Turkmenistan

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Turkmenistan	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering assessment Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering
Major Investment Areas: **Agriculture - products:** cotton, grain, melons; livestock **Industries:** natural gas, oil, petroleum products, textiles, food processing **Exports - commodities:** gas, crude oil, petrochemicals, textiles, cotton fiber **Exports - partners:** China 66%, Ukraine 7%, Italy 4.5% (2012) **Imports - commodities:** machinery and equipment, chemicals, foodstuffs **Imports - partners:** China 20.1%, Turkey 17.5%, Russia 13%, UAE 6.9%, Germany 4.8%, UK 4.4% (2012)	
Investment Restrictions:	

Turkmenistan regularly announces its desire to attract more foreign investment, but tight state control of the economy, the slow pace of economic reform, and a restrictive visa regime have hindered the creation of an attractive foreign investment climate.

Historically, the most promising areas for investment are in the oil and gas, agricultural, and construction sectors. The Turkmen government continues to seek foreign technology and investment in order to diversify its economy through the development of domestic chemical and petrochemical industry facilities.

Incoming foreign investment is regulated by the Law on Foreign Investment (last amended in 2008), the Law on Investments (last amended in 1993) and the Law on Corporations of 1999, with respect to start-up corporations, acquisitions, mergers and takeovers. Foreign investment activities are affected by appropriate bilateral or multilateral investment treaties, the Law on Enterprises of 2000, the Law on Business Activities (last amended in 2008), and the 2004 Land Code. Foreign investment in the oil and gas sectors is subject to the 2008 Petroleum Law (also known as Law on Hydrocarbon Resources, amended in 2011 and 2012). The Tax Code provides the legal framework for the taxation of foreign investment. The 2000 Civil Code defines what constitutes a legal entity in Turkmenistan, as well as requirements for registration.

Contents

Section 1 - Background

Present-day Turkmenistan covers territory that has been at the crossroads of civilizations for centuries. The area was ruled in antiquity by various Persian empires, and was conquered by Alexander the Great, Muslim crusaders, the Mongols, Turkic warriors, and eventually the Russians. In medieval times Merv (today known as Mary) was one of the great cities of the Islamic world and an important stop on the Silk Road. Annexed by Russia in the late 1800s, Turkmenistan later figured prominently in the anti-Bolshevik movement in Central Asia. In 1924, Turkmenistan became a Soviet republic; it achieved independence upon the dissolution of the USSR in 1991. Extensive hydrocarbon/natural gas reserves, which have yet to be fully exploited, have begun to transform the country. Turkmenistan is moving to expand its extraction and delivery projects. The Government of Turkmenistan is actively working to diversify its gas export routes beyond the still important Russian pipeline network. In 2010, new gas export pipelines that carry Turkmen gas to China and to northern Iran began operating, effectively ending the Russian monopoly on Turkmen gas exports. President for Life Saparmurat NYYAZOW died in December 2006, and Turkmenistan held its first multi-candidate presidential election in February 2007. Gurbanguly BERDIMUHAMEDOW, a deputy cabinet chairman under NYYAZOW, emerged as the country's new president; he was chosen as president again in February 2012, in an election that the OSCE said lacked the freedoms necessary to create a competitive environment.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Turkmenistan is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 21 June 2013

The FATF welcomes Turkmenistan's significant progress in improving its AML/CFT regime and notes that Turkmenistan has largely met its commitments in its Action Plan regarding the strategic deficiencies that the FATF had identified. Turkmenistan is therefore no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Turkmenistan will work with EAG as it continues to address the full range of AML/CFT issues identified in its Mutual Evaluation Report, and further strengthen its AML/CFT regime.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Turkmenistan was undertaken by the Financial Action Task Force (FATF) in 2011. According to that Evaluation, Turkmenistan was deemed Compliant for 5 and Largely Compliant for 11 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Background from latest Mutual Evaluation Report (2011):

The foundation of Turkmenistan's AML / CFT system was laid in 2009, when both ML and FT were criminalized. Law of the Republic of Turkmenistan "On Combating Money Laundering and Terrorist Financing" (AML/CFT Law) came into force on August 28, 2009. This Law on AML / CFT required all financial institutions to report suspicious transactions, implement CDD measures and establish an internal control system and other mechanisms for the purpose of AML / CFT. At present, the oversight and law enforcement agencies are carrying out the necessary resource and structure-related reforms and stepping up work on AML / CFT as it pertains to refinement of the regulatory framework. There are concerns about the existence of certain deficiencies in the system of preventive measures (customer due diligence, internal controls, etc.) applicable to designated financial institutions and non-financial businesses and professions (DNFBPs).

The main source of criminal revenues in Turkmenistan is drug trafficking. This is due to the fact that Turkmenistan is used as a transit country for shipment of drugs from Afghanistan.

Turkmenistan is a constitutional, secular and democratic republic with a presidential form of government. Turkmenistan's GDP is roughly US$16 billion (2009). The banking system, which includes 11 banks, is the most developed part of the financial sector. The country's securities market is still in its infancy. There is also only one state insurance company (Turkmengosstah) in the country, and no non-banking credit institutions present. The money and value remittance services may only be provided by banks and a postal service operator represented by the state postal service company Turkmenpost (hereinafter the "SPSC Turkmenpost"). The DNFBPs are represented by companies organizing lotteries and other risk-based games; persons carrying out operations with precious metals and stones; persons providing services and participating in operations involving purchase and sale of real estate property; as well as notary offices (notaries), lawyers' groups (lawyers) and audit firms.

US Department of State Money Laundering assessment (INCSR)

Turkmenistan is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Turkmenistan is not a regional financial center. There are five international banks and a small, underdeveloped domestic financial sector. The largest state banks include the State Bank for Foreign Economic Relations, Dayhanbank, Turkmenbashy Bank, Turkmenistan Bank, and Halk Bank. There are two smaller state banks, Senagat Bank, which provides general banking services, and Rysgal Bank, which was created by the Union of Entrepreneurs and Industrialists for its members. There are also five foreign commercial banks: a joint Turkmen-Turkish bank, a branch of the National Bank of Pakistan, the German Deutsche Bank and Commerzbank, and Saderat Bank of Iran. The two German banks provide European bank guarantees for companies and the Government of Turkmenistan; they do not provide general banking services. The country’s significant mineral and hydrocarbon exports are paid for through offshore accounts with little public scrutiny or accounting. Since the Government of Turkmenistan introduced numerous limitations on foreign currency exchange in 2016, converting local currency (manat) into foreign currency has become very difficult.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Given Turkmenistan’s shared borders with Afghanistan and Iran, money laundering in the country could involve proceeds from the trafficking and trade of illicit narcotics, as well as those derived from domestic criminal activities, including corruption. Although there is no information on cash smuggling, gasoline and other commodities are routinely smuggled across the national borders.

There are no offshore centers in the country, although much Turkmen wealth is kept offshore. The government reportedly is working to address this issue. In 2007, Turkmenistan created the

Awaza Tourist Zone (ATZ) to promote development of its Caspian Sea coast. Amendments to the tax code exempt construction and installation of tourist facilities in the ATZ from value added tax (VAT). Various services offered at tourist facilities, including catering and accommodations, are also VAT-exempt.

KEY AML LAWS AND REGULATIONS

Over the last few years, the government has taken positive steps to combat money laundering and corruption. On June 2, 2017, the President created the State Service for Combating Economic Crimes in order to analyze corruption and investigate and prevent crimes involving economic and financial damage to the state, although its level of effectiveness remains in question. The government also continues to pursue international cooperation to curb offshore tax evasion.

On August 18, 2015, the Turkmen Parliament adopted a new AML/CFT Law that came into effect on January 1, 2016. The law is intended to address international cooperation and noted deficiencies regarding due diligence procedures for DNFBPs and PEPs, among other items. Turkmenistan has KYC and STR regulations.

Turkmenistan is a member of the EAG, a FATF-style regional body.

AML DEFICIENCIES

Turkmenistan is not subject to any U.S. or international sanctions or penalties.

Turkmenistan is not a member of the Egmont Group. In 2012, the President announced Turkmenistan would join the Egmont Group, but Turkmenistan has not yet done so.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Turkmenistan is a signatory to the 1988 UN Drug Convention. Turkmenistan's Inter-Agency Coordination Working Committee for Combating Money Laundering and Terrorism Financing operates under the Ministry of Finance. The lack of government transparency makes it extremely difficult to get information on money laundering, and there were no reports of prosecutions or convictions for money laundering in 2017.

Government agencies transitioned to National Financial Reporting Standards (NFRS) in January 2014. Although Turkmenistan's law requires banks to use the International Financial Reporting Standards (IFRS), which were implemented in 2012, not all banks have done so.

Turkmenistan's legal system provides protection and exemption from liability for financial institutions filing STRs with the FIU and sets limitations on disclosure of information financial institutions obtain in performing their AML obligations.

Serious enforcement efforts are necessary in order to combat money laundering, and the government should accelerate reforms that will make Turkmenistan's AML regime compliant with international standards. Additionally, there is a need for capacity building for law enforcement, customs, and border authorities in order to better recognize and combat money laundering.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Turkmenistan does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a “safe harbor” defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

EU White list of Equivalent Jurisdictions

Turkmenistan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Turkmenistan is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017:

Introduction

Turkmenistan is a transshipment route for narcotics traffickers attempting to smuggle Afghan opiates to Turkish, Russian and European markets, either directly from Afghanistan or through Iran. It is not, however, a major producer or source country for illegal drugs or precursor chemicals. Most illegal drug seizures occur along Turkmenistan's rugged and remote 500-mile border with Afghanistan and its 713-mile frontier with Iran.

Major developments during 2016 included President Gurbanguly Berdimuhamedov's issuance of a decree making the State Service to Protect the Security of a Healthy Society (SSPSHS – former Counternarcotics Service) a department of the Ministry of Internal Affairs (MVD). Berdimuhamedov repeatedly instructed the MVD and other relevant ministries and agencies to redouble their efforts to eradicate drug addiction, illicit drug trafficking and trade.

