

The Puzzle of Aid Targeting: The Case of Turkmenistan

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Abstract

The motivations of development donors to provide aid were always puzzling. Many scholars and policy makers in the field have hoped that the end of the Cold War period world division and struggle for power would redefine the way development assistance was targeted. Nevertheless, today's aid allocation has not changed much as it is still vulnerable to political, economic and security interests of donor governments. In order to examine donor motivations to provide aid, this thesis uses the following alternative explanations: donors provide aid because of - (1) the need in recipient countries; (2) the improvements in good governance indicators in recipient countries; (3) the energy needs of the donor, and (4) the security needs of the donor. The case study of Turkmenistan is particularly valuable because it combines several factors essential for examining the above hypotheses. On the one hand, Turkmenistan is a developing country, with weak good governance indicators. On the other hand, it is rich in natural resources and proximate to the source of terrorism and drug trafficking. Hence, donors' decision to provide development assistance might be due to their urge to help the country prosper and reform or due to their geopolitical interests. The combination of qualitative and semi-quantitative statistical analysis showed that bilateral donors, such as the EU and U.S base their decisions to provide development assistance to Turkmenistan on their energy and security interests. Moreover, unlike the EU, the U.S. also altered its development assistance based on Turkmenistan's economic growth and performance on selected governance indicators.

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List of Abbreviations

American Councils on International Education (ACCELS)

Bertelsmann Stiftung's Transformation Index (BTI)

Border Management Program in Central Asia (BOMCA)

Bureau of International Narcotics and Law Enforcement Affairs (INL)

Country Assistance Strategy (CAS)

Country Engagement Note (CEN)

Development Cooperation Instrument (DCI)

Educational Advising Center (EAC)

European Parliament (EP)

German Technical Cooperation (GIZ)

International Monetary Fund (IMF)

Interim Strategy Note (ISN)

Member of the European Parliament (MEP)

Multi-Annual Indicative Program (MIP)

North Atlantic Treaty Organization (NATO)

Official Development Assistance (ODA)

Organization for Economic Co-operation and Development (OECD)

Partnership Cooperation Agreement (PCA)

Special Representative to Central Asia (SRCA)

Technical Assistance to the Commonwealth of Independent States (TACIS)

World Bank (WB)

World Bank Group (WBG)

World Governance Indicators (WGI)

World Trade Organization (WTO)

United Nations Development Program (UNDP)

United Nations Office on Drugs and Crime (UNODC)

Introduction

The existing literature tends to suggest that aid is provided based on the need of a given country, and that the geopolitical interests such as security concerns became less applicable after the end of the Cold War. Moreover, there is some degree of agreement among development scholars that aid has the highest impact in countries that meet a certain threshold of ‘good’ governance. However, some cases are puzzling because none of these explanations seem to apply. Thus, this thesis is an attempt to answer the following research question: *why do donors decide to provide development assistance to recipient countries with little prior probability of aid effectiveness?*

In order to examine this puzzle, this thesis will look at the case of Turkmenistan and try to draw some general conclusions that might be applicable to similar states. Turkmenistan is an interesting case study as very little is known about this former Soviet colony, which even today remains highly isolated from the international community. When comparing Turkmenistan, a country with \$8,020 gross national income (GNI) per capita, to countries with equal population size such as Liberia, a country with \$370 GNI per capita (World Bank 2016), it is hard to consider Turkmenistan an aid dependent country. On top of being an upper middle-income country, Turkmenistan also holds the world’s fourth largest gas reserves. Thus, Turkmenistan does not depend on aid money as many other developing countries do. Similarly, if we accept that security concerns of donor countries became less meaningful, in the absence of need, what would explain increasing flows of Western aid to Turkmenistan? Finally, if the donor community is fully aware of the fact that aid is more effective in countries that meet certain levels of ‘good’ governance standards, why do they continue providing aid to Turkmenistan in the absence of improvement in these indicators?

There is a lack of comprehensive study on Turkmenistan that examines the role and work of development agencies, the amounts of aid they provide or the types of projects they implement. Similarly, there is limited literature that examines the motivations of development donors to provide aid to Turkmenistan. Although the amounts of Official Development Assistance (ODA) Turkmenistan receives yearly are negligible compared to aid dependent countries, it is still worthwhile investigating. Therefore, this thesis will be an essential contribution to the existing literature and might serve as a good reference point to local and international organizations and government institutions. In particular, it will help to better understand the behavior of donor agencies, reasons behind their choice of aid allocation, and potential implications of their engagement in resource rich countries.

The research project aims to examine the donor motivations to provide development assistance to Turkmenistan. To this end, the following chapter provides a theoretical framework by discussing the existing literature on theories of development, donor motivations and aid effectiveness. It also describes the research design and methodology used to conduct this thesis. The second chapter provides an overview of major Western development donors and their work in Turkmenistan by categorizing them into multilateral (WB and UNDP) and bilateral donors (EU and U.S.). The final chapter provides an empirical analysis of donor motivations to provide aid to Turkmenistan by referring to the four hypotheses developed in this research project. The concluding section summarizes the main findings and implications of this thesis.

1 Chapter 1: Theoretical Framework

This chapter provides a theoretical framework by discussing the relevant literature, developing alternative explanations to donor motivations and providing an overview of the research design and methodology. The first part, the literature review, thoroughly discusses the existing literature on theories of development, donor motivations and aid effectiveness. The second part presents the methodology used to discuss the four hypotheses explaining donor motivations to provide development assistance to Turkmenistan.

1.1 Literature Review

1.1.1 Theories of development

The concept of development and ways to achieve it evolved over time. There are five major theories explaining development. In the 1950s and 1960s, following the end of WW II, the Western countries were concerned with cementing long lasting peace. Modernization theorists, such as Walter Rostow, saw economic growth as a key to international peace. He viewed the development process as a series of successive stages of modernization through which all countries must pass. He believed that the right amount and mixture of saving, investment and foreign aid could help achieve economic growth. The theory emphasized rapid and aggregate economic growth by prioritizing industrialization and urbanization (Rostow 1960). However, in the 1970s, Rostow's approach came under strong criticism from members of the Non-Aligned Movement and individuals such as Andre Gunder Frank, the most outspoken supporter of dependency theory. He explained underdevelopment of poor countries as legacies of colonialism, exploitation and resource extraction by rich states (Reid-Henry 2012). These countries had uneven starting points and faced unequal opportunities in

the global capitalist system (Todaro and Smith 2012). Instead of trying to meet the conditions of rich countries such as liberalizing trade, dependency theorists argued in favor of national economic policy, which prioritizes the needs of the poor, maintains protectionist policies and nationalizes key industries (Ferraro 2008, 58-64).

In the 1980s, the debate over development was once again dominated by the Western school of thought, which promoted neoliberal approach for growth. For neoliberals, free market was both the means and end of development (Todaro and Smith 2012). The institutions that came out of the Bretton Woods System– the World Bank, International Monetary Fund (IMF) and the World Trade Organization (WTO – renamed) were the primary vehicles to advance these ideals. These institutions were radical in their approach and demanded strict application of structural adjustment policies. In particular, they advocated for limited role for the national states, open market with no barriers to trade and investment and privatization of state owned industries. In the absence of state intervention, they believed that the desire to make profit would eventually lead to economic growth, social justice and human development. For neoliberals trade was the solution for underdevelopment (Reid-Henry 2012).

However, market led economic growth did not result in human development and caused greater inequality and unemployment. Hence, in the 1990s, the economic growth oriented view of development was expanded to include the human aspect. The major supporter of this school of thought was Amartya Sen, an Indian economist who perceived development as individual freedom (Reid-Henry 2012). Sen emphasized the importance of going beyond the economic measures of development and argued that being developed should be conditioned to being free (Sen 2000, 3). For him, democracy was a precondition for development because, as he argued, freedom is both the ultimate end of development and means to get there (Sen 2001). As opposed to promoting industrialization or technological

advancement, freedom centered development emphasized people as the agents of change, where individuals are not merely passive beneficiaries of a development program but rather owners of it (Sen 2001). Amartya Sen proposed to assess development in terms of functioning and capability (1983, 1985, 1999). For him, development is not about having money or owning a house, but rather being able to sustain oneself. He illustrates this point by differentiating between merely owning a bicycle and being able to transport oneself (Todaro and Smith 2012).

Similarly, Streeten emphasized the importance of human development by arguing that it is an important end in itself; it fosters productivity and reduces human reproduction, and it promotes good environmental practices, democracy and political stability (1994). The former Chief Economist of the World Bank, Stiglitz, criticized the “Washington consensus,” arguing that its policy tools were too narrow, insufficient and confused means with ends (Stiglitz 1998, 31). Stiglitz (1998, 31) and Wolfensohn (1999) tried to further expand development objectives by advocating for improvements in other indicators such as income distribution, environment, health and education. Moreover, Kaushik Basu (2001) suggested shifting our focus away from per capita income of a country as a whole to per capita income of the bottom quintile. Evaluating a country’s progress in terms of growth rate of per capita income of the poorest 20 percent of the population will not only target those in need but also lead to positive outcomes in environmental conditions and social stability.

There are different explanations why some countries fail to develop today. According to Sachs, some nations are poor because they are trapped in poverty. In particular, unfavorable geography, weak governance, poor infrastructure, cultural barriers and lack of innovation inhibit a country’s ability to save and make necessary investments that would promote long-term growth (Sachs 2005, 56-66). However, Acemoglu and Robinson refused to accept geographical and cultural explanations for underdevelopment, and rather explained

it by the inclusive or extractive nature of institutions. As they argued, political institutions are important for development because they determine who will have the power and for what purpose he will use it. In a country where power is concentrated in the hands of few, political institutions have extractive nature. Consequently, these institutions influence the nature of economic structures because the ruling elite will be tempted to choose those institutions, which advance their personal interests (Acemoglu and Robinson 2012, 81).

