

Press Release / April 1, 2010

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT RE-OPENS PURSE FOR TURKMENISTAN DESPITE LACK OF EVIDENCE OF REFORM

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Global Witness warned today that a new strategy from the European Bank for Reconstruction and Development (EBRD) aimed at encouraging investment in gas-rich Turkmenistan could be exploited by the country's authoritarian regime which has failed to implement much-needed reforms on transparency and human rights.

The new strategy, approved by the Bank's board on 23 March and published today, is the first to be finalized under the country's new president, Gurbanguly Berdimukhamedov, who took over when Saparmurat Niyazov died in 2006. Despite hopes that the appointment would lead to genuine reform, the country remains a police state with little regard for human rights or good governance.

The EBRD previously refused to engage with Turkmenistan due to transparency concerns. The new strategy aims to engage private sector investors in order to diversify Turkmenistan's economy. Though the strategy states that the EBRD will only consider private oil and gas projects subject to certain conditions, there is a danger that the funding may yet benefit the Turkmen regime.

A draft version of the strategy received an unprecedented number of comments from NGOs and other observers. The final version addressed the need for improvements in the field of human rights in exchange for deeper engagement, yet it still fails to address serious concerns regarding the management of Turkmenistan's natural resource revenues. "The lack of information regarding how Turkmenistan's revenues are managed is very worrying, especially when we consider that the European Union views Turkmenistan as a potential source for the Nabucco pipeline," said Tom Mayne, Global Witness' Central Asia specialist.

Global Witness' 2006 report [It's a Gas \(/library/its-gas-funny-business-turkmen-ukraine-gas-trade\)](#) showed that under Niyazov, a staggering 75% of government spending took place off-budget. Oil and gas revenues were diverted to mysterious funds such as the Foreign Exchange Reserve Fund (FERF), held at Deutsche Bank in Frankfurt. So opaque was Niyazov's management of revenues garnered from the sale of Turkmen oil and gas that the EBRD refused to lend to the Turkmen government over fears concerning Niyazov's *de facto* control of such revenues. Since coming to power, President Berdimukhamedov is reported to have created a Stabilisation Fund, where it is believed money from the sale of Turkmen oil and gas will now flow, although there is no evidence, other than the president's word, that such a fund exists. Nonetheless, the new EBRD strategy makes much of the creation of this new structure which it says "partially addresses long-lasting concerns about the opaque and non-transparent management of the country's resources' wealth." In actuality, without any further information regarding the Fund and how it is managed, the Fund is as opaque as those of the Niyazov era.

"The fact that it is not clear where the country's oil and gas money goes means that a company looking to invest in Turkmenistan may be paying into a financial black

hole. The EBRD must see more transparency regarding this entity before funding energy or energy-related projects," commented Mayne.

Global Witness recommends:

- The Turkmen government should publish the governing principles of the Stabilisation Fund, conduct an audit of both it and the FERF, and make the results publicly available.
- The Turkmen government should draw up a proper budget for the first time in its independent history and make it available to the public.
- The EBRD should continue its policy of not funding any project that benefits the Turkmen state (including private infrastructure projects) until the above two conditions have been met.
- Companies looking to invest in Turkmenistan should collectively agree to publish up front the revenues they pay to the Turkmen government if a deal is struck. This includes the European Commission's Caspian Development Corporation, a company designed to buy gas from Turkmenistan and other countries.

/ Ends

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