Turkmenistan has intensive cooperation with international organizations and diplomatic missions, but its law enforcement agencies continue to need increased resources, training, and equipment.

Conclusion

President Berdimuhamedov's regular public statements calling for greater international cooperation and increased efforts against illegal narcotics make clear the importance the Government of Turkmenistan places on its counternarcotics efforts. Law enforcement efforts targeting drug cultivation and drug trafficking receives high profile coverage in state-controlled media. Government of Turkmenistan statements at all levels indicate a desire for enhanced cooperation with international partners.

U.S. engagement with Turkmenistan's drug enforcement agencies remains important to promoting further reform efforts. U.S. assistance will continue to focus on supply reduction through various types of drug interdiction training, law enforcement institutional building, the promotion of regional cooperation, and the exchange of drug-related intelligence. The United States will also encourage the Government of Turkmenistan to intensify long-term demand reduction efforts and to continue its partnership with international organizations such as UN Office on Drugs and Crime and regional bodies such as the Central Asia Regional Information and Coordination Center (CARICC).

US State Dept Trafficking in Persons Report 2016 (introduction):

Turkmenistan is classified a Tier 3 country - is classified a Tier 3 country - a country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

Turkmenistan is a source country for men, women, and children subjected to forced labor and sex trafficking. Turkmen men and women are subjected to forced labor after migrating abroad for employment in the textile, agricultural, construction, and domestic service sectors. Turkmen women are also subjected to sex trafficking abroad. Residents of rural areas are the most at risk of becoming trafficking victims. Turkey and Russia are the most frequent destinations of Turkmen victims, followed by other countries in the Middle East, South and Central Asia, and Europe. Internal trafficking within the country is also a problem. Workers in the construction sector are vulnerable to forced labor. The ILO Committee of Experts' report "notes with deep concern the widespread use of forced labour in cotton production." To meet government-imposed quotas for the cotton harvest, local authorities require university students, private-sector institutions, soldiers, and public sector workers (including teachers, doctors, nurses, and others) to pick cotton without payment and under the threat of penalty. Government officials threatened public sector workers with dismissal, having work hours cut, or salary deductions. Authorities threatened farmers with loss of land if they did not meet government-imposed quotas. In addition, the government compulsorily mobilized teachers, doctors, and other civil servants for public works projects, such as planting trees.

The Government of Turkmenistan does not fully meet the minimum standards for the elimination of trafficking and did not demonstrate overall increasing efforts compared to the previous reporting period. Although Turkmenistan meets the criteria for Tier 2 Watch List, because it has been on Tier 2 Watch List for four years it is no longer eligible for that ranking and is therefore ranked Tier 3. During the reporting period, the government continued to mobilize forced labor and did not take action to end its use of forced labor in the cotton harvest during the reporting period. The government adopted a 2016-2018 national action plan on March 18, 2016, which was the top recommendation in the 2015 TIP Report. It identified 12 trafficking victims, prosecuted three cases of trafficking in persons, and convicted nine traffickers. The government did not fund international organizations or NGOs to provide victim services, although it approved foreign funding for these services through international organizations.

US State Dept Terrorism Report 2016

Overview: The Government of Turkmenistan continued its efforts to improve the capacity of law enforcement agencies to counter terrorism, ensure border security, and detect terrorist financing, by working with international organizations and participating in training in these areas. The government did not report any terrorist incidents, and authorities continued to maintain pervasive surveillance of the population.

Legislation, Law Enforcement, and Border Security: The country's legal system as it pertains to counterterrorism is based around the 2003 counterterrorism law that defines which crimes are considered terrorist in nature. This law is supplemented by articles 271-273 of the criminal code, which pertain to terrorist acts and terrorist financing and are used to prosecute terrorism-related offenses.

The State Border, Customs, and Migration Services and the Ministries of National Security, Internal Affairs, and Defense perform counterterrorism functions and share information through an interagency commission. The country's law enforcement units do not regularly conduct proactive investigations and have a poor record of accountability and respect for human rights. Prosecutors, however, play a significant role in the investigation phase of a case, and specialized law enforcement units exist to conduct investigations. These units possess specialized equipment but often use the equipment only for official ceremonies and demonstrations as opposed to daily operations. Turkmenistan participated in training programs sponsored by the U.S. government and international organizations, which included programs on responding to counterterrorism threats at large public events and proper use of baggage x-ray and passenger screening at aviation checkpoints.

The State Border Service continued to operate frontier garrisons on Turkmenistan's borders with Afghanistan and Iran, and managed eight radiation portal monitors along its borders donated by the Department of Energy through its Second Line of Defense program. The monitors helped to detect, deter, and prevent the dissemination of explosives and radioactive materials. The State Migration Service possesses biometric screening capabilities at ports of entry. The government has not recently allowed U.S. radiation experts to visit the border region, despite a signed memorandum of understanding to allow such periodic visits to recalibrate the equipment; instead, the government has said it will allow third-country nationals from the region to do this work.

There is significant political will in Turkmenistan to counter terrorism and ensure border security. Corruption, however, hampered effective law enforcement. Additionally, international cooperation with the government can be hampered by the government's insistence on an official policy of neutrality and by a bureaucracy that operates according to opaque rules, which frequently deem information traditionally made available to the public to be "state secrets."

Countering the Financing of Terrorism: Turkmenistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force-style regional body. The Financial Monitoring Department (FMD) of the Ministry of Finance, the country's financial intelligence unit, was created in 2010. In 2016, Turkmenistan expressed interest in gaining admission to the Egmont Group of Financial Intelligence Units.

While Turkmenistan criminalizes terrorist financing in accordance with international standards, there were no reported prosecutions of terrorist financing cases in 2016. The FMD monitors and regulates alternative remittance services, requires the collection of data for wire transfers, and monitors non-profit organizations to prevent misuse and terrorist financing.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	19
World Governance Indicator – Control of Corruption	4

Ranking among the most corrupt countries in the world, Turkmenistan suffers from widespread corruption in every institution and across every sector of its economy. Bribery is required to obtain any kind of service or to secure a procurement contract, and maintaining close connections with government officials is imperative to doing business. The country's public administration relies heavily on patronage networks. Large projects require a presidential decree, and procurement processes are generally carried out arbitrarily and with no oversight or regulation. The law "On Combatting Corruption" criminalizes a range of corruption offenses, and public officials are subject to a code of conduct. However, enforcement is very poor, and corruption investigations are usually politically motivated. The administration of current President Berdimuhamedow has maintained a tight grip on power, and regime critics resort to self-censorship. Thus, information on corruption in Turkmenistan is scarce. **Information provided by GAN Integrity.**

Corruption and Government Transparency - Report by US State Department

Although Turkmenistan has legislation to combat corruption, laws are not generally enforced, and corruption remains a problem. Formally, the Ministry of Internal Affairs, the Ministry of National Security, and the General Prosecutor's Office are responsible for combating corruption. President Berdimuhamedov has publicly stated that corruption will not be tolerated.

Turkmenistan joined the UN Convention against Corruption in March 2005. The opaque nature of Turkmenistan's economic, financial, and banking systems provides fertile soil for corruption. Transparency International ranked Turkmenistan 168 among 175 countries in the world in its Corruption Perceptions Index in 2013. American firms have identified widespread government corruption, usually in the form of rent seeking, as an obstacle to investment and business throughout all economic sectors and regions. It is most pervasive in the areas of government procurement, the awarding of licenses and customs. In March 2014, the parliament adopted a law on Combatting Corruption that establishes a legal and institutional framework to help identify cases of corruption. Given Turkmenistan's weak legal institutions, however, it is difficult to see how this law could be effectively enforced. Turkmenistan acceded to the UN Anticorruption Convention in March 2005, but it is not a party to the OECD convention on Combatting Bribery of Foreign Public Officials in International Business Transactions. There is no independent "watchdog" organization operating in the country that monitors corruption.

Section 3 - Economy

Turkmenistan is largely a desert country with intensive agriculture in irrigated oases and significant natural gas and oil resources. The two largest crops are cotton, most of which is produced for export, and wheat, which is domestically consumed. Although agriculture accounts for roughly 14% of GDP, it continues to employ nearly half of the country's workforce. Hydrocarbon exports (mainly natural gas) make up 31% of Turkmenistan's GDP, with 60% of gas exports going to China and the remainder to Russia and Iran. Ashgabat has explored two initiatives to bring gas to new markets: a trans-Caspian pipeline that would carry gas to Europe and the Turkmenistan-Afghanistan-Pakistan-India gas pipeline. Both face major financing and security hurdles and are unlikely to be completed soon.

Turkmenistan's autocratic governments under presidents NIYAZOW (1991-2006) and BERDIMUHAMEDOW (since 2007) have made little progress improving the business climate, privatizing state-owned industries, and combatting corruption, limiting economic development outside the energy sector. High energy prices in the mid-2000s allowed the government to undertake extensive development and social spending, including providing heavy utility subsidies.

Low energy prices since mid-2014 are hampering Turkmenistan's economic growth and reducing government revenues. The government has cut subsidies in several areas, and wage arrears have increased. In January 2014, the Central Bank of Turkmenistan devalued the manat by 19%, and downward pressure on the currency continues. Turkmenistan continues to report GDP growth of nearly 10% per year and claims substantial foreign currency reserves, but non-transparent data limit international institutions' ability to verify this information.