Countries with pluralistic institutions that have monopoly of violence within their boundaries have inclusive political institutions. Since in such societies power is widely shared and subject to constraints, elites are forced to choose economic institutions that advance the interests of the broader public as opposed to their personal stakes. Hence, inclusive economic institutions stimulate inclusive markets, in which individuals' ability to excel in things they are good at would lead to creativity and productivity (Acemoglu and Robinson 2012, 77). On the contrary, extractive institutions lead to stagnation and poverty since they do not create incentives for people to save, invest and innovate due to the fear of political creative destruction (Acemoglu and Robinson 2012, 171). For absolutist regimes, creative destruction poses a threat to their regimes' survival because they fear that innovation would transfer political power from them to a new group of people (Acemoglu and Robinson 2012, 216).

1.1.2 Theories explaining donor motivations

There are three competing theories explaining donor motivation to provide aid. Firstly, the idealist theory explains donor motivation in terms of recipient countries humanitarian needs. Idealists believe that aid can solve development challenges of poor countries (Fuller 2002). A motivational problem is best illustrated by Samaritan's dilemma, where Samaritan or the donor has to make decision between helping the country in need or not. The recipient country has to decide on how much effort he has to put in order to receive Samaritan's help.

The game evolves in such a way that the recipient country always has the motivation to put less effort, as he knows that the donor will help his country anyway. Thus, development assistance might eventually cause the recipient government to lose its skills and motivation (Gibson et.al. 2005, 39). Since the low-income countries receive more development aid per capita compared to the middle-income countries (Dowling and Hiemenz 1985, and Gillis et al., 378), the governments in these countries have the incentive to allocate less to its poor population because doing so would ensure donor support.

On the contrary, realist theory argues that donors' motivation to provide aid is primarily driven by their strategic concerns. Since this theory became known close to the end of the Cold War, it prioritized security and self-preservation as the main factors (Schraeder et al., 312). For instance, donors such as France and US determined their aid allocation based on their strategic security interests (McKinlay and Little 1977 and 1978). Steven Hook further emphasized the importance of security interests, adding that development aid serves as an additional foreign policy tactic. Nevertheless, with the end of the Cold War, the realist theory advanced into neo-realist theory, which claims that the national interests of donor countries became less concerned with security and more with economic interests. Neo-realist scholars argue that donors use aid as means to advance their economic interests and reach out to new markets in which they could sell their products and make profitable investments (Tuman et al. 2008, 89; Maizels and Nissanke 1984, 879; Younas 2008; Schraeder et al., 1998, 312). Hence, donor countries would be interested in supporting countries with large markets and use aid to get preferential treatments for donor countries' businesses (Ovaska 2004). This also might be plausible in the case of Turkmenistan, as improving relations between the Western and Turkmen leadership has resulted in increased presence of European and American companies in Turkmenistan, mainly in the extractives and construction sectors.

According to Ovaska, donor countries might not necessarily have altruistic motivations when providing development assistance and might seek to advance their core values (2003). Van der Veen further distinguished between seven different categories of motivations to provide aid: influence, wealth, self-interest, reputation, obligation and humanitarianism (2011). The recent report published by the European Network on Debt and Development (Eurodad) revealed that yearly around \$69 billion (more than half of the ODA) aid money, which is supposed to benefit poor countries, actually never leaves the borders of donor countries. This is a result of providing tied aid, which obliges the recipient country to purchase the necessary goods and services from the companies of the donor country. For instance, as the report highlights, around 20% of all bilateral development aid remains officially tied (Provost 2011).

However, this theory fails to account for the motivations of donors. Since the end of the Cold War, countries no longer need to buy allegiances. Thus, donors promote combination of all three theories with varying degrees of importance (Schraeder et al. 1998, 312; Tuman et al. 2001, 98; and Fuller 2002). To illustrate, the U.S. in the 1990s based its aid agenda on humanitarian needs of recipient countries while supporting countries with smaller militaries as opposed to strategies used during the Cold War era (Fuller 2002). Compared to national governments, the distribution of multilateral aid is mainly determined by development needs of poor countries (Maizels and Nissanke 1984, 879).

1.1.3 Aid Effectiveness

When it comes to aid effectiveness, the existing literature provides mixed answers. Studies done by Bovard (1986), the World Bank (1998), Viquez (1998), Burnside and Dollar (2000), Easterly (2001), and Easterly and Levine (2001) have concluded that 50 years of development aid has not led to positive results. Dambisa Moyo further argued that ‘aid is a

silent killer of growth' and claimed that aid has contributed to poverty in Africa. Likewise, the study done by Gwartney and Lawson (2002) actually found that every 1 percent increase in development aid as a percentage of GDP decreased annual real GDP per capita growth by 3.65 percent (Gwartney and Lawson 2002, 8-9). In the availability of aid money, similar to Samaritan's dilemma, developing countries become more dependent on aid money while experiencing worsening economic outcomes.

Nevertheless, aid seems to be more effective in well-governed countries. Previous experiences point to the importance of having good institutions and economic policies in order to achieve greater economic growth. After analyzing 96 aid receiving countries Boone found insignificant relationship between development aid, economic growth and human development. However, he discovered that aid was more effective in countries with open political institutions, especially in decreasing an infant mortality (Boone 1996). Similarly, Burnside and Dollar concluded that aid leads to better economic performance given that countries have good fiscal, monetary, and trade policies (2000). Thus, it might be necessary to reconsider where the aid money goes by evaluating the institutional setting in a host country. Acemoglu and Robinson, for instance, suggested to target development aid on improving the institutions and trying to bring groups and individuals otherwise excluded into the decision making process (Acemoglu and Robinson 2012, 455)

Consequently, the donor community has realized the importance of promoting economic and political objectives simultaneously because in the absence of good institutions and policies, what they could achieve was very limited. As Thomas Carothers points out, some donor agencies became interested in promoting good governance, democracy and the rule of law, strengthening civil society and institution building in the early 1990s. According to him, this shift happened primarily due to the end of the Cold War and emergence of new democracies (Carothers and De Gramont 2013, 89). As Thad Dunning explains, during the

Cold War, donor countries pursued their geopolitical objectives rather than promoting democracy. Once Cold War was over, the Western countries had limited geopolitical interest in the African region, and thus were able to push for more conditionality and threaten to withdraw aid in the absence of democratic reform (Dunning 2004). This argument is not applicable for Turkmenistan. The interest of advancing its military operations in Afghanistan in 2001 brought the U.S. closer to Turkmenistan. Former Turkmenistan's President Niyazov closely cooperated with U.S. officials and provided different forms of assistance including tax free fuel for U.S. and NATO forces (Tynan 2011).

Thus, the end of the Cold War made donor agencies reevaluate their development strategies, and focus not only on what to achieve but also how. In the early 2000s, Western donors understood the need to focus on governance, broadly understood as the local political and bureaucratic environment, broadening the range of actors they engaged with and facilitating local political change (Carothers and De Gramont 2013, 125). However, as Carothers concludes, this awakening to political methods is 'almost' a revolutionary albeit a reversible process. Firstly, the role of democracy in achieving socio-economic development is highly questionable, especially in the light of success cases such as China. Although the Western development agencies like the UNDP approved of Sen's idea of freedom as development and thus established Human Development Index to complement monetary measure of development, economic growth and poverty reduction still remained priority areas. Moreover, the current development institutions are too rigid and result oriented, thus unable to adapt to political methods. Since the demand side of the development aid was never consulted, there is a strong pushback from the recipient countries, since these are politically sensitive objectives (Carothers and De Gramont 2013). The future of development assistance is interesting given the plethora of options to choose from. Previously aid-receiving countries such as China, Brazil and India have joined the line of traditional donors to pursue their own

strategic interests through development aid. Developing countries might have fewer incentives to meet the Western conditions and opt out for easier ways of obtaining cash.

Promoting democratic reforms becomes even harder in resource rich countries where governments do not depend on aid money to finance their costs. The fact of having the fourth largest gas reserves in the world might not necessarily be a blessing for the Turkmen people as it leads to deterioration of political and economic institutions. However, as Kevin Morrison outlines, the natural resources becomes a curse only if there is an unfavorable institutional environment and inefficient management of resource revenues (Morrison 2010).

1.2 Research Design and Methodology

To answer the research question posed in this thesis, the combination of semi-quantitative and qualitative analysis was used. Similarly, to explain donors' motivations to provide development assistance to Turkmenistan, the paper discusses the following four hypotheses as alternative explanations for donor motivations:

H1: Donors Choose to Provide Development Assistance Based on Need in Recipient Countries;

H2: Donors Choose to Provide Development Assistance to Countries that Meet 'Good' Governance Standards as they Ensure Aid Effectiveness;

H3: Donors Choose to Provide Development Assistance to Advance their Security Interests;

H4: Donors Provide Development Assistance to Advance their Energy Interests.

For the purpose of this thesis, an original database was developed. It has detailed data on program level ODA including project title, project description, purpose of the project, sector names, financing and implementing agencies, amounts provided and years. Based on the description and purpose of the projects, they were coded in different colors and categorized into five broad categories: security (red), energy (grey), governance (purple), development (green) and democracy (blue). Colors have no particular meaning as the author chose them

randomly. Projects under security include issues such as border security, terrorism, drugs and counternarcotics, peace building and conflict prevention. Projects under energy sector include programs in the oil and gas sectors, energy manufacturing, environmental policy if related to energy management, and energy policy. Those under governance include projects addressing the capacity and management issues as well as policy development and implementation in the public, judicial, financial and administrative sectors. Projects targeting issues related to health, infectious disease, education, agriculture, culture, water supply and sanitation, employment or small and medium enterprises were coded as development oriented. Finally, projects promoting free and fair elections, democratic participation, human rights, freedom of speech, media freedom and civil society were considered as those promoting democracy. Characterizing development assistance into these five categories not only helped to better understand the policy priorities of major development donors in Turkmenistan but also allowed to compare these donors in terms of their areas of engagement. The database classified donors into bilateral such as the European Union (EU or Union) and the United States of America (U.S.). and multilateral such as the United Nations Development Program (UNDP) and the World Bank (WB). Appendices 1 and 2 present the summary of this database both for bilateral and multilateral donors. It presents the yearly amounts spent and the number of projects implemented under each of these five areas.

