of IPA

Case of Mongolian IPA Investment and Trade Agency: **balanced approach**

Mongolia, which exports natural resources, has an economy nearly the same size as Turkmenistan's.

Mongolia has successfully attracted foreign investments through its openness to FDI, demonstrating the role that strategic investment policies can play in fostering economic growth.

The Investment and Trade Agency was established in February 2023.

- The Agency tired to cover **all four main functions for investment promotion**.
- At the same time, the Agency **supports trade facilitation reforms and promotes export**.
- Provide **single-window services** to investors.
- Annual **Investor Guide Book** of the Agency helps investors familiarize themselves with Mongolia's legal and regulatory framework and identify potential investment sectors and investment incentives.

The diversity of IPAs and approaches

Case of IPAs from MENA region

- **Regulatory power of IPAs**. Unlike in many countries where ministries handle business climate improvements, most MENA region investment promotion agencies (IPAs) operate with considerable autonomy and regulatory power.
- **State-Centralised Investment Promotion.** The Algerian agency allocates considerable resources to investment facilitation as it has an extensive network of subnational offices that support both foreign and domestic investors in establishing their business.
- **Focus on Development Outcomes.** MENA region investment promotion agencies prioritize monitoring how investment projects contribute to national development goals, such as job creation and infrastructure growth, over assessing their own operational performance in delivering investor services.

Preliminary recommendation for Turkmenistan

Short-term	Long-term
1. Streamline investments legislation and consolidate all investment legislation into one law 2. Communicate closely with existing investors to collect information and support 3. Establish a legal entity (IPA) with its core mandates 4. Enhance online communication tools	1. Establish a clear investment promotion strategy that articulates economic objectives, priority sectors for FDI, as well as agency roles 2. Adequately equip and finance the IPA for its proper functioning 3. Consider further digitalisation of administrative processes and services 4. Leverage investment retention and after care of investors to support further policy changes 5. Make sure to integrate RBC and sustainability considerations

Questions and open discussion
Q&A

1. What should be the core mission and goals of an Investment Promotion Agency in Turkmenistan?

2. How can the IPA align its activities with national economic development goals, such as diversifying away from reliance on the energy sector?

3. Which sectors should the IPA prioritize for investment attraction? (e.g., agriculture, energy, renewable resources, infrastructure, transport, etc.)

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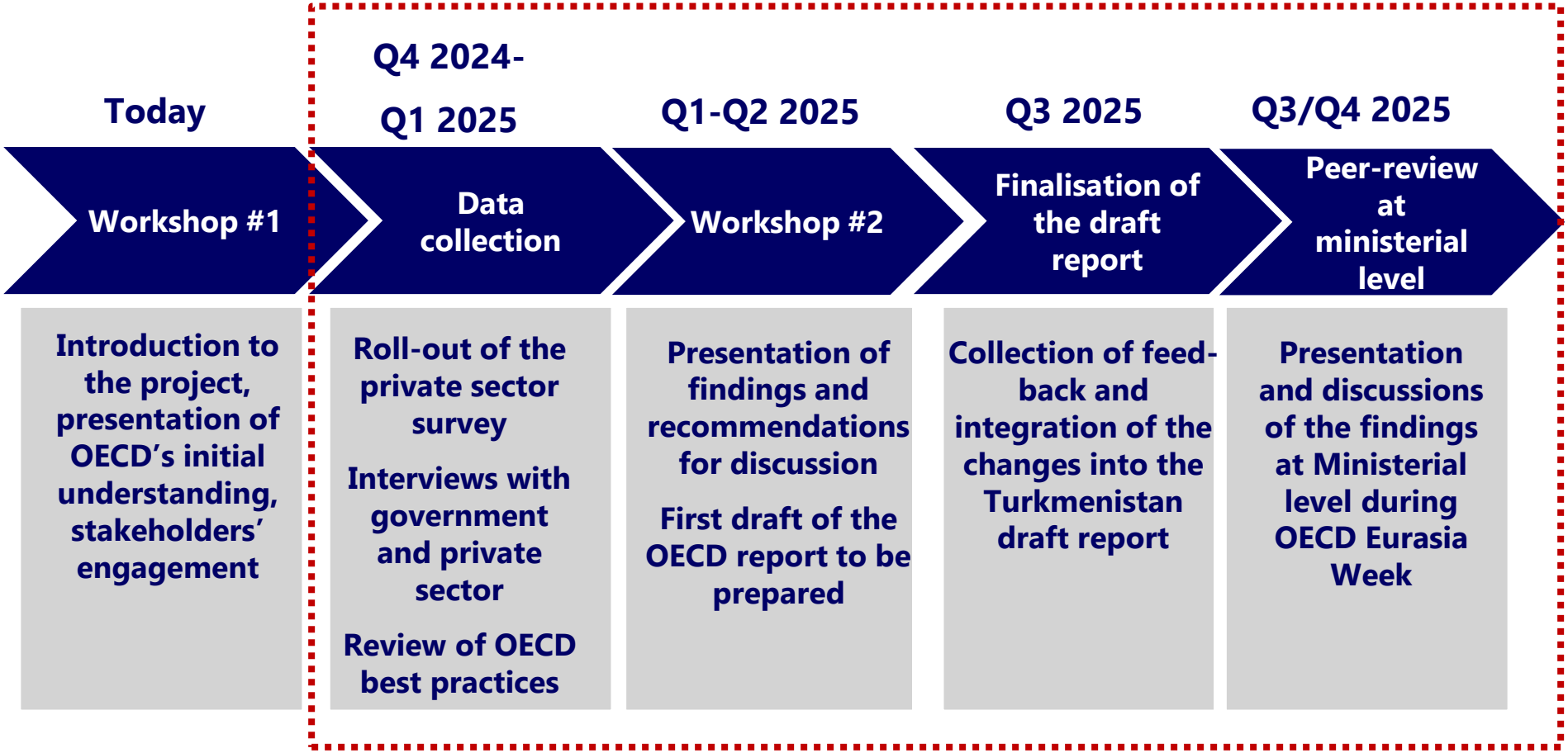
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Next steps

Data collection, a workshop, consultations, and final peer-review are planned



Annex 1 – Framework conditions for FDI attraction

Attracting FDI and maximising its benefits for the domestic economy requires an adequate framework to be in place

Investment policy

- Transparent and predictable framework
- Non-discrimination
- Protection of property rights
- Contract enforcement and dispute settlement
- International investment agreements

Investment promotion

- Investment promotion & facilitation can help states attract, expand and retain FDI
- It requires to put an institutional framework in place and enact a number of specific tools, measures and processes
- It is dependent with and can feed into the investment policy-making process

Other policy areas affecting investment

- Competition
- Trade
- Taxation
- Corporate governance
- Finance
- Infrastructure
- Skills policies
- Policies to support responsible business conduct and green growth
- Public governance

Source: OECD Policy Framework for Investment

Annex 2 – OECD peer-review experience in the region
Examples

	Institutional and regulatory framework for SME policy making	SME internationalisation	Access to finance of SMEs	Service delivery channels for SMEs
Kyrgyzstan (2013 & 2016) Monitoring SME competitiveness reforms				
Tajikistan (2014 & 2017) • Increasing exports: the case of agribusiness • Enhancing access to finance for SME development				
Afghanistan (2018) Boosting PSD and Entrepreneurship				
Uzbekistan (2016 & 2017) Boosting Internationalisation of SMEs through Better Export Promotion Policies				
Kyrgyzstan (2020) Supporting Firm Growth and Creation through BDS				

Thank you!

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