Agriculture - products:

cotton, grain, melons; livestock

Industries:

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

Exports - commodities:

gas, crude oil, petrochemicals, textiles, cotton fibre

Exports - partners:

China 68.6%, Turkey 4.9% (2015)

Imports - commodities:

machinery and equipment, chemicals, foodstuffs

Imports - partners:

Turkey 24.9%, Russia 12.3%, China 10.9%, UAE 9.1%, Kazakhstan 5.1%, Germany 4.6%, Iran 4.4% (2015)

Banking

Turkmenistan has a very small banking sector. There are eight state banks: State Bank for Foreign Economic Relations (Vneshekonombank), Dayhanbank, Turkmenbashy Bank, Turkmenistan Bank, Halk Bank, Senagat Bank, Garagum and President Bank. These state banks have narrow specializations -- foreign trade, agriculture, industry, social sector, savings and mortgages, respectively. There are two additional commercial banks -- one joint venture (Dayhan Bank with Ziraat Bank) Turkmen-Turkish bank, and a branch of the National Bank of Pakistan -- also operate in Turkmenistan. Deutsche Bank and Commerz Bank of Germany started operations in Turkmenistan limited to issuance of guarantee letters. All banks, including commercial banks, are controlled by the state. Commercial banks are prohibited from providing services to state enterprises.

Stock Exchange

There is no capital market in Turkmenistan, although the 1993 Law on Securities and Stock Exchanges outlines the main principles for issuing, selling and circulating securities. The Law on Corporations further provides for issuance of common and preferred stock, and bonds and convertible securities in Turkmenistan, but in the absence of a stock exchange or investment company, there is no market for securities. In the mid 1990's, the government turned some nearly bankrupt state-run enterprises into corporations. Foreign entities may theoretically purchase shares in these companies, but have shown no interest in so doing.

Section 4 - Investment Climate

Executive Summary

Turkmenistan is a relatively large country (slightly larger than the state of California), but sparsely inhabited (about 5 million), with abundant hydrocarbon resources, particularly natural gas. Turkmenistan's economy depends heavily on the production of natural gas, oil, petrochemicals and, to a lesser degree, cotton and textiles. Based on data provided by the Government of Turkmenistan, the country's 2014 Gross Domestic Product (GDP) was USD 43.5 billion. According to the World Bank, Turkmenistan's GDP amounted to USD 47.93 billion for the same period. The government has reported an implausibly high GDP growth of 6.7 percent in 2015.

In 2008, in an effort to improve investment conditions in the country, the government adopted legal reforms on foreign investment and licensing. Nevertheless, the lack of established rule of law, inconsistent regulatory practices, unconvertible currency, and unfamiliarity with international business norms are major disincentives to foreign investment. Corruption remains widespread in both public and private sectors in Turkmenistan, and the ability to develop and maintain good relationships with the government is essential for doing business in the country. The government strictly controls foreign exchange flows and the conversion of the local currency, the manat, is growing more problematic. Expropriation is not common in Turkmenistan. The government's dispute settlement clause in contracts generally allows for arbitration in a venue outside of Turkmenistan. While Turkmenistan has undertaken some initiatives to improve Intellectual Property Rights (IPR) protection, including the creation of the State Agency for Intellectual Property and the signing of some WIPO (World Intellectual Property Organization) conventions, it has not adopted comprehensive administrative and civil procedures to improve the enforcement of IPR.

Although Turkmenistan is incrementally amending its laws to meet international standards, the country's regulatory system is not implemented transparently, and the government has influence over courts' decision-making processes. The country's autocratic political system has been stable. Turkmenistan has not had much success in attracting FDI from American companies. Although slowly maturing and diversifying, the economy is still largely underdeveloped. Lower global oil prices have slowed the economy and put pressure on its currency. The government's introduction of severe limitations on currency conversion and a sudden pursuit of a policy of export promotion and import substitution impede foreign trade. In November 2015 the IMF projected an almost 29% decrease in foreign trade turnover from $34.5 billion in 2014 to $24.6 billion in 2015.

- Political stability is probably the most positive aspect while rampant corruption and lack of transparency are the most negative aspects of the country's investment climate.
- The Energy sector, construction, and petrochemicals are the sectors that have historically attracted the most investment in Turkmenistan.

Key issues to watch: developments in the financial sector, including the manat-dollar exchange rate and the severity of restrictions on currency conversion, and the degree to which the Government of Turkmenistan pays its debts to foreign and domestic companies.

Turkmenistan possesses the world's fourth largest natural gas reserves. Potential investors are attracted to Turkmenistan's energy, petrochemicals, textile and construction sectors. In 2012, President Berdimuhamedov announced that Turkmenistan would spend USD 41 billion on domestic construction projects in the coming years, and the government has announced that overall capital investment in the construction sector amounted to about USD 49 billion in total at the end of 2015. According to government data, 456 manufacturing and cultural facilities worth about USD 10 billion were commissioned in 2014.

In September 2015, the government announced that 428 facilities worth $9.7 billion will be commissioned in 2016. These projects include new international airports in Ashgabat and Turkmenabat, railway and motorway bridges over the Amu Darya river in Lebap province, a new international railway from Atamyrat (Turkmenistan) to Andhoi (Afghanistan), the Olympic complex in Ashgabat, hotels in Avaza, four major medical centers in Ashgabat, gas turbine power stations, five major villages, and other facilities. President Berdimuhamedov said the government plans to invest about USD 18 billion in construction of over 228 facilities, including the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project, a gas chemical complex for the production of 467 thousand tons of polyethylene and polypropylene, a gas-to-liquid plant with a capacity of 600 thousand tons of gasoline per year, airports in the city of Atamyrat in Lebap province and the city of Garabogaz in Balkan province, and a cement production plant with a capacity of one million tons per year.

While the government has expressed interest in establishing a securities market and even adopted a Law on Securities in November 2014, Turkmenistan is still in the process of developing the necessary legislative and regulatory framework required for the formation of such a market.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	154 of 167	http://www.transparency.org/cpi2015#results-table
World Bank's Doing Business Report "Ease of Doing Business"	2015	not ranked	doingbusiness.org/rankings
Global Innovation Index	2015	not ranked	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2014	-$15mln	http://www.bea.gov/international/factsheet/factsheet.cfm
World Bank GNI per capita	2014	8,020	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Turkmenistan regularly announces its desire to attract more foreign investment, but tight state control of the economy, the slow pace of economic reform, and a restrictive visa regime have created a difficult foreign investment climate. In January 2013, Turkmenistan created the Agency for Protection from Economic Risks to oversee international investments in Turkmenistan. The Agency is responsible for a comprehensive review of foreign companies wishing to enter Turkmenistan's market that includes assessment of the financial and political risks associated with allowing the company to do business in Turkmenistan. Given the arbitrary nature of this assessment, the agency further increases the already arduous bureaucratic procedures.

Historically, the most promising areas for investment are in the oil and gas, agricultural, and construction sectors. The government seeks foreign technology and investment in order to diversify its economy through the development of domestic chemical and petrochemical industry facilities. As a result of President Gurbanguly Berdimuhamedov's policy to provide Internet access to every home, school and kindergarten, the visibility of Turkmenistan's communication sector has also grown. Decisions to allow foreign investment are politically driven; companies from "friendly" countries are generally more successful in winning tenders and signing contracts.

According to government sources, the volume of capital investment amounted to more than 53 billion manat (USD 15.1 billion) in 2015. There is no publicly available information on how much of this amount is foreign direct investment.

In 2012, the government announced that it would invest USD 80.6 billion to construct 450 industrial and social facilities throughout the country by 2020. The capital investment in Turkmenistan reached TMT 51.8 billion (USD 18.2 billion) in 2013 and TMT 54.98 billion (USD 19.3 billion) in 2014. In 2014, according to the State Statistics Committee, 23 percent of capital investment into state enterprises went to support industry development including the energy (4.5 percent), petrochemical (14.5 percent), construction (1 percent) and light industry (1 percent) sectors. According to the national program for the transformation of the rural areas of Turkmenistan, 4.9 billion manat (USD 1.4 billion) was invested in Turkmenistan's five provinces, including 1,133 million in Ahal, 1,142 million in Balkan, 814 million in Dashoguz, 964 million in Lebap and 850 million manat in Mary.

Despite having the fourth largest natural gas reserves, Turkmenistan ranks only tenth in natural gas production in the world as of the end of 2014. Key industries are state-owned. According to a 2011 EBRD estimate, the private-sector share of GDP in 2010 was 25 percent, mostly in retail trade, services, and food processing. The State Statistics committee reported that the private sector contributed 63 percent of GDP in 2014. The government later reported that the private sector share of GDP (excluding the fuel and energy sector) reached 65.1 percent end of June 2015. The government numbers, however, are misleading since they exclude the hydrocarbon sector, which is the single largest component of GDP. While the government has stated that it seeks to increase the private sector's participation in the economy to 70 percent by 2020, there are no independent estimates available for the period 2011-15. The top economic priorities for the government remain achieving self-sufficiency in food supplies and an increase in domestic production. Recent emphasis has been placed on transforming Turkmenistan from a commodity producer to a value-added manufacturer. The government has been most receptive to foreign investment in the petrochemical, textile and communication sectors.

In May 2010, the government adopted its National Program for the Socio-Economic Development of Turkmenistan (2011-2030). The program envisages the diversification of the economy and recognizes the importance of market and institutional reform. The program also includes the privatization of small and medium enterprises (SMEs). In October 2006, Turkmenistan adopted an Oil and Gas Development Plan (2007-2030). Despite these initiatives, however, Turkmenistan's investment climate remains generally closed.

The government selectively chooses its investment partners, making a strong relationship with a government official often essential for commercial success. Officials may seek rents for permitting or assisting foreign investors to enter the local market. Some foreign investors have found success working through foreign business representatives who are able to leverage their personal relationships with senior leaders to advance their business interests.

Turkmenistan has accepted financing from international financial institutions (IFIs) since its independence in 1991. In 2009, the government reportedly accepted a USD 4 billion loan from the Chinese Development Bank (CDB) to develop Galkynysh, the world's second largest natural gas field, as well as several significantly smaller loans from the Chinese Export-Import Bank for transportation- and communication-related projects. In 2011, Turkmenistan secured a second USD 4.1 billion loan from CDB to further develop the Galkynysh field. The government also accepted a USD 1 billion dollar loan from the Islamic Development Bank in 2010 to fund infrastructure projects. In 2011, the Asian Development Bank (ADB) provided a USD 125 million loan to the government to finance the procurement and installation of power and signaling equipment to a 311-kilometer section of the Kazakhstan–Turkmenistan–Iran railway. Reportedly, in the last few years, Turkmenistan approached a number of international financial organizations and foreign governments in an attempt to secure additional loans to fund large-scale government projects. In November 2013, the Asian Development Bank was appointed a transaction advisor for the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project and will work closely with the TAPI countries to attract foreign investment for the project. TurkmenGas was selected to lead the TAPI consortium in August 2015.