The primary data on development assistance, with the exception of the WB, was retrieved from the OECD statistics on ODA for the period of 2004-2013 for UNDP and 2002-2013 for EU and U.S. The data on the WB development assistance to Turkmenistan for the period of 1994-2011 was collected from its website. The database also includes indices that show Turkmenistan's performance on various political, economic and social indicators. These indicators include the Human Development Index, the Bertelsmann Stiftung's Transformation Index (BTI), World Governance Indicators (WGI), the Polity IV and the Index of Economic

Freedom. The empirical data was substantiated by semi-structured interviews conducted with the representatives of the WB and the EU. However, the author was unable to interview the USAID and UNDP, as they were unwilling to meet.

Due to the lack of reliable and consistent data on Turkmenistan, it was not possible to conduct a comprehensive statistical analysis such as the multivariate regression that could offer a robust test of the hypotheses. Nevertheless, using the time series data, this paper examines the trends in data in order to discuss alternative explanations of donor motivations. More specifically, simple statistical analysis was conducted where bilateral ODA from the EU and the U.S. to Turkmenistan was compared to the country's GDP per capita, its scores on selected governance indicators, the number of victims in terrorist activities in the region, the amounts of drugs seized in the EU and U.S., and the EU's energy imports from Russia. The statistical analysis was conducted only for the bilateral donors, the EU and U.S., since the paper examines neorealist hypotheses. Although this study is descriptive and preliminary, it suggests the complexity of aid allocation by confirming the three of the four stated hypotheses.

2 Chapter 2. An Overview of Major Development Donors in Turkmenistan

This chapter provides an overview of development donors providing assistance to Turkmenistan. Since it was not possible to include all donors operating in Turkmenistan, given the limited time and space, this paper looks only at the major Western donors including the EU, U.S., UNDP and WB. It primarily discusses their development policy priorities, projects and sectors in which they operate.

2.1 Bilateral Development Donors

This section of the paper provides an overview of bilateral donors providing development assistance and operating in Turkmenistan. Bilateral here refers to development assistance that is channeled directly by the donor government to the recipient country. In this paper bilateral donors include the EU and the U.S. Although the EU is not a bilateral donor, for the sake of this thesis it is treated as a bilateral donor. This is primarily because it is the only (and one of the largest) multilateral Development Assistance Committee (DAC) donor.

2.1.1 An Overview of EU Development Assistance to Turkmenistan

The EU plays an important role in international development, as it is the second largest DAC donor. In 2012, for example, the EU institutions had provided over \$18 billion in ODA (Aid Transparency 2014). The Commission's Directorate-General for International Cooperation and Development – EuropeAid (DG DEVCO) is mandated to design the EU's development policy and administer the provision of aid worldwide. The DG DEVCO aims to reduce global poverty and promote sustainable development, democracy, peace and security. It plays a central role when it comes to development issues as the DG ensures that activities of

various EU institutions and member states are in line with the EU's normative values and priorities (About International Cooperation 2016). It accounts for about 75% of EU's ODA contributions (Aid Transparency 2014).

The EU has been engaging in Turkmenistan, both on a bilateral and regional level, since the country's independence. The bilateral relations between the EU and Turkmenistan are based on the Interim Trade Agreement and the Partnership and Cooperation Agreement (PCA) signed in 1998. However, the latter document is yet to be ratified by the EU member states and the European Parliament (EP) (EU Relations 2016). Bilateral cooperation focuses on the individual needs of Turkmenistan while addressing issues such as human rights, economic diversification, energy and education through policy dialogue and funding. The regional cooperation tackles problems such as terrorism, human, drug and arms trafficking, environmental degradation, water management and border control (The EU and Central Asia 2007).

The EU's development assistance to Turkmenistan first started in 1991 under the Technical Assistance to the Commonwealth of Independent States (TACIS). The initiative aimed at assisting the countries of the former Soviet Union to transition into a market economy and a democratic system of governance. However, this strategy was not exclusively for CA, which showed a lack of EU strategy towards the region (Rajeev 2012). There were four major projects under TACIS, all of which primarily promoted the energy and security interests of the EU. Moreover, the EU development assistance to Turkmenistan takes the form of technical assistance and funding, which includes grants added to loans and non-reimbursable aid. Through technical assistance, the EU shares its expertise and organizes training of trainers in areas such as Vocational Education Training (VET). Moreover, some assistance is provided in infrastructure building and supplies to schools, offices and border services (Vieira 2015). The EU has several budget chapters for development assistance, the

biggest of which is the Development Cooperation Instrument (DCI), which replaced TACIS in 2007 (Rajeev 2012). While the DG DEVCO manages DCI, all budget lines addressing development issues fall under the ODA (Vieira 2015).

With the increasing geopolitical importance of the CA region, the EU appointed Pierre Morel as a Special Representative to Central Asia (SRCA) in 2005. The representative is responsible for “promoting, monitoring and assisting” the EU member states and institutions in their relations with CA countries (EU Special Representative for Central Asia). Consequently, the European Commission developed the Strategy Paper for Central Asia for 2007-13 with the primary objective of ensuring the stability and security in CA countries. To do this, the EU supported CA countries’ national agendas on economic development and poverty reduction, while promoting closer regional cooperation within the CA region and between CA and the EU (European Community Regional 2013). Around 70% of the EU’s assistance to CA was directed at the bilateral level while paying particular attention to each country’s national development agenda and to their political and social realities on the ground (The EU and Central Asia 2007). Since the majority of CA’s rural population lives below the poverty line, poverty reduction was the major policy priority in the EU’s bilateral development cooperation. In particular, the EU promoted social and education sector reforms as means to improve the well-being of the rural population. The other 30% of funding was allocated to the regional programs enhancing regional cooperation in areas such as energy, security, environment and education (The EU and Central Asia 2007).

Nevertheless, the Strategy once again prioritized the EU’s security interests while underplaying its normative values. While drafting the strategy, there was a sharp division between the EU member states, where countries like Germany advocated for energy and security interests, whereas the UK, Ireland, Netherlands and Sweden emphasized the importance of democracy and human rights. However, the current strategy seems to resonate

more with realpolitik as opposed to normative values of the EU. Likewise, the strategy was elite driven with no inputs from the local NGOs or the general public (Graubner 2008).

The latest country strategy for EU's development assistance to Turkmenistan covers the period 2014-2020 and includes the Multi-Annual Indicative Program (MIP) for 2014-2017. While the Country Strategy determines the EU's priority areas in its relations with Turkmenistan, the MIP decides on financial allocations (Final Draft MIP 2014). The MIP is part of DCI. For example, for the period 2014-2020 the EU plans to allocate Turkmenistan €65 million under DCI funding, while the MIP only covers 2014-2017 and allocates €37 million. As the European Commission representative mentioned during his interview, since Turkmenistan is an upper-middle income country, the EU will reconsider Turkmenistan's eligibility status in 2016 and decide whether or not to disburse the rest of the funding (Vieira 2015). For this strategy, the EU decided to concentrate on one single area where it can contribute the highest value added in order to achieve sustainability and positive impact. Thus, under this strategy, the EU will promote socio-economic development in Turkmenistan through improved human capital, in particular, quality education and vocational training (Final Draft MIP 2014).

2.1.2 An Overview of U.S. Development Assistance to Turkmenistan

The U.S. priority areas in Turkmenistan include promoting domestic reforms, maintaining regional stability and cooperating on global security threats (Central and Southwest Asian Countries 2009). The U.S. is also determined to support Turkmenistan in developing its rich energy reserves, diversifying its export routes and promoting regional stability by connecting the country's rich energy resources to its neighboring countries (Foreign Operations 2013). According to the U.S. Congress, the major development challenges of Turkmenistan are poor capacity and governance along with its isolation from

the international community. In this regard, the U.S. government aims to support the country's integration into the global economy, including the energy sector, and help boost regional integration and stability (US Congressional Budget 2015).

The U.S. mainly provides security and economic assistance to Turkmenistan. Its security assistance is directed through the Departments of Defense and State. It mainly includes military financing, education and training along with the military and border management technology. Likewise, USAID and the Department of State manage economic assistance including development aid, funding and trainings on counternarcotics, antiterrorism, border management and law enforcement. While promoting development in Turkmenistan, USAID operates within the foreign policy objectives set by the Secretary of State (The United States Agency 2015). It has established its presence in the country in 1992 and until 2009 it spent over \$80 million on development projects. USAID's engagement in the country is based on a bilateral agreement with the Turkmen government. In addition to its programs, USAID also provides grants to local NGOs and contracts companies and international organizations such as the UN agencies (The United States Agency 2015). USAID works in a public-private partnership with Chevron, where the two promote macroeconomic reforms and privatization, train Turkmen youth in economics and entrepreneurship through existing programs such as the Junior Achievement program and health programs for vulnerable youth (USAID Our work 2015).

USAID in Turkmenistan primarily focuses on the following areas: (1) agriculture and food security, (2) democracy, human rights and governance, (3) economic growth and trade, and (4) global health. Under agriculture and food security, USAID provides technical assistance and trainings to improve the productivity and profitability of private farmers working in horticulture and livestock sectors. Within democracy promotion, USAID has been supporting the registration of independent NGOs and community based organizations (CBOs)

in Turkmenistan. For example, USAID helped to establish an independent water users' association of farmers. It is a self-help mechanism where farmers address water shortages and find effective ways to use scarce water resources. Under its good governance programs, USAID is currently helping the government of Turkmenistan to implement e-governance in order to improve the efficiency of delivering government services and increase transparency in its operations. Through its economic growth and trade program, USAID promotes economic liberalization through reforms improving the investment climate, competitiveness, transparency and diversity of the local economy; the implementation of international accounting standards; and the development of the energy resources. In addition, USAID is also working with the government of Turkmenistan to build reliable supply routes to export electricity to Afghanistan. In the area of health, USAID primarily focuses on tuberculosis (TB) and HIV/AIDS through improvements in prevention, care and treatment mechanisms (Our work 2015).

While being responsible for political, economic and cultural cooperation between the two countries, the U.S. Embassy in Ashgabat is also actively engaged in development programs. The embassy funds initiatives such as English language teaching, teacher training, exchange programs for researchers, high school and university students, graduate programs, study trips for government officials, farmers and teachers (U.S. Embassy Ashgabat). For instance, the well-known program administered by the U.S. Embassy is the Fulbright Foreign Student program, which is a two year fully funded master's degree program in U.S. The embassy also sponsors the American Councils on International Education (ACCELS), which is an education and information center in Ashgabat. It is comprised of the Educational Advising Center (EAC), which provides information and assistance for Turkmen youth who are interested in studying at U.S. universities. It is open not only to students but also to local NGOs, government officials and the general public (Education USA 2015). Moreover, the

embassy has grant schemes supporting local NGOs. Some of the initiatives funded by the embassy include promoting civic-responsibility that reached over 900 youth, supporting small-business development in rural areas, assisting rural teachers to develop skills, creating community-based school projects, developing citizen journalists and projects for people with disabilities (Foreign Operations 2011).

2.2 Multilateral Development Donors

This section of the paper describes the major multilateral donors operating in Turkmenistan. Multilateral here refers to development assistance that is channeled through multilateral organizations such as UNDP and WB.

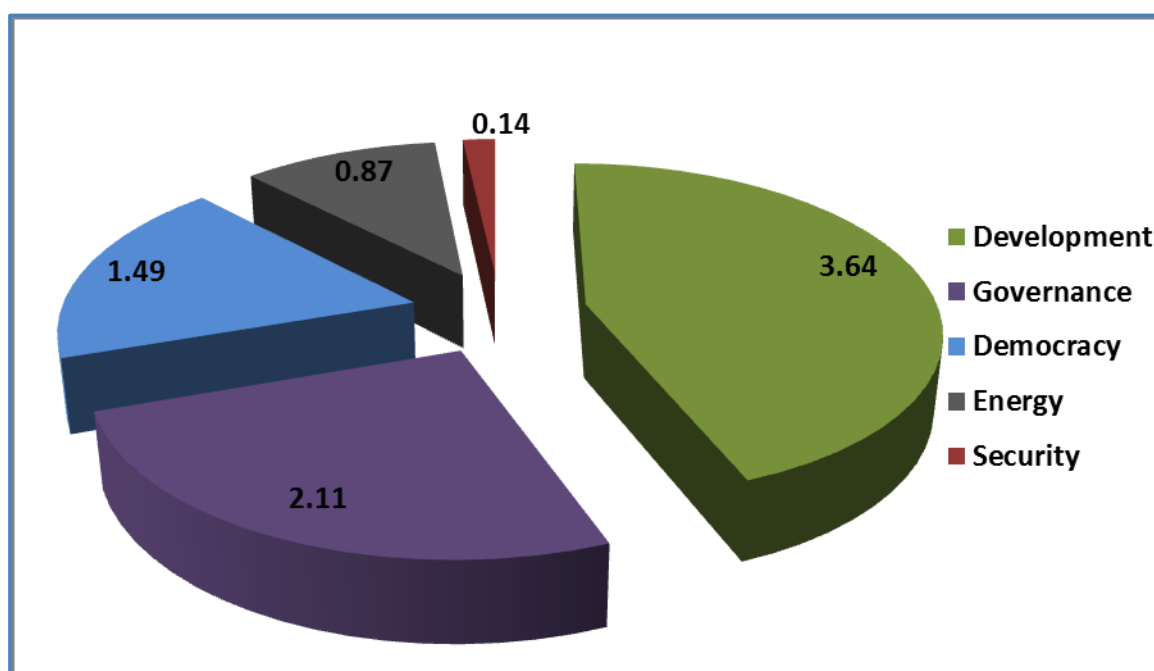
2.2.1 An Overview of UNDP Development Assistance to Turkmenistan

UNDP has been operating in Turkmenistan since 1995 on the basis of Standard Basic Assistance Agreement signed with the Government of Turkmenistan. Its work in Turkmenistan falls under the United Nations Development Assistance Framework (UNDAF), which is an agreement between the UN and the government of Turkmenistan underlying UN support to the country's national development agenda (UNDP and the UN System 2015). The organization's development assistance takes the form of policy advice, development expertise, international best practices and resources. The UNDP's country strategy for Turkmenistan for 2015-2020 addresses sustainable management of natural resources, strengthening of the rule of law, socioeconomic integration of vulnerable people, and improving the quality of data. These priorities are in line with Sustainable Development Goals and the national development agenda of Turkmenistan (About UNDP 2015). The core of UNDP's development assistance to Turkmenistan is capacity building. So far, the

organization has helped to improve the capacity of various government institutions, parliament, the judicial system, central and regional electoral commissions, local governments, mass media, small businesses and public organizations (About UNDP 2015). Similarly, UNDP has consulted national documents such as the National Program of Socio-Economic Development of Turkmenistan for 2011-2030 (Human Development: In-depth 2015).

The Ministry of Foreign Affairs (MFA) coordinates the activities of development organizations, including the UNDP. UNDP implements its projects in partnerships with government agencies (About UNDP 2015). Its day-to-day work is based on the Annual Work Plans developed in close cooperation with the relevant government and non-government partners, as well as development organizations. This document sets the objectives that need to be achieved and describes the agreement between the implementing partners over the use of resources. Furthermore, the UNDP not only provides development assistance to Turkmenistan but also administers aid provided by external donors such as the Global Fund, government of Finland, Global Environment Facility and Adaptation Fund. The largest donor among these is the Global Fund, which in 2012 financed near 70% of development assistance provided to Turkmenistan by UNDP (Our Funding and Delivery 2015).

Figure 1 UNDP ODA to Turkmenistan by Area (in current million \$)



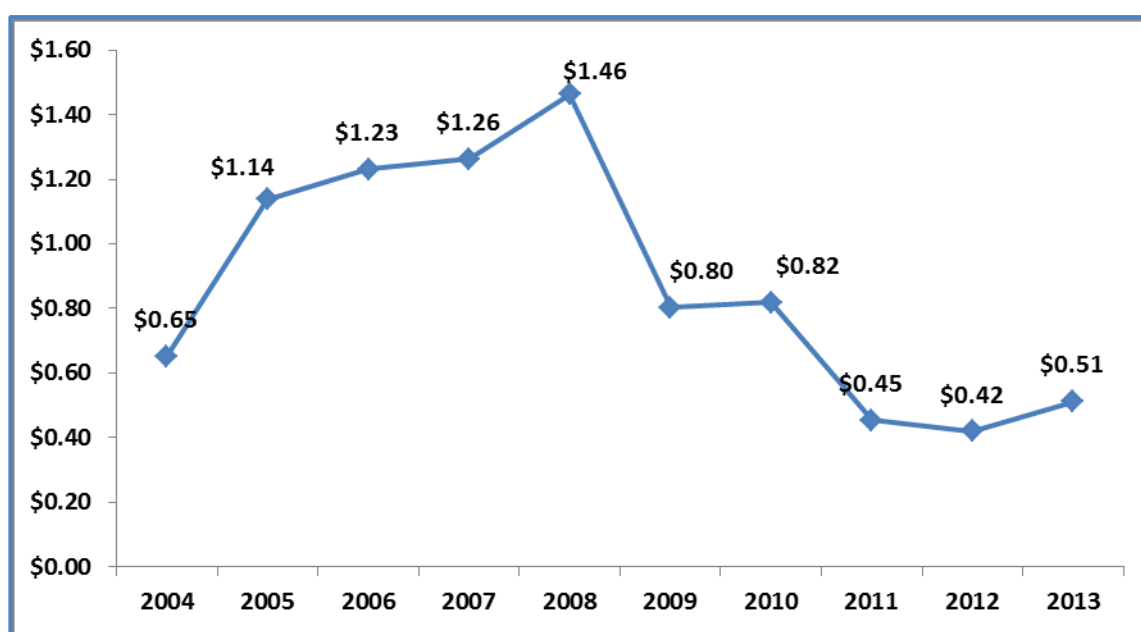
Source: Developed by author using OECD Statistics on UNDP ODA

Overall, the UNDP's development assistance to Turkmenistan can be classified into three categories - democratic governance, environment and energy, and human development (About UNDP 2015). Within the democratic governance programs, the UNDP promotes the protection of human rights, access to data and democratic elections. One of the achievements in the area of human rights includes the establishment of Human Rights Resource Centers in all five regions. These centers provide information to the general public about human rights (In-depth 2015). Likewise, UNDP also plays an important role in sharing international electoral standards and processes with the members of the Turkmen parliament, central and regional electoral commissions, national electoral observers and media (Democratic Governance: In-depth 2015).

In the energy sector, the UNDP is mainly concerned with environmentally sustainable usage of natural resources. For example, in this sector the UNDP promotes investment in low-carbon technologies, energy efficiency, usage of alternative sources of energy, improvement of country's resistance to climate change, biodiversity and effective water and land use.