Other Investment Policy Reviews

The Government of Turkmenistan has not undergone an investment policy review by the Organization for Economic Cooperation and Development (OECD) or World Trade Organization (WTO). While Turkmenistan has expressed interest in exploring the WTO accession process and created an intergovernmental commission in January 2013 to review the benefits of accession, the country has not yet formally applied to join the organization.

The United Nations Conference on Trade and Development's (UNCTAD) World Investment Report (WIR) for 2012 ranked Turkmenistan among the top ten countries in the world in its foreign direct investment (FDI) attraction index. According to the report, the volume of foreign direct investments in Turkmenistan accounted for 15.6 percent of the country's GDP. The ranking is largely attributable to the USD 8.1 billion in soft loans Turkmenistan received from the Chinese Development Bank. UNCTAD has not evaluated the country's legal, regulatory and institutional framework for foreign direct investment. UNCTAD's WIR 2014 reported that FDI in Turkmenistan amounted to USD 3.076 billion in 2013, and the accumulated amount of investment as of 2013 amounted to 56.7 percent of the country's GDP. According to the WIR 2015 report, FDI inflows into Turkmenistan increased by about 2.8 percent and amounted to USD 3.164 billion in 2014 (with the accumulated amount of FDI at 54.7 percent of GDP). The WIR 2015 report stated that Turkmenistan was not among the top 20 host economies in terms of FDI inflows in 2013-14.

Laws/Regulations on Foreign Direct Investment

Incoming foreign investment is regulated by the Law on Foreign Investment (last amended in 2008), the Law on Investments (last amended in 1993), and the Law on Joint Stock Societies (1999), which pertains to start-up corporations, acquisitions, mergers and takeovers. Foreign investment activities are affected by bilateral or multilateral investment treaties, the Law on Enterprises (2000), the Law on Business Activities (last amended in 2008), and the Land Code (2004). Foreign investment in the energy sector is subject to the 2008 Petroleum Law (also known as the Law on Hydrocarbon Resources, which was amended in 2011 and 2012). The Tax Code provides the legal framework for the taxation of foreign investment. The Civil Code (2000) defines what constitutes a legal entity in Turkmenistan. The Organization for Security and Co-operation in Europe (OSCE) Center in Ashgabat maintains a database of Turkmenistan's laws, presidential decrees and resolutions at http://www.turkmenlegaldatabase.info. Since 2014 this information is also available on the Ministry of Justice of Turkmenistan's website at http://minjust.gov.tm/ru.

The Government of Turkmenistan has taken a number of steps to promote economic reform, including a law to combat money laundering and terrorism financing and a presidential decree that mandates the use of International Financial Reporting Standards (IFRS). In January 2010, Turkmenistan established a Financial Intelligence Unit under the Ministry of Finance to strengthen its anti-money laundering (AML) efforts and its ability to combat the financing of terrorism (CFT). In October 2012, President Berdimuhamedov announced that Turkmenistan would join the Egmont Group, an international organization specializing in the exchange of best practices on AML/CFT. Turkmenistan's membership, he said, would demonstrate to the international community its commitment to combating money laundering and terrorism financing. Turkmenistan has not yet, however, joined the Egmont Group.

On January 1, 2012, Turkmenistan's banks switched to International Financial Reporting Standards (IFRS). Government agencies transitioned to National Financial Reporting Standards (NFRS) in January 2014. Despite these positive steps, however, Turkmenistan remains one of the most closed economies in the region.

Most foreign investment is governed by project-specific presidential decrees, which can grant privileges not provided by legislation. Legally, there are no limits on the foreign ownership of companies. In practice, however, the government has allowed fully-owned foreign operations only in the oil sector and, in one case, in cellular communications. (Note: This cellular company reportedly filed an international arbitration case against Turkmenistan when its license was suspended by the government in December 2010. After months of negotiations, the company re-entered the Turkmenistan market in September 2012. Since re-entry, however, the company has struggled to regain the market share it lost to a Turkmen state monopoly in the intervening period. End Note.)

Business Registration

Turkmenistan does not have a business registration website that could be used by domestic or foreign companies. Depending on the type of business activity a foreign company seeks in Turkmenistan, registration with Turkmenistan's Main State Tax Service, the Local Statistics Office, the Agency for Protection from Economic Risks, the Registration Department under the Ministry of Economy and Development, and the State Commodity and Raw Materials Exchange of Turkmenistan could all be required. Business registration usually takes about six months and often depends on personal connections in various government offices.

Development and implementation of public policies to attract foreign investment, investment coordination, and assistance to foreign investors are carried out by the Cabinet of Ministers of Turkmenistan and its authorized state body. The Agency for Protection from Economic Risks under the Ministry of Economy and Development makes a decision on providing any investment-related services to potential foreign investors based on criteria such as the financial status of the investor.

Turkmenistan's Law on State Support to Small and Medium Enterprises (adopted in August 2009) defines small and medium enterprises as follows: small enterprises are those with an average staff number of up to 50 people employed in industry, power generation, construction, gas and water supply and up to 25 people in other sectors; medium enterprises are those with an average staff number of up to 200 people employed in industry, power generation, construction, gas and water supply and up to 100 people in other sectors. However, the benefits of the Law on State Support to Small and Medium Enterprises do not apply to: 1) state-owned enterprises; 2) enterprises with foreign investment carrying out banking or insurance activities; and 3) activities related to gambling and gaming for money.

Industrial Promotion

In 2007, Turkmenistan created the Awaza Tourist Zone (ATZ) to promote tourism and the development of its Caspian Sea coast. It granted some tax incentives to those willing to invest in the construction of hotels and recreational facilities. Amendments to the Tax Code in October 2007 exempted construction and tourist facilities in the ATZ from Value Added Tax (VAT). Services offered at tourist facilities, including catering and room accommodations, are also exempt from VAT until 2020. In general, tax and investment incentives for the ATZ can be negotiated on a case-by-case basis. Turkmenistan has also adopted multiple year national development programs in various sectors of economy, which might include separate sub-sections on attracting investment in these sectors. However, information on these programs is not publicly available.

Limits on Foreign Control and Right to Private Ownership and Establishment

There are no legal limits on the foreign ownership or control of companies. In practice, the government has only allowed fully-owned foreign operations in the oil sector and, in one case, in cellular communications. Foreigners may establish and own businesses and also engage in business activities within the boundaries of domestic laws, but repatriation of revenues is very challenging as currency conversion remains a major issue in the country. The nature of government-awarded contracts may vary in terms of the requirements for ownership of local enterprises. All contractors operating in Turkmenistan for a period of at least 183 days a year must register at the Main State Tax Service. National accounting and international financial reporting standards apply to foreign investors. In the energy sector, Turkmenistan precludes foreign investors from investing in the exploration and production of its onshore gas resources. All land in Turkmenistan is government-owned. As of May 2015, the State Migration Service of Turkmenistan requires that citizens of Turkmenistan make up eighty percent of the workforce of a company owned by a foreign investor.

Moreover, there are several ways for the government to discriminate against investors, including excessive tax examinations, license extension denial, and customs clearance and visa issuance obstacles. In most cases, the government has insisted on maintaining a majority interest in any joint venture (JV). A Western soft drink company opened a factory in Turkmenistan in the mid-1990s through a JV with the government. Foreign investors have been reluctant to enter JVs controlled by the government, because of competing business cultures and conflicting management styles. Although there is no specific legislation requiring foreign investors to receive government approval to divest, in practice they are expected to coordinate such actions with the government. The court system is subject to government interference.

Private entities in Turkmenistan have the right to establish and own business enterprises. The 2000 Law on Enterprises defines the legal forms of state and private businesses (state enterprises, sole proprietorships, cooperatives, partnerships, corporations and enterprises of non-government organizations). The law allows foreign companies to establish subsidiaries, though the government does not currently register subsidiaries. The Civil Code of Turkmenistan and the Law on Enterprises govern the operation of representative and branch offices in Turkmenistan. Enterprises must be registered with the Registration Department of the Ministry of Economy. The 2008 Law on the Licensing of Certain Types of Activities (last amended in November 2015) lists 44 activities that require government licenses. The Law on Enterprises and the Law on Joint Stock Societies allow acquisitions and mergers. Turkmenistan's legislation is not clear, however, about acquisitions and mergers involving foreign parties, nor does it have specific provisions for the disposition of interests in business enterprises, both solely domestic and those with foreign participation. Governmental approval is necessary for acquisitions and mergers of enterprises with state shares.

Privatization Program

Efforts to privatize former state enterprises have attracted little foreign investment. Privatization has been limited by the government to the service, trade, and agricultural sectors; most industry remains under state control. Outdated technology, poor infrastructure, and bureaucratic obstacles make privatized enterprises unattractive for foreign investors.

In November 2012, Turkmenistan adopted a national program related to the privatization of state-owned enterprises and facilities. The document identifies the main goals and procedures for privatizing state property. The program is scheduled to be implemented in three phases: in 2013 (privatization of small enterprises), during the period 2014-2015 (privatization of mid-size enterprises), and 2016 (privatization of large enterprises). The privatization of state enterprises in the sectors of construction, transportation, communications, and the creation of joint stock companies are part of the program. The privatization is ongoing and the government has already reorganized a number of state enterprises and created closed joint stock companies in the telecommunication, maritime trade, insurance, and air transportation sectors. Strategic facilities, as identified by the government, are not subject to privatization, including those related to natural resources. Other property not subject to privatization includes objects of cultural importance, the property of the Armed and Security Forces, government institutions, research institutes, the facilities of the Academy of Sciences, the integrated energy system, and the public transportation system.