(Environment and Energy). Moreover, the UNDP has assisted the Turkmen government in establishing national Strategy on Climate Change until 2030, which currently serves as the benchmark for Turkmenistan. Furthermore, the UNDP cooperates with the state owned enterprise, *Turkmengaz*, to introduce energy efficient measures when constructing buildings and apartment houses. For instance, they have conducted two energy audits for pilot buildings to determine the volumes of energy lost in buildings in the capital city. The findings from this experiment will be used to inform future energy usage and construction processes (Environment and Energy 2015).

Figure 2 UNDP ODA to Turkmenistan for Period of 2004-2013 (in current million \$)



Source: Developed by author using OECD Statistics on UNDP ODA

Human development is an integral part of UNDP's development assistance to Turkmenistan. Within this area, the organization promotes socio-economic integration of vulnerable people, improvement in control of tuberculosis (TB) and reforming the public administration (Human Development 2015). As highlighted by the UNDP, Turkmenistan should not only invest in building physical infrastructure but also improve human capital and

institutional capacities. In 2010, for example, the Global Fund provided a \$20 million grant to fight AIDS, tuberculosis and malaria in Turkmenistan. The UNDP helped to upgrade the capacities of local doctors and laboratory services to better prevent and treat TB (Human Development: In-depth 2015).

Since peace and security are one of the major concerns for UN, the UNDP in Turkmenistan also addresses the security sector reform. In particular, it promotes effective and integrated border management between and within agencies as well as international cooperation. To this end, the UNDP has organized study visits, seminars and workshops for law enforcement officials and agencies engaged with border management. Moreover, since 2004 the UNDP has administered the Border Management Program in Central Asia (BOMCA), which is financed by the EU (Democratic Governance: In-depth 2015). Likewise, the UNDP played an important role in promoting cooperation between the countries of Central Asia and the Caspian basin to fight drug trafficking (Tikhorezkiy 2012).

2.2.2 An Overview of WB Development Assistance to Turkmenistan

The World Bank (WB) has been working in Turkmenistan since 1992 while producing a series of reports and providing three loans. The lending included Institutional Building Technical Assistance (IBTA), Urban Transportation and the Water Supply and Sanitation loan. All three of these projects encountered problems during implementation and failed to achieve institutional reform. Some of the recent projects of the Bank involve the Statistical Capacity Building Project, the Civil Society Fund Program, the Avian Influenza Control and Human Pandemic Preparedness and Response Project. The WB has also provided expertise in areas such as national wealth funds, accounting and auditing, anti-money-laundering, combating the financing of terrorism, and renewing the ports sector. The Bank's development assistance is based on government's needs and national priorities (Turkmenistan: Overview

Results 2015). So far, the WB has supported the government of Turkmenistan to implement reforms in areas such as public resource management, financial transparency, public procurement, International Accounting Standards, public transport system, water and sanitation improvement (Public Consultations 2015).

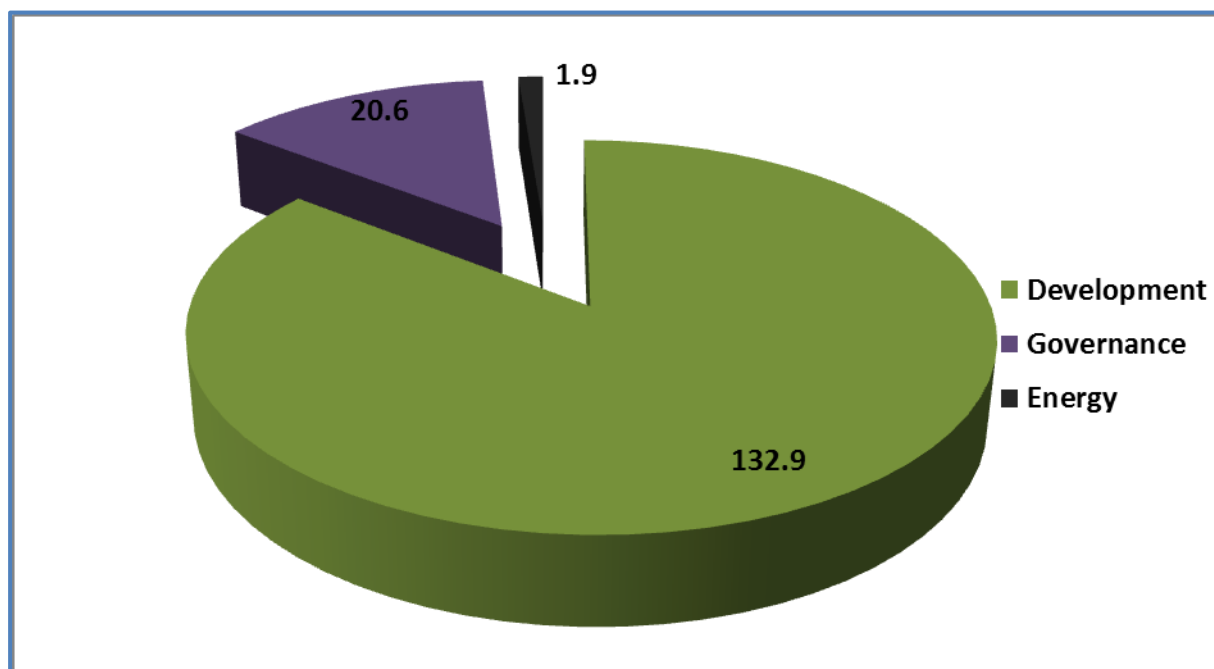
The Bank's priority areas under its 1997 Country Assistance Strategy (CAS) included budget and debt management, rural development, privatization, trade and foreign exchange liberalization. Realizing that rapid reform was not possible in Turkmenistan, the Bank scaled back its future engagement in the country, especially in terms of lending. Consequently, the Bank's Country Assistance Strategy for 2001-2003 was primarily aimed at improving living standards of Turkmen people while providing non-financial support to build the government's capacity. To advance this objective and complement Turkmenistan's 10 year National Program for 2000-2010, the Bank had identified five priority areas: Strengthening Public Resource Management, Improving Health and Social Services, Developing an Efficient Rural Economy, Supporting Private Sector Development and Protecting the Environment and Conserving Water (WB Country Strategy 2001-2003).

The recent partnership between the WB, International Finance Cooperation (IFC) and the government of Turkmenistan was based on the Interim Strategy Note (ISN), which encompassed the period 2013 – 2015. Under ISN, the Bank provided analytical and advisory assistance in priority areas identified by the Turkmen government, private sector, civil society and development agencies while having no lending programs. It had two parts. First was government sponsored reimbursable advisory services (RAS) targeting macroeconomic statistics, financial and private sector development. The World Bank Group (WBG) was responsible for managing and supervising this program (Turkmenistan: Overview Strategy 2015). Within the second program, the WBG financed five strategic analytical studies in areas such as economic diversification, improving investing climate, eased privatization, increasing

access to capital for private firms and WTO accession (Turkmenistan CEN 2015). Unlike the first program, the WBG financed these studies. The Bank's Liaison Office in Ashgabat was responsible for assisting with the implementation of the ISN and improving communications with the Turkmen government (Turkmenistan: Overview 2015).

The Country Engagement Note (CEN) for 2016 – 2017 replaced the ISN and it started off on July 2015. It aims to balance between advancing the WBG's twin goals and supporting Turkmenistan's National Socioeconomic Development Program (NSDP) for 2011-30. It comprises of reimbursable advisory assistance and analytical work. In addition, the note aims to share international experience and best practices to help Turkmenistan integrate in to the global economy and transition to a market economy. CEN not only aims to broaden the current partnership identified in ISN but also to expand it into new areas that are crucial for increasing competitiveness (Turkmenistan CEN 2015).

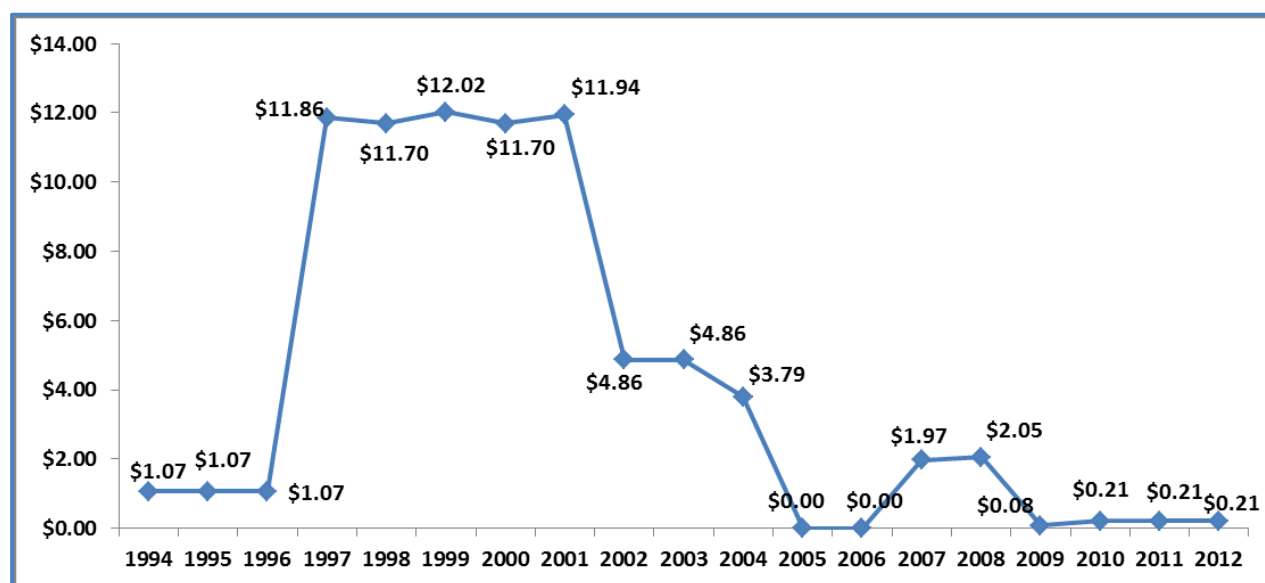
Figure 3 WB Development Assistance to Turkmenistan by Area (in million \$)



Source: Developed by author using WB statistics

For the period of 1994 – 2012 the WB had planned in total 15 projects amounting to nearly \$197 million in development assistance to Turkmenistan, both in forms of loans and grants. Out of this amount only 41% or \$80.64 million was actually spent as projects whereas near 60% (\$116.07 million) of the initial funding was dropped. They included projects related to health, agricultural development, crop protection and veterinary services and Turkmenbashi port improvement. However, it is unclear why these projects were canceled because in general one would expect cancellations in programs related to governance or rule of law due to their sensitive nature. Overall, as Figure 3 demonstrates, the Bank mainly financed projects promoting development and to a lesser extent those targeting good governance and energy.

Figure 4 WB Development Assistance to Turkmenistan over time



Source: Developed by author using WB data

The Bank has not provided lending to Turkmenistan since 2012 when its last loan was closed. This is because Turkmenistan failed to resolve the Negative Pledge Clause violation and has not fulfilled its debt reporting obligations to the Bank (WB Country Strategy 2001-2003). Figure 4 illustrates the total development assistance provided by the WB, both reimbursable and none-reimbursable lending. The peak was in 1997 when the WB

development assistance reached \$11.86 million. However, following the sharp decline in 2002, the Bank's assistance steadily fell until it froze in 2005 and 2006. Following the presidential elections in 2007, the Bank has financed some projects, although amounts were extremely low. This was also the period when Turkmenistan became an upper-middle income country in 2012 with GDP per capita over \$6,000. However, this might mean that in the near future Turkmenistan may no longer be eligible for development assistance.

3 Chapter 3. Empirical Evidence: Examining Donors' Motivations to Provide Aid to Turkmenistan

This chapter discusses the four hypotheses on donor motivations to provide aid by referring to the empirical evidence. The thesis deliberately focuses on bilateral donors, such as the EU and U.S., given that their decision to provide aid is the most susceptible to geopolitical interests. Although both the EU and U.S. have security (drug trafficking and terrorism) and energy interests in Turkmenistan, they have different reasons for their motivations. Moreover, unlike the EU, which has limited military capacity, the U.S. is actively engaged in the region's security. Similarly, the EU has immediate needs to access Turkmenistan's natural resources to minimize its dependence on Russia, while the U.S. is more concerned about revitalizing the Afghan economy using Turkmenistan's energy resources and limiting the influence of regional energy magnates such as Russia and Iran by promoting diversification of energy routes. Therefore, this chapter critically analyzes the bilateral aid flows to Turkmenistan in the broader, regional and global context, to better understand the donors, their motivations and reasons behind such motivations in light of their broader foreign policy agenda.

3.1 Hypothesis 1: Donors Choose to Provide Development Assistance Based on Need in Recipient Countries

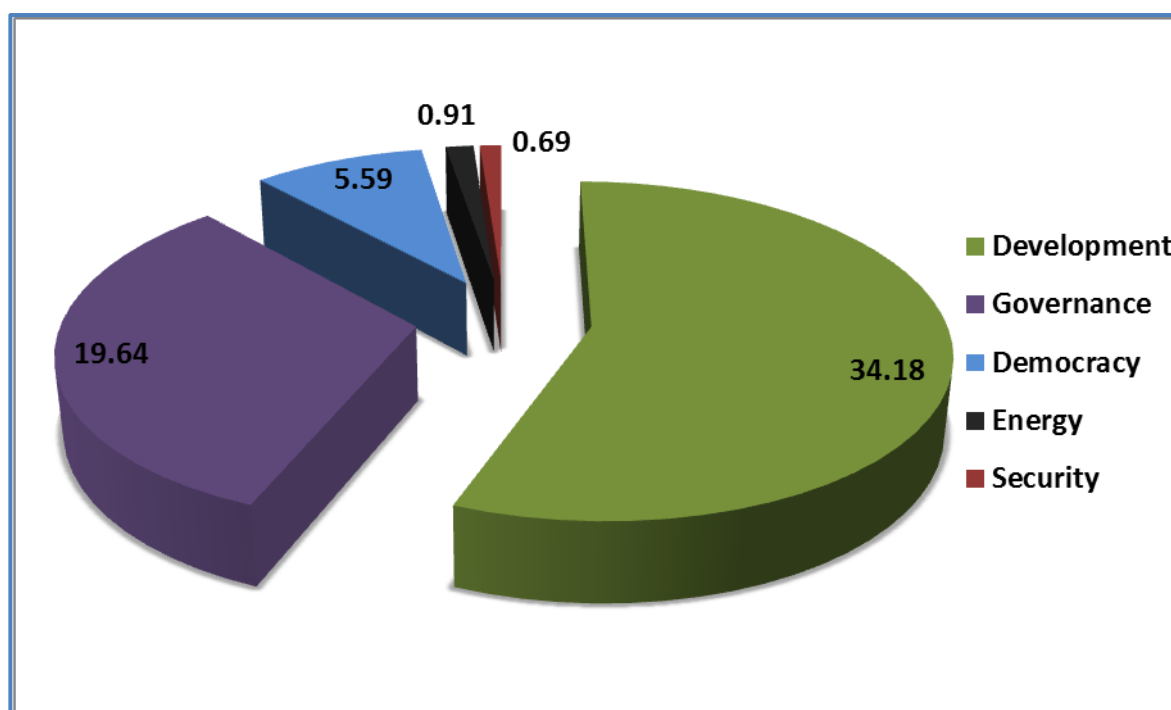
This explanation of donor motivation is driven from the wide literature available on international development assistance. The main argument here is that donors choose to provide aid to countries with need or development challenges. In order to discuss this hypothesis in relation to Turkmenistan and the bilateral donors, the paper traces bilateral ODA over time, examining the areas it financed and comparing it to Turkmenistan's GDP per

capita (PPP adjusted) for a given time period. Here, the basic assumption is that at times of economic downturn Turkmenistan will need more aid, which would then increase bilateral assistance. On the other hand, when Turkmenistan experiences an economic boom, it will be less dependent on external assistance and thus bilateral aid would decrease.

The EU's 2007-2013 regional strategy for CA distinctly prioritized security and stability as the primary focus of its engagement in the region. The paper also identified poverty reduction as an important policy priority for the EU. This is because the majority of CA population lives in rural areas, which also host the majority of the region's poor people. According to the OECD, countries with gross national income (GNI) per capita ranging from \$1,045 to \$12,745 are officially eligible to receive ODA. This includes least developed, low income, lower-middle income and upper-middle income countries (DAC List of ODA Recipients 2014). When comparing Turkmenistan, an upper-middle income country with \$8,020 GNI per capita to countries like Afghanistan, a low-income country with \$680 GNI per capita (World Bank 2016), it is hard to imagine Turkmenistan as a country that needs development assistance. Nevertheless, despite its high economic performance, Turkmenistan faces certain development challenges. On poverty indicator for example, Turkmenistan ranks 69 with 30% of its population living below the poverty line and 24.8% living on less than \$1.25 a day. Although Turkmenistan has high literacy rates, due to its mandatory schooling system, the country received only 0.679 points (1=best) and ranked 103rd on the index measuring quality of education (Dyner 2015). Likewise, the recent survey conducted by Gallup World Poll points to several important aspects about development in Turkmenistan. When asked if they were satisfied with efforts undertaken to address poverty, only 38% people surveyed in Turkmenistan responded positively. Similarly, Turkmenians rated their overall life satisfaction 5.5 out of 10 (Human Development Report 2014). This, might indicate the lack of capacity of government institutions to deal with development challenges

and create an enabling environment where citizens can feel satisfied with their lives. Thus, this might have attracted bilateral donors to provide ODA and help tackle country's development challenges.

Figure 5 The EU ODA Distribution to Turkmenistan by Area (in current million \$)

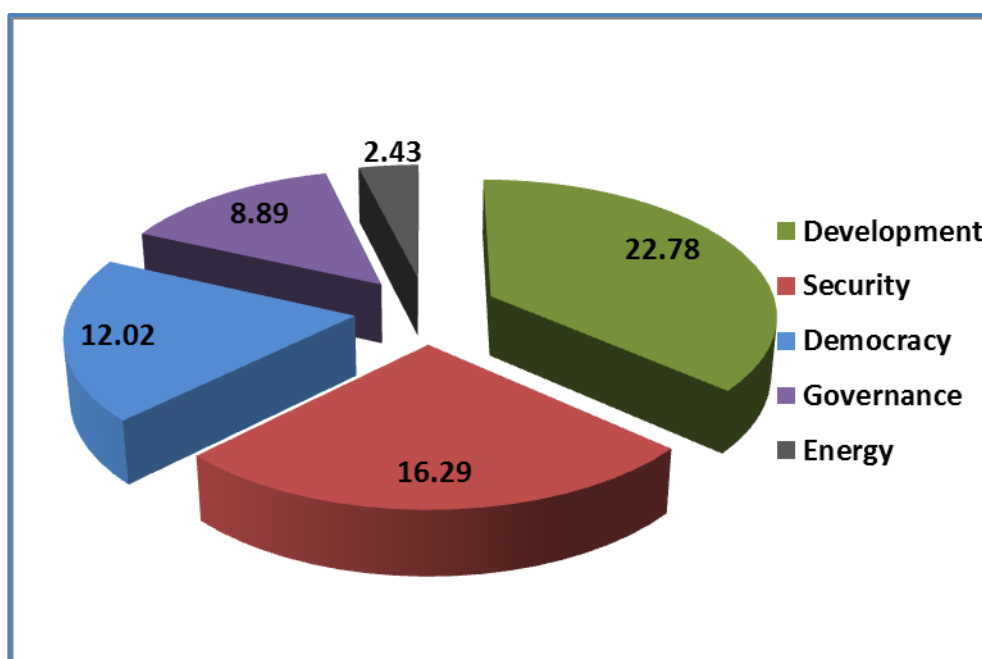


Source: Developed by author using OECD statistics on EU ODA

Figure 5 demonstrates ODA provided by the EU institutions and EU DAC member countries. As illustrated in the above graph, the priority area for the EU assistance to Turkmenistan for 2002-2013 was development. The projects mainly promoted human development through reforms in higher education system and Vocational Education Training, and job creation through the promotion of small and medium scale enterprises. Good governance was the second important sector in which the EU addressed the capacity issues of the Turkmen government in the public sector, statistical data collection, public finance, and legal and judicial sectors. Under democracy, the EU mainly implemented programs enhancing democratic participation, civil society and human rights. The energy sector received the lowest amount of aid, while focusing particularly on gas distribution and energy policy and

management. Although the EU has not sponsored any projects in the security sector at a bilateral level, the major security concerns are covered under its regional cooperation, since security is a common issue for CA.