The rules and procedures governing privatization in Turkmenistan lack transparency, leading to corruption. Foreign investors are allowed to participate in the bidding process only after they have been approved by the State Agency for Protection from Economic Risks under the Ministry of Economy and Development. In December 2013, the parliament passed the Law on the Denationalization and Privatization of State Property, which took effect in July 2014. Notwithstanding, many enterprises are being sold through closed processes. The Ministry of Economy and Development reported that 36 facilities and were privatized in 2015 under the

State Program for Privatization of Enterprises and Objects of State Property in Turkmenistan for 2013-2016.

Despite official comments regarding the priority of the growth of the private sector, supporting privatization has been low on the government’s agenda. All land is government-owned, for example, and neither domestic nor foreign businesses can receive long-term land-use rights for “non-agricultural” purposes. While private citizens have some land usage rights, these rights exclude the sale or mortgage of land. Land rights can be transferred only through inheritance. Foreign companies or individuals are permitted to lease land for non-agricultural purposes, but only the president has the authority to grant the lease.

The government has attempted to introduce an element of competition for state contracts by announcing international tenders for some projects. Often these projects are driven by political rather than economic considerations. The tender process, however, is often badly managed and nontransparent. On December 20, 2014, Turkmenistan adopted the Law on Tenders that went into effect on July 1, 2015. The law seeks to develop competition among bidders, ensure transparency and effective implementation of tender procedures, and compliance with international standards.

Screening of FDI

The government seeks to attract FDI to Turkmenistan and tends to support companies wishing to invest in the country. Consequently, foreign companies with approved government contracts generally do not face problems or significant delays when registering their operations in Turkmenistan. Under Turkmenistan’s law, all local and foreign entities operating in Turkmenistan are required to register with the Registration Department under the Ministry of Economy. Before the registration is granted, however, an inter-ministerial commission that includes the Ministry of Foreign Affairs, the Agency for Protection from Economic Risks, law enforcement agencies, and industry-specific ministries has to approve it.

Foreign companies without approved government contracts that seek to establish a legal entity in Turkmenistan must go through a lengthy and cumbersome registration process involving the inter-ministerial commission mentioned above. The commission evaluates foreign companies based on their financial standing, work experience, reputation, and perceived political and legal risks.

In order to participate in a government tender, the companies are not required to be registered in Turkmenistan. However, a company interested in participating in a tender process must submit all the tender documents to the respective ministry or agency in person. Many foreign companies with no presence in Turkmenistan provide a limited power of attorney to local representatives who then submit tender documents on their behalf. A list of required documents for screening is usually provided by the state agency announcing the tender.

Before the contract can be signed, the State Commodity and Raw Materials Exchange, the Central Bank, the Supreme Control Chamber, and the Cabinet of Ministers must approve the agreement. The approval process is not transparent and is often politically driven. There is no legal guarantee that the information provided by companies to the Government of Turkmenistan will be kept confidential.

Competition Law

While Turkmenistan does not have a specific law that governs competition, Article 17 (Development of Competition and Antimonopoly Activities) of the Law on State Support to Small and Medium Enterprises seeks to promote fair competition in the country.

2. Conversion and Transfer Policies

Foreign Exchange

The government tightly controls the country's foreign-exchange flows. On January 1, 2009, Turkmenistan introduced the redenominated manat (Denominated Turkmen Manat, or DTM), which had a fixed exchange rate of 2.85 manat per USD 1 until January 1, 2015, when Turkmenistan devalued its currency against the U.S. dollar to TMT3.50 per USD. In October 2011, Turkmenistan adopted the Law on Hard Currency Control and the Regulation of Foreign Economic Relations as a step towards bringing the national legislation into compliance with international standards. The Central Bank controls the fixed rate by releasing U.S. dollars into the official exchange markets. Foreign exchange regulations adopted in June 2008 allow the Central Bank to provide banks with ready access to foreign exchange. These regulations also allowed commercial banks to open correspondent accounts.

In the last two years, the government has been unable to keep up with the growing demand for U.S. dollars. It limited the amount of U.S. dollars that can be withdrawn per month to USD 1,000 and imposed administrative procedures that make withdrawals more cumbersome (i.e., proof of residency is now required.) On January 12, 2016, the Central Bank of Turkmenistan further restricted access to foreign currency and issued a press release preventing banks from selling U.S. dollars at the country's exchange points. In addition, when an individual purchases foreign currency through a wire transfer (limited to USD1, 000 or its equivalent per month), the currency must be deposited onto the individual's international debit card (Visa or Mastercard). The individual does not receive cash. Moreover, the TMT used to purchase the foreign currency must be transferred through the individual's TMT account. If the individual wishes to pay cash, s/he must prove the origins of the cash came with an official document. The government also introduced an amendment to the Administrative Offences Code that raises the fines for illegal foreign exchange transactions (i.e. selling and purchasing foreign currency via informal channels) and also trading in foreign currency on the territory of Turkmenistan. The currency is not fully convertible, and holdings of excess manat (TMT) are problematic for many companies operating in Turkmenistan. Oil producers operating under the Petroleum Law (2008) receive a share of their profit in crude oil, which they ship to other Caspian Sea littoral states. In many cases, petrochemical investors have negotiated deals with the government to recoup their investment in the form of future petroleum products.

Turkmenistan imports the vast majority of its industrial equipment and consumer goods. The government's foreign-exchange reserves and foreign loans pay for industrial equipment and infrastructure projects. Converting the local currency and repatriating funds have become near impossible for foreign companies and their local distributors operating in Turkmenistan. Due to continuing concerns about foreign exchange, Turkmenistan is taking some steps toward trading in the national currencies of select countries. In January 2012, for example, during a meeting of the Turkish-Turkmen joint inter-governmental economic committee, Turkey's Economic Minister announced that Turkey and Turkmenistan would begin to trade in their national currencies once the central banks of their respective countries instituted the necessary regulations. But no developments on this have been reported by the government since. At the Commonwealth of Independent States Heads of States Summit in December 2012, President Berdimuhamedov signed an agreement to develop an integrated CIS currency market as well as an agreement to create a coordination council for the heads of member states' financial intelligence services.

Remittance Policies

Foreign investors generating revenue in foreign currency do not generally have problems repatriating their profits. Some foreign companies receiving income in Turkmen manat seek indirect ways to convert local currency to hard currency through the local purchase of petroleum and textile products for resale on the world market. Since the government of Turkmenistan introduced numerous limitations on foreign currency exchange on January 12, 2016, converting local currency into a foreign currency has become nearly impossible. Some foreign companies have complained of non-payment or major delays in payment by the government. In June 2010, Turkmenistan became a full member of the Eurasian Group (EAG), a regional AML/CFT organization part of the Financial Action Task Force (FATF).

3. Expropriation and Compensation

Turkmenistan's legislation does not provide for private ownership of land. Article 21 of the Investment Law (amended in 1993) allows investors' property to be confiscated via an official court decision. Although there have been no reported expropriation actions against foreign investors in 2015, the government has a history of arbitrarily expropriating the property of local businesses and individuals. Under former President Niyazov, the government frequently refused to recompense those affected when the government exercised its right of eminent domain. However, during a March 2007 Cabinet of Ministers meeting, President Berdimuhamedov stated that residents of affected apartments or houses would be provided alternative housing before their homes were demolished. Despite these assurances, many families who were evicted from their homes when the government demolished their houses in preparations for the 2017 Asian Indoor and Martial Arts Games are forced to stay with relatives and friends because of the shortage of apartments in Ashgabat. Given the dearth of apartments in Ashgabat, the price of real estate had increased drastically over the last several years before it dropped significantly at the end of 2015.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Turkmenistan is a civil law country in terms of the nature of the legal system. Most contracts negotiated with the government have an arbitration clause. The Embassy strongly advises U.S. companies to include an arbitration clause identifying a venue outside Turkmenistan. There have been commercial disputes involving U.S. and other foreign investors or contractors in Turkmenistan, though not all disputes were filed with arbitration courts. Investment and commercial disputes involving Turkmenistan have three common themes: nonpayment of debts, non-delivery of goods or services, and contract renegotiations. The government may claim the provider did not meet the terms of a contract as justification for nonpayment. Several disputes have centered on the government's unwillingness to pay in hard currency as contractually required. In cases where government entities have not delivered goods or services, the government has often ignored demands for delivery. Finally, a change in leadership in the government agency that signed the original contract routinely triggers the government's desire to re-evaluate the entire contract, including profit distribution, management responsibilities and payment schedules. The judicial branch is independent of the executive on paper only and is largely influenced the executive branch.

On February 28, 2015, President Berdimuhamedov signed an updated law entitled "On the Chamber of Commerce and Industry of Turkmenistan" (first adopted in 1993). The new law redefined the legal and economic framework for the activities of the Chamber, defined the state support measures, and created a new body for international commercial arbitration under the Chamber's structures. International commercial arbitration can consider disputes arising from contractual and other civil-legal relations in foreign trade and other forms of international economic relations, if at least one of the parties to the dispute is located outside of Turkmenistan. The enforcement of the decisions of commercial arbitration outside of Turkmenistan may be denied in Turkmenistan under certain conditions listed under article 47 of the law of Turkmenistan on commercial arbitration that was adopted in 2014 and came into force in 2016. International commercial arbitration is governed by the Law of Turkmenistan "On International Commercial Arbitration" and other domestic laws. According to the commercial arbitration law, the parties in dispute can appeal the decision of the arbitration only to the Supreme Court of Turkmenistan and not anywhere abroad. The judgments of foreign courts might or might not be recognized by the government of Turkmenistan depending on a case by case review.