Figure 6 The U.S. ODA Distribution to Turkmenistan by Area (in current million \$)

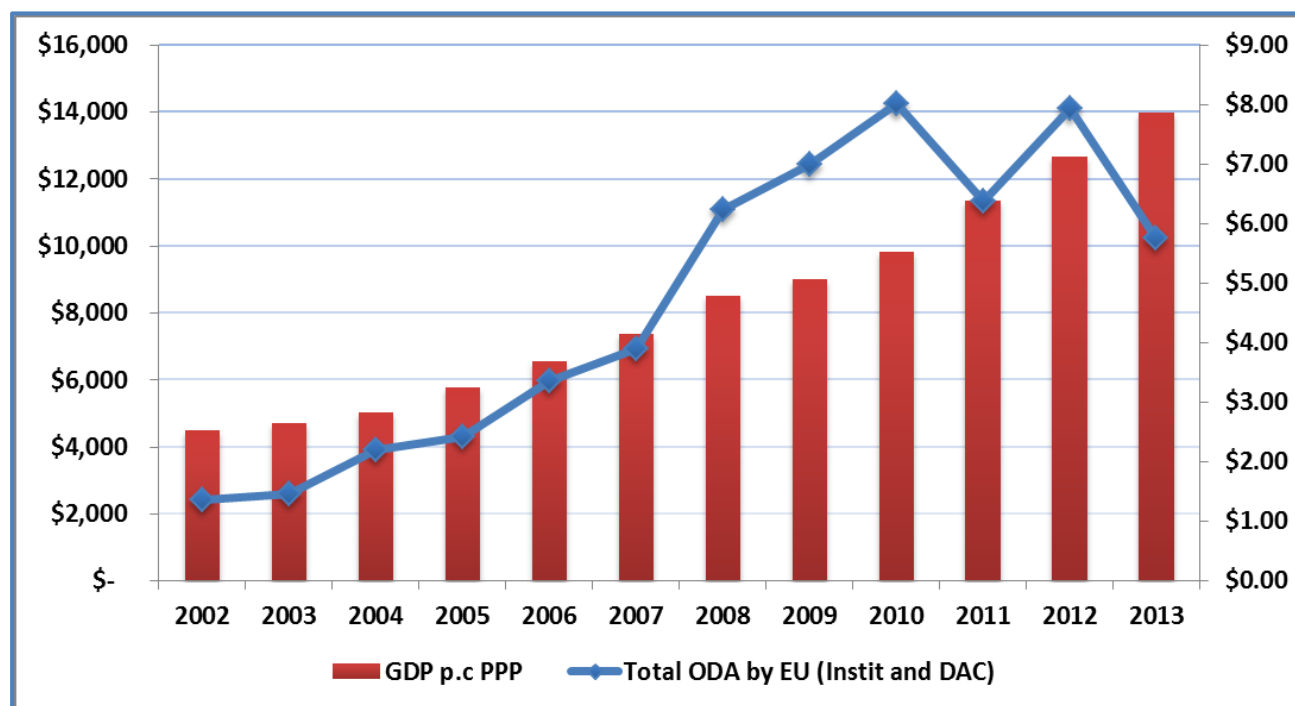


Source: Developed by author using OECD statistics on U.S. ODA

Similarly, the U.S. has also prioritized the development sector when providing ODA to Turkmenistan. Figure 6 illustrates U.S. ODA to Turkmenistan for 2002-2013 by each sector. Development programs such as those focusing on health, education, agriculture, business development, and research and development received the highest amount of ODA. Unlike the EU, the second priority area for the U.S. was the security sector. For the given period, the U.S. allocated in total \$15.5 million to implement projects in border security, narcotics control, counterterrorism, and security sector reform. The third important area for the U.S. was democracy promotion. This sector included programs targeting democratic participation and civil society, elections, human rights, and media freedom. The next important area was good governance, which addressed public finance and policies in the

financial, construction, transportation, and environmental sectors. Energy received the lowest levels of funding under ODA.

Figure 7 Comparing EU ODA to Turkmenistan's GDP per capita PPP (in thousands)

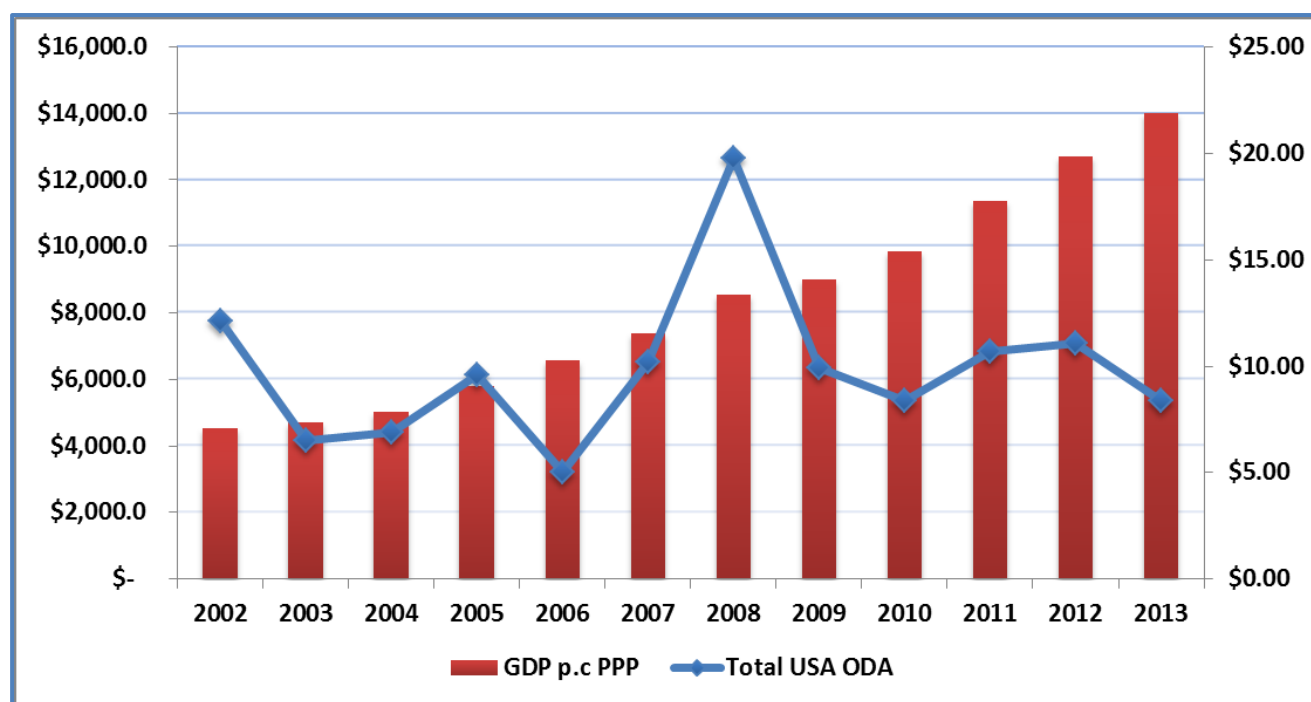


Source: Developed by author using OECD and WB statistics on ODA and GDP

Data shows a mixed picture for the EU's motivations to provide aid to Turkmenistan. As illustrated in Figure 7, at lower rates of GDP per capita the EU provided lower volumes of aid whereas at the times of economic boom the Union provided greater volumes of aid. Logically, donors would increase their development assistance when countries are experiencing economic hardships and lower their assistance during times of high economic performance. This is because when the economy is booming, countries can generate more profit and have greater access to credit as it becomes easier for them to borrow. However, when tracing ODA over time, it turns out that 63% of EU's ODA goes to development projects. The EU's motivation to provide aid might be driven by the socioeconomic needs on the ground, such as poor quality education and poverty, rather than country's GDP per capita,

which in the absence of data on income inequality does not truly reflect the wellbeing of average citizens. Therefore, it can be concluded that the EU, for the period of 2002-2013, based its ODA decisions on Turkmenistan's need for development assistance.