- According to the 2008 Law on Foreign Investment, all foreign and domestic companies and foreign investments must be registered at the Ministry of Economy.
- The Petroleum Law of 2008 (last amended in 2012) regulates offshore and onshore petroleum operations in Turkmenistan, including petroleum licensing, taxation, accounting and other rights and obligations of state agencies and foreign partners. The Petroleum Law supersedes all other legislation pertaining to petroleum activities, including the Tax Code.
- According to the Land Code (2004), foreign companies or individuals are permitted to lease land for non-agricultural purposes, but only the president has the authority to grant the lease. Foreign companies may own structures and buildings.
- Turkmenistan adopted a Bankruptcy Law in 1993. Other laws affecting foreign investors include the Law on Investments (last amended in 1993), the Law on Joint Stock Societies (1999), the Law on Enterprises (2000), the Law on Business Activities (last amended in 1993), the Civil Code enforced since 2000, and the 1993 Law on Property.

Turkmenistan requires that all export and import contracts and investment projects be registered at the State Commodity and Raw Materials Exchange (SCRME) and at the Ministry of Economy. The procedure applies not only to the contracts signed at the SCRME, but also to contracts signed between third parties. The SCRME is state-owned and is the only exchange in the country. The contract registration procedure includes an assessment of "price justification." All import contracts must be registered before goods are delivered to Turkmenistan. The government generally favors long-term investment projects that do not require regular hard currency purchases of raw materials from foreign markets. Textile factories operated by Turkish companies using domestic resources and labor serve as model investment projects supported by the government. These companies encounter relatively few currency conversion problems and enjoy tax incentives. Otherwise, there are no requirements for local sourcing or exporting output.

Bankruptcy

Turkmenistan adopted a Bankruptcy Law (1993), which protects certain rights of creditors, such as the satisfaction of creditors' claims in case of the debtor's inability or unwillingness to make payments. The law allows for criminal liability for intentional actions resulting in bankruptcy. The law does not specify the currency in which the monetary judgments are made. Turkmenistan's economy is not ranked by the World Bank's Doing Business Report, including its ranking for ease of "resolving insolvency."

Investment Disputes

There are several examples of Western companies being unable to enforce court decisions in investment disputes. In some instances, the Government of Turkmenistan bluntly refuses to pay awards to the companies despite a court decision that requires it to do so. In others, the government disputes the amount owed, which has made any collection efforts by the companies futile.

Although Turkmenistan has adopted a number of laws designed to regulate foreign investment, the laws have not been consistently or effectively implemented. The Law on Foreign Investment, as amended in 2008, is the primary legal instrument defining the principles of investment. The law also provides for the protection of foreign investors. A foreign investor is defined in the law as an entity owning a minimum of 20 percent of a company's assets. The following is an ad hoc list of legislation regarding foreign investments:

There is no specific number on how many investment disputes have involved a U.S. person or other foreign investors over the course of the past ten years.

Generally, arbitration disputes associated with FDI are handled in Turkmenistan, although the government is willing to codify the right to international arbitration in contracts with foreign companies.

International Arbitration

The Government of Turkmenistan prefers that international companies use its arbitration mechanism but has in the past accepted the international arbitration of investment disputes.

The commercial law enforcement system includes the Arbitration Court of Turkmenistan which tries 13 categories of disputes, both pre-contractual and post-contractual, including taxation, legal foundations, and bankruptcy issues. The court does not interfere in an enterprise's economic relations, but reviews disputes upon the request of either party involved. Appeals to decisions of the Arbitration Court can be filed at the Arbitration Committee of the Supreme Court of Turkmenistan.

ICSID Convention and New York Convention

Turkmenistan is a Party to the 1992 Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID), but it has not ratified the 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). The commercial law enforcement system includes the Arbitration Court of Turkmenistan which tries 13 categories of disputes, both pre-contractual and post-contractual, including taxation, legal foundations, and bankruptcy issues. The court does not interfere in an enterprise's economic relations, but reviews disputes upon the request of either party involved. Appeals to decisions of the Arbitration Court can be filed at the Arbitration Committee of the Supreme Court of Turkmenistan. Turkmenistan does not have a Bilateral Investment Treaty (BIT) or Free Trade Agreement (FTA) with an investment chapter with the United States. There are no alternative dispute resolution mechanisms in place as a means for settling disputes between two private parties.

Duration of Dispute Resolution – Local Courts

The Duration of the resolution process depends on the complexity of the dispute. The proceedings of an investment/commercial dispute may last several years with no guarantee that the dispute will ever be resolved.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Turkmenistan is not a member of the World Trade Organization (WTO) and therefore is not a signatory to the Agreement on Trade-Related Investment Measures (TRIMs). While the president indicated an interest in 2013 in exploring the accession process and the government created an interagency committee to review the benefits of WTO accession, Turkmenistan has yet to apply for membership. Turkmenistan has enacted a number of laws that mirror WTO standards, including those related to investment, banking, intellectual property rights, customs, and privatization. These standards are not uniformly enforced.

Investment Incentives

According to the Law on Foreign Investments, foreign investors, especially those operating in the free economic zones, may enjoy some incentives and privileges including license and tax exemptions, reduced registration and certification fees, land leasing rights, and extended visa validity. However, the law is haphazardly implemented and enforced.

Foreign investors are more disadvantaged because they face higher tax rates than most local companies. Amendments to the 2005 Tax Code did not affect tax rates. The value added tax rate (VAT) is 15 percent, an income tax of 8 percent is applied to JVs, and an income tax of 20 percent is applied to wholly-owned foreign companies and state-owned enterprises. Dividends are taxed at 15 percent. The personal income tax rate is 10 percent.

The president has issued special decrees granting exemptions from taxation and other privileges to specific investors while they recoup their initial investment. The assets and property of foreign investors should be insured with the State Insurance Company of Turkmenistan pursuant to Article 53 of the 2008 Petroleum Law and Article 3 of the 1995 Insurance Law. National accounting and financial reporting requirements apply to foreign investors. All contractors operating in Turkmenistan for a period of at least 183 days a year must register at the Main State Tax Service. Eighty percent of the workforce of a company owned by a foreign investor must comprise citizens of Turkmenistan, though the government has made exceptions for foreign construction and energy companies executing large-scale turnkey projects.

Petroleum Production Sharing Agreement (PSA) holders are regulated by the 2008 Petroleum Law. They are subject to a 20 percent income tax and royalties up to 15 percent, depending on the level of production. The social welfare tax, which is 20 percent of the total local staff payroll, is paid by all foreign investors and their subcontractors. PSA holders’ employees and their subcontractors pay a personal income tax of 10 percent. Under the Petroleum Law, PSA concessions have been made to eight foreign energy companies: five offshore and three onshore concessions for periods ranging from 20-25 years. Subcontractors of PSA holders can bring their equipment into the country only for the duration of a valid contract. There is no specific legislation that regulates the operations of oil and gas subcontractors. Turkmenistan currently lists 49 import and 20 export goods and materials that are subject to customs duties. Goods and materials not on these lists are subject to a 0.2 percent customs fee payment and a charge of USD 1.76 for every hour a Customs official spends inspecting the imported goods. The Customs Service maintains a list of goods subject to customs duty payment. State enterprises often receive preferential treatment; for example, wool carpets produced at state factories are exempt from customs duties. In contrast, private carpet producers pay USD 20 per square meter in customs duties to export a carpet. Foreign investors are required to adhere to the sanitary and environmental standards of Turkmenistan and should produce products of equal or higher quality than prescribed in national standards. Since Turkmenistan is not a member of WTO, the Embassy is not aware of any measures that U.S. businesses allege are inconsistent with WTO TRIMs obligations.

Research and Development

Foreign companies are not invited to participate in the research and development projects funded solely by the Government of Turkmenistan. However, the government will allow foreign companies to finance joint research and development projects and collaborate on them with government agencies.

Performance Requirements

Eighty percent of the workforce of foreign-owned enterprises must be citizens of Turkmenistan. The regulation on this ratio does not differentiate between senior management and other employees. The State Migration Service controls access to the country and monitors the movement of foreign citizens. All visitors staying for more than three business days are required to register with the Migration Service upon entry. Visa-related decisions are not transparent and cannot be appealed. Travel to most border areas requires a special permit. Representatives of foreign businesses seeking to enter Turkmenistan for the first time often have difficulty obtaining an entry visa unless invited by a government agency or by a local business partner. Established investors frequently complain about bureaucratic delays in securing visas to return to the country. The Government of Turkmenistan does not follow forced localization policies and does not officially require foreign investors to use domestic content in goods and technology. A few foreign companies working in the construction sector on government contracts reported that the government required them to use locally produced cement for their projects. However, this seems to be more of an exception than a rule.

Data Storage

The government does not require foreign IT providers to turn over source code or encryption keys. We are not aware of any rules that require foreign companies to maintain a certain amount of data storage in Turkmenistan.

6. Protection of Property Rights

Real Property

All land is owned by the government. The 1993 Law on Property defines the following types of property owners: private, state, non-government organizations, cooperative, joint venture, foreign states, legal entities and citizens, international organizations and mixed private and state. A small number of dwellings have been privatized, allowing Turkmenistan's citizens to rent and sell apartments and houses. The Law on Privatization of State Housing came into force in January 2014 but thus far its provisions, which would allow the public to privatize state-owned residential housing, have not been implemented. Turkmenistan adopted a new Land Code in 2004, which addressed the land rights of farmers. According to the new Land Code, citizens have the rights to use three hectares of land, but they cannot sell, exchange, or transfer it, except to their children. By law, foreign citizens and stateless persons, foreign states, and companies and international organizations may only lease land. The October 2007 amendments to the Land Code provide for up to 40-year land leases for hotels and recreational facilities in National Tourist Zones. Land and facilities subsequently built on the parcel must be transferred to the state after the expiration of the contract. According to the Law on Foreign Investment, foreign investments in Turkmenistan are not subject to nationalization and requisition; foreign properties may be confiscated only following a court decision.

Banks provide preferential mortgage loans (annual interest rate of 1% for up to 30 years with five years grace period) for buying new apartments. Only government employees qualify for such concessional loans. In addition, the state agencies/employers can also pay 50% of the price of the new apartment for their employees, if their financial positions are strong enough to do so. Before mid-2015, the banks also provided mortgage loans (with an annual interest rate of 7-8% for up to 10 years) for housing in locations other than so-called "elite" apartments. Liens are not common in Turkmenistan, in part because the 30 year mortgage payment dates have not expired for most of the apartments bought since the country's independence in 1991.

Intellectual Property Rights

The government has enacted laws designed to protect intellectual property rights (IPR) domestically, but these laws are either arbitrarily implemented or not implemented at all. Among them are the Law on Publishing (2014), Law on State Policy on Research and Technology (2014), Law on Inventions and Industrial Samples (2008), Law on the Protection of Scientific Research (1993), the Patent Law (1993), the Law on Inventions and Industrial Designs (2008), and the Law on Trade and Service Marks and Places of Origin (2008). These regulations provide legal protection to intellectual property registered with the Patent Agency, which was established in 1993. However, due to significant deficiencies in Turkmenistan's intellectual property protection regime, there is an ongoing review of Turkmenistan's status as a beneficiary country under the U.S. Generalized System of Preferences (GSP) program. Turkmenistan has been on the United States government's Special 301 Watch List since 2000.

The Law on Foreign Investment guarantees the protection of intellectual property of foreign investors, including literary, artistic and scientific works, software, databases, patents and other copyrighted items. Turkmenistan has not yet adopted more explicit and comprehensive administrative and civil procedures and criminal penalties for IPR violations. In 2012 Turkmenistan adopted a law on copyright and related rights. The 1993 Most Favored Nation Agreement between the United States and Turkmenistan also provides for favorable treatment of copyrighted materials. The agreement envisages Turkmenistan's accession to the 1971 Berne Convention for the Protection of Literary and Artistic Works and the Creation of a Working Group on Intellectual Property Matters. On January 13, 2016, the Mejlis (Parliament) of Turkmenistan approved Turkmenistan's Accession to the Berne Convention for the Protection of Literary and Artistic Works. The Government of Turkmenistan is currently completing the final steps to complete its accession to the convention. But Turkmenistan has not signed the World Intellectual Property Organization (WIPO)'s 1996 Copyright Treaty, the 1996 WIPO Performances and Phonograms Treaty, the 2000 Patent Law Treaty or WIPO Internet treaties. In August 2015, Turkmenistan adopted an Action Plan for the Development of an Intellectual Property System in Turkmenistan for 2015-2020, and the plan includes a section on the role of IPR in attracting foreign investment into the country. However, it is still a challenge to purchase legally recorded material in Turkmenistan. Border enforcement of IPR material is weak, allowing pirated recordings to easily cross into Turkmenistan for sale. Additional personnel and training courses are needed for more effective border enforcement. Turkmenistan's laws do not provide for either civil or criminal ex-parte search procedures needed for effective anti-piracy enforcement.

Turkmenistan signed the WIPO's documents on industrial property rights and patent cooperation in 1995. Turkmenistan has also joined the Eurasian Patent Organization created as part of the WIPO for CIS countries. The Copyright Law was enacted in 2000 as part of Turkmenistan's Civil Code. This law defines copyrighted products and the rights of owners of the copyrighted products, and it provides for their legal protection. In January 2012, the law was amended to include IPR-related provisions, including exclusive rights (absolute title), licensing agreements, and the collective management of ownership rights. There is a Patent Department in the Ministry of Economy and Development, which issues patents on intellectual property but it does not enforce copyright laws. In November 2014, the government enacted a new Law on Publishing that establishes the legal basis for oversight of publishers, manufacturers, distributors and consumers of printed materials. The law states that illegal reproduction of printed materials and other violations of intellectual property rights of the publisher will carry monetary penalties and allow for full recovery of losses incurred, including lost income. Turkmenistan has not adopted criminal penalties for IPR violations. Currently articles such as videos, cassette tapes, software, and literature are freely copied and sold. In general, products manufactured by government-owned entities increasingly dominate local markets and are well-protected by law enforcement bodies. Counterfeit goods constitute a significant share of most consumer goods including imported textile products, footwear and electronics. There is no publicly available information or estimate on any seizure, storage and destruction of counterfeit goods. Nearly all counterfeit products are imported from abroad and there is no information available to verify the working conditions in production and sale of these products. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Local lawyers list can be found at: http://turkmenistan.usembassy.gov/attorneys.html.
Embassy POC: Economic-Commercial Section: trade-Ashgabat@state.gov

Resources for Rights Holders

Not applicable/information not available.

7. Transparency of the Regulatory System

The government does not use transparent policies to foster competition and foreign investment. Laws have frequent references to bylaws that are often not publicly available. Most bylaws are passed in the form of presidential decrees. Such decrees are not categorized by subject, which makes it difficult to find relevant cross references. Personal relations with government officials can play a decisive role in determining how and when government regulations are applied. Bureaucratic procedures are confusing and cumbersome. The government does not generally provide information support to investors, and officials can use this lack of information to their personal benefit. As a result, foreign companies may spend months conducting due diligence in Turkmenistan. A serious impediment to foreign investment is the lack of knowledge of internationally-recognized business practices, as well as the fact that there are few fluent English speakers in Turkmenistan. English-language material on Turkmenistan legislation is scarce, and there are very few business consultants to assist investors. Proposed laws and regulations are not published in draft form for public comment. The general public is not invited to make contributions during parliamentary deliberations on the proposed bills or amendments to legislation.

There are no standards-setting consortia or organizations besides Turkmen State Standards and the licensing agency. There is no independent body for filing complaints. Financial disclosure requirements are neither transparent nor consistent with international norms. Government enterprises are not required to publicize financial statements, even to foreign partners. Financial audits are often conducted by local auditors, not internationally recognized firms.

The legal framework contained in the Law on Petroleum (2008) was a partial step toward creating a more transparent policy in the energy sector. Turkmenistan’s banks began transitioning to International Financing Reporting Standards (IFRS) in early 2011. State-owned agencies began the transition to the IFRS in 2012. While the IFRS may improve accounting standards by bringing them into compliance with international standards, it has no discernable impact on Turkmenistan’s fiscal transparency since fiscal data remains inaccessible to the public. There is no publicly available information regarding the budget’s conformity with the IFRS. There is no public consultation process on draft bills and there are no informal regulatory processes managed by nongovernmental organizations or private sector associations.

8. Efficient Capital Markets and Portfolio Investment

Turkmenistan’s underdeveloped financial system significantly hinders the free flow of financial resources. The largest state banks include: The State Bank for Foreign Economic Relations (Vnesheconombank), Dayhanbank, Turkmenbashy Bank, Turkmenistan Bank, Halk Bank, and President Bank. These banks have narrow specializations–foreign trade, agriculture, industry, social infrastructure, savings and mortgages, respectively. There are two smaller state banks, Senagat Bank and Garagum Bank, which provide only general banking services. In September 2011, the government established the State Development Bank to provide loans to state-owned and private enterprises implementing projects that increase production and create jobs. The government also established Rysgal Bank in 2011 to provide general banking services to the members of the Union of Industrialists and Entrepreneurs. There are also five foreign commercial banks in the country: a joint Turkmen-Turkish bank (with Ziraat Bank), a branch of the National Bank of Pakistan, the German Deutsche and Commerz Banks, and a branch of Saderat Bank of Iran. The two German banks provide European bank guarantees for companies and for the Turkmen government; they do not provide general banking services. The government generally welcomes any type of investment in all sectors of the economy. Insufficient liquidity in the market can make it difficult for investors to exit the country easily. There have been no reported cases where foreign investors have received credit on the local market. The Union of Industrialists and Entrepreneurs, a nominally independent organization of private companies and businesspeople that is in fact closely controlled by the government, has issued credit funds with no more than one per cent interest per annum to its member companies to finance their projects in such areas as animal husbandry, agricultural and food production and processing, and industrial development.

Money and Banking System, Hostile Takeovers

The total assets of the country's largest bank, Vnesheconombank, were 14,255,418 manat or USD about 5 billion (at a rate of 2.85 manat per $1) as of December 31, 2014. The bank's financial statements are published athttp://www.tfeb.gov.tm/downloads/fs/2014/fr/en.pdf. The assets of other banks are believed to be much smaller. All banks, including commercial banks, are regulated by the state. Commercial banks are prohibited from providing services to state enterprises. The U.S. Export Import (EXIM) Bank announced in January 2010 that it had extended its available financing to include long-term public sector transactions in Turkmenistan. Previously, EXIM had only been open for short- to medium-term public sector financing. Short-term financing is available for up to two years, medium-term for up to seven years, and long-term for up to 18 years. In January 2014, EXIM announced that it upgraded Turkmenistan's private sector credit risk from "9" to "8" and expanded its offerings to include private sector short- and medium-term transactions. For private sector transactions, EXIM requires detailed financial information to enable the bank to reach a credit conclusion. Financial statements provided in support of the transaction should be audited by an affiliate of an international accounting firm and prepared in accordance with International Financial Reporting Standards (IFRS). Coverage under the Working Capital Guarantee Program requires that the transaction be supported by an irrevocable Letter of Credit issued by a bank acceptable to EXIM. Exceptions may be made for private sector transactions that are insured for comprehensive political and commercial risk. State banks primarily service state enterprises and allocate credit on subsidized terms to state entities. Foreign investors are only able to secure credit on the local market through the Pakistan National Bank and EBRD equity loans. There is no capital market in Turkmenistan, although the 1993 Law on Securities and Stock Exchanges outlines the main principles for issuing, selling and circulating securities. The 1999 Law on Joint Stock Societies further provides for the issuance of common and preferred stock and bonds and convertible securities in Turkmenistan, but in the absence of a stock exchange or investment company, there is no market for securities. In November 2011, the government approved the State Program for Stock Market Development (2012-2016), which portends that new regulations and procedures might be developed in this area. In late 2015, the President a signed decree on the issuance of government bonds for a term of up to five years on the basis of the refinancing rate of the Central Bank of Turkmenistan (five percent). The government bonds are supposed to be sold via authorized brokers to both individuals and legal entities, regardless of their ownership, operating in Turkmenistan. The bonds are expected to become an additional revenue source for the state budget but they have not yet been issued as of March 2016. The Embassy is not aware of any restrictions on a foreigner's ability to establish a bank account based on residency status. There is no publicly available information on any rules on hostile takeovers.

9. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) still dominate Turkmenistan's economy and control the lion's share of the country's industrial production, especially in the sectors of onshore hydrocarbon production, transportation, refining, electricity generation and distribution, chemicals, transportation, and construction material production. Education, healthcare, and media enterprises are state-owned and tightly controlled. State-owned enterprises are also heavily involved in agriculture, food processing, textiles, communications, construction, trade, and services. Although state-owned enterprises are often inefficient, the government considers them strategically important. While there are a growing number of small-scale private enterprises in Turkmenistan, the government continues to exert significant influence over these enterprises. There are no mechanisms to ensure transparency or accountability in the business decisions or operations of state-owned enterprises. There is no publicly available information on the total assets of SOEs, total net income of SOEs, the number of people employed by SOEs and the expenses these SOEs allocate to research and development (R&D). There is no published list of SOEs. Turkmenistan is not a member of the WTO and is not a party to the Government Procurement Agreement (GPA) within the framework of the WTO. SOEs are not uniformly subject to the same tax burden as their private sector competitors, as SOEs are entirely subsidized by the government.

OECD Guidelines on Corporate Governance of SOEs

There is no publically available information on corporate governance within SOEs or whether they comply with the Organization for Economic Co-operation and Development (OECD) guidelines on corporate governance.

Sovereign Wealth Funds

The government maintains sovereign wealth funds, including a Stabilization Fund that was established in 2008, but there is no publically available information about these accounts. Auditing and oversight information related to these accounts is not publically available.

10. Responsible Business Conduct

The government does not have a definition of responsible business conduct (RBC) per se; instead it adopts and implements various policies and regulations that it states promote socially responsible business conduct. In the past, foreign companies operating in Turkmenistan were not required to implement social projects. Social project activities connected with doing business in Turkmenistan generally take the form of financial sponsorship of cultural or athletic events, providing academic scholarships to Turkmen students, or the construction of small-scale facilities, such as a medical clinics, to benefit the locality around a company's facilities. There are no independent NGOs, investment funds, worker organizations/unions, or business associations promoting or monitoring RBC in Turkmenistan.

In March 2013, Turkmenistan introduced a mandatory environmental insurance for all types of entities, enterprises and organizations carrying out potentially environmentally hazardous activities (except for government-financed organizations). This insurance program was adopted with the stated purposes of protecting the environment, raising environmental awareness, and increasing the responsibility of industries and businesses for violating environmental laws and regulations, and for preventing and responding to environmental disasters. The mandatory environmental insurance regulation includes a list of hazardous work and facilities subject to such insurance. The mandatory environmental insurance also applies to foreign legal entities, their branch offices and entrepreneurs. The State Committee for Environmental Protection and Land Resources conducts ecological inspections for companies' compliance with regulations.

Turkmenistan is not a participant in the Extractive Industries Transparency Initiative (EITI). It is also not clear whether the government of Turkmenistan follows the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

11. Political Violence

Turkmenistan's political system has remained stable since Gurbanguly Berdimuhamedov became president in February 2007 and there is no history of politically motivated violence. There have been no recorded examples of damage to projects and installations.

The government does not permit political opposition and maintains a tight grip on all politically sensitive issues by, in part, requiring all organizations to register their activities. The country's parliament passed a Law on Political Parties in January 2012 that defines the legal grounds for the establishment of political parties, including their rights and obligations. In August 2012, under the directive of President Berdimuhamedov, Turkmenistan created a second political party, the Party of Industrialists and Entrepreneurs. This pro-government party, created from the membership of the Union of Industrialists and Entrepreneurs, has a platform nearly identical to the President's Democratic Party. The same is true for the Agrarian party, which was created in September 2014 in an effort to move Turkmenistan towards a multi-party system. No politically-motivated demonstrations or violent actions were noted in 2015. Organized crime is rare, and authorities have effectively rooted out organized crime groups and syndicates. Turkmenistan does not publish crime statistics or information about crime.

12. Corruption

Although Turkmenistan has legislation to combat corruption, these laws are not generally enforced, and corruption remains a problem. Formally, the Ministry of Internal Affairs, the Ministry of National Security, and the General Prosecutor's Office are responsible for combating corruption. President Berdimuhamedov has publicly stated that corruption will not be tolerated. The opaque nature of Turkmenistan's economic, financial, and banking systems provides fertile soil for corruption. In 2015, Transparency International ranked Turkmenistan 154 among 167 countries in the world in its Corruption Perceptions Index. American firms have identified widespread government corruption, usually in the form of rent seeking, as an obstacle to investment and business throughout all economic sectors and regions. It is most pervasive in the areas of government procurement, the awarding of licenses and customs. In March 2014, the parliament adopted a law on Combatting Corruption that establishes a legal and institutional framework to help identify and prosecute cases of corruption. The law prohibits government officials from accepting gifts (in person or through an intermediary) from foreign states, international organizations and political parties. It also severely limits the ability of government officials to travel on business at the expense of foreign entities. Given Turkmenistan's weak legal institutions, however, it is difficult to see how this law could be effectively enforced. There are no NGOs involved in either monitoring or investigating corruption.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

In March 2005, Turkmenistan acceded to the UN Anticorruption Convention, but it is not a party to the OECD convention on Combatting Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

There is no independent "watchdog" organization operating in the country that monitors corruption.

13. Bilateral Investment Agreements

Turkmenistan has signed bilateral investment agreements with Armenia, Bahrain, China, Egypt, France, Georgia, Germany, India, Indonesia, Iran, Israel, Italy, Malaysia, Pakistan, Romania, Russian Federation, Slovakia, Spain, Switzerland, Tajikistan, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Uzbekistan. In July 2009, European Union Ministers passed a trade agreement with Turkmenistan reasoning that economic and trade engagement with the country would stimulate political reforms in Turkmenistan

Bilateral Taxation Treaties

The United States government considers the Convention with the Union of Soviet Socialist Republics on Matters of Taxation, which entered into force in 1976, to continue to be in effect between the United States and Turkmenistan. There is no bilateral investment treaty between Turkmenistan and the United States.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The Law on Economic Zones for Free Enterprise was enacted in 1993. The law guarantees the rights of businesses, both foreign and domestic, to operate in free economic zones (FEZs) without profit ceilings. The law forbids the nationalization of enterprises operating in the zones and discriminating against foreign investors. Other rights guaranteed include:

- Preferential tax status, including an exemption from profit tax if profits are reinvested in export-oriented, advanced technology enterprises;
- Repatriation of after-tax profits;
- Exemption from customs duties, except on products of foreign origin;
- Export of products; and
- Setting product prices.

There are ten FEZs in Turkmenistan: Mary-Bayramaly; Ekerem-Hazar; Turkmenabat-Seydi; Bakharly-Serdar; Ashgabat-Anew; Ashgabat-Abadan; Saragt; Guneshli; Ashgabat International Airport; and Dashoguz Airport. The FEZs have not been successful in drawing increased economic activity, as the government interferes in the business decisions of firms located in the zones and has not financially supported zones' infrastructure.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Government data on most economic indicators, including Foreign Direct Investment (FDI), remains generally unavailable or unreliable. According to various independent analysts, however, most foreign investment is directed toward the country's oil and gas sector. Such investments include three onshore Production Sharing Agreements (PSAs): the Nebitdag Contractual Territory operated by ENI; the Khazar project operated jointly by the Turkmennebit state oil concern and Mitro International of Austria; and the Bagtyarlyk Contractual Territory operated by the Chinese National Petroleum Corporation (CNPC). In addition, there are six PSAs for offshore operations: Block I operated by Petronas of Malaysia; Block II (Cheleken Contractual Territory) operated by Dragon Oil (UAE); Block III operated by Buried Hill (Canada); Block 23 operated by RWE of Germany; and Block 21 operated by Itera of Russia. RWE is in the process of terminating its PSA with the Government of Turkmenistan and closing down its Turkmenistan branch.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (USD M USD)	2014	47,93 billion	2014	-15	http://www.worldbank.org/en/country/turkmenistan
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (USD M USD, stock positions)	N/A	N/A	2014	-15	http://bea.gov/international/direct_investment_ multinational_companies_comprehensive_data.htm
Host country's FDI in the United States (USD M USD, stock positions)	N/A	N/A	2014	D	http://bea.gov/international/direct_investment_ multinational_companies_comprehensive_data.htm
Total inbound stock of FDI	N/A	N/A	N/A	N/A	N/A

as % host GDP					

(D) indicates that the data in the cell have been suppressed to avoid disclosure of data of individual companies.

Table 3: Sources and Destination of FDI

The IMF does not detail the sources and destination of FDI for Turkmenistan (http://cdis.imf.org.)

Table 4: Sources of Portfolio Investment

The IMF does not provide sources of portfolio investment for Turkmenistan (http://cpis.imf.org.)

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Civil law system with Islamic law influences

International organization participation:

ADB, CIS (associate member, has not ratified the 1993 CIS charter although it participates in meetings and held the chairmanship of the CIS in 2012), EAPC, EBRD, ECO, FAO, G-77, IBRD, ICAO, ICRM, IDA, IDB, IFC, IFRCS, ILO, IMF, IMO, Interpol, IOC, IOM (observer), ISO (correspondent), ITU, MIGA, NAM, OIC, OPCW, OSCE, PFP, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO

Section 6 - Tax

Exchange control

For further information - http://www.turkmenistan.gov.tm/_eng/

Treaty and non-treaty withholding tax rates

For further information - http://www.turkmenistan.gov.tm/_eng/

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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