Figure 8 Comparing U.S. ODA to Turkmenistan's GDP per capita PPP (in thousands)

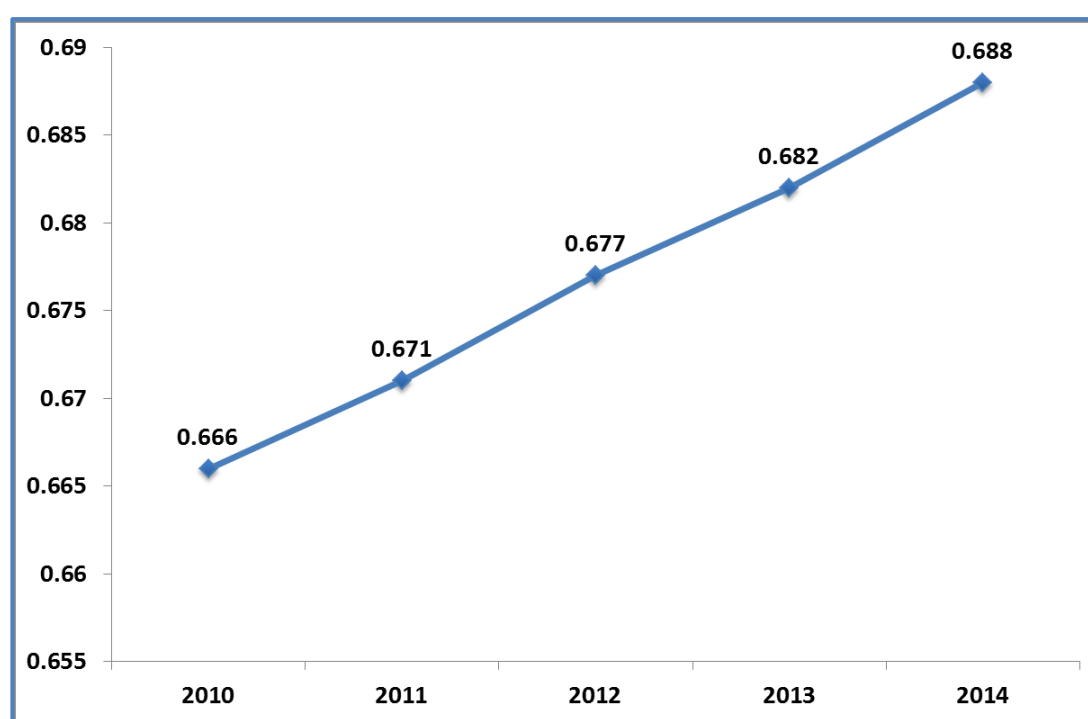


Source: Developed by author using OECD and WB statistics on ODA and GDP

If we were to follow the initial assumption, the U.S. could also be a need-based donor in the case of Turkmenistan because during high economic growth in Turkmenistan the U.S. ODA to the country decreased. In 2002, when Turkmenistan's GDP per capita was slightly over \$4000, U.S. ODA to Turkmenistan was relatively high. This however, might not necessarily be due to Turkmenistan's needs but rather the U.S.'s reliance on Turkmen territory to transport nonlethal supplies to support its war in Afghanistan. This can be illustrated by the fact that U.S. assistance to CA in 2002 more than doubled compared to 2001, an increase of \$232 million (Central and Southwest Asian Countries: Trends 2009). With the exception of a sharp increase in 2008, the U.S. ODA to Turkmenistan roughly remained the same. The hike in 2008 most likely was caused by the U.S.'s desire to support

the new leadership of President Berdimuhammedow following his electoral victory in 2007. The following decrease in U.S. ODA to Turkmenistan after 2008 might be due to the changing priorities in U.S. foreign policy and shifting away from Afghanistan to the crisis in Ukraine and the Middle East. Although development projects received the highest amounts of ODA, compared to the EU, only 23% of total U.S. ODA financed development projects. Unlike the EU, the U.S. had more diversified interest in Turkmenistan when providing development assistance. Hence, it can be concluded that the U.S. is not a need-based donor in the case of Turkmenistan.

Figure 9 Human Development Index for Turkmenistan



Source: Developed by author using UNDP data on Human Development Index

When looking at human development in Turkmenistan it showed a marginal yet positive trend on the Human Development Index (HDI) where the country improved by 0.02 points since 2010. However, the current results that have been achieved mainly due to high income per capita and mandatory years of schooling, might fall short when adjusted to

income inequality. Unfortunately, there is no data on inequality adjusted HDI for Turkmenistan. This could have presented a more realistic picture of the situation. Nevertheless, the EU may be satisfied by this incremental change, as human development is the major area of EU investment in Turkmenistan. The EU is the sole donor to be responsible for long term reforms in the education, public finance management, capacity building in legal and human rights sectors (Country Strategy Paper 2014-2020). Under its strategy for Turkmenistan for 2014-2020, the EU aims to promote socioeconomic development primarily by focusing on human capital development. However, it is because the EU understands the long-term benefits of investing in people as a way of minimizing potential security risks. Educated and well off people have minimal incentives of conducting violence or joining radical groups.

While promoting the mission of ending extreme poverty and promoting resilient, democratic societies and advancing security and prosperity, USAID also invests in human capital building (USAID 2016). As the organization sees it, poverty is multidimensional and it extends beyond one's material income, and expands to areas such as education, empowerment, inclusion and security. Hence, USAID in Turkmenistan implements projects promoting the physical, material and intellectual wellbeing of Turkmen people. These include quality primary health care; maternal, child and reproductive health; infectious disease control; HIV/AIDS prevention and control; and basic education programs. Moreover, USAID has developed a market economics curriculum that is being taught at secondary schools across Turkmenistan. This is one way to improve youth's entrepreneurial skills and employability in the local labor market (USAID Portfolio Overview). Overall, both the EU and U.S. might be pleased to see the improvements in Turkmenistan's HDI as healthy, educated and financially well off Turkmens have more chances and desire of advancing security and stability in their home country.

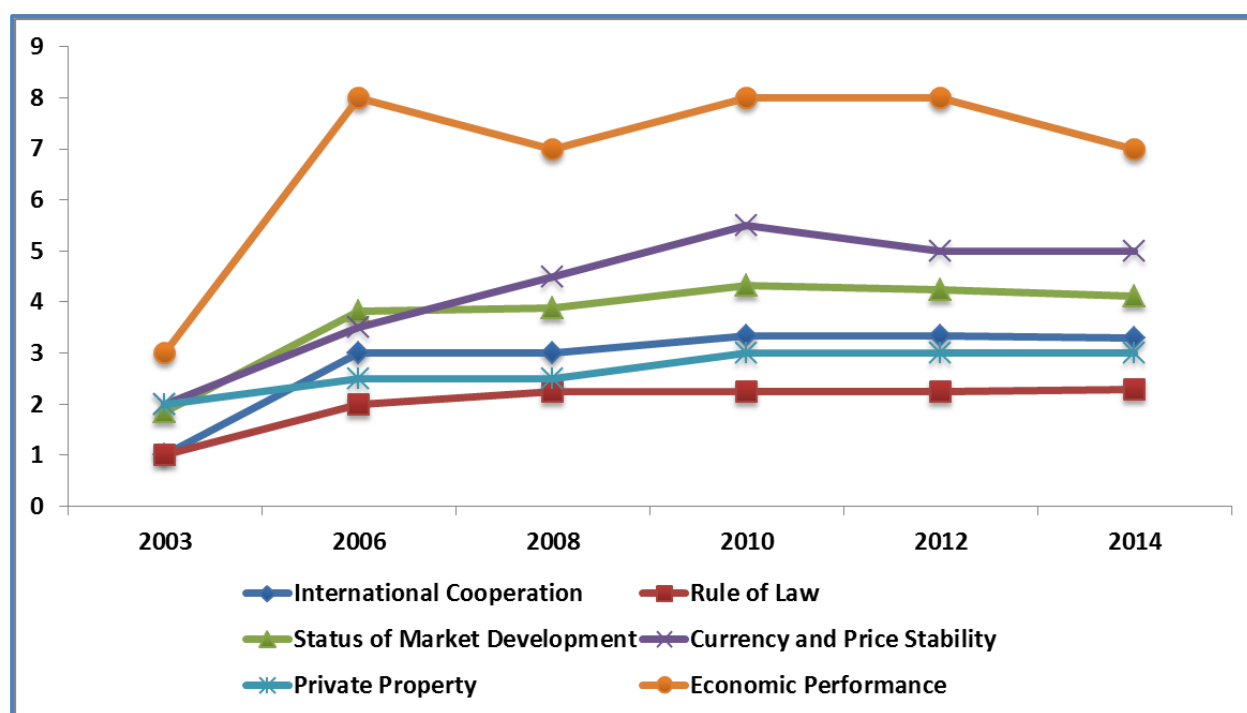
To sum up, the empirical data suggests several important findings about donor motivations in Turkmenistan. First of all, the U.S. ODA to Turkmenistan is relatively volatile compared to the EU's ODA. Secondly, unlike the EU, the U.S. ODA to Turkmenistan is more diversified. Although the U.S. seems to follow a need based approach when providing aid to Turkmenistan, its ODA is the most susceptible to geopolitical interests as illustrated by an increase in its aid in 2002 and 2008. On the other hand, the EU's ODA steadily increased despite improving economic performance in Turkmenistan. This suggests that the EU wants to maintain its presence in the region because it has more direct energy and security benefits and challenges whereas the U.S.'s interest in the region varies depending on its overall foreign policy priorities. Nevertheless, since the EU's ODA predominantly financed development, unlike the U.S., it can be concluded that the EU follows a need-based approach.

3.2 Hypothesis 2: Donors Choose to Provide Development Assistance to Countries that Meet 'Good' Governance Standards as they Ensure Aid Effectiveness

In the development literature it is widely discussed that the presence of democratic institutions increase the likelihood of aid being effective. This is because aid is more likely to reach those in need as opposed to advancing the private interests of corrupt government officials. By simply comparing bilateral ODA from the EU and U.S. to Turkmenistan, it appears that the EU is more concerned about the capacity of state institutions and the form of governance in Turkmenistan than the U.S. The good governance and democracy were the second and third priority area under EU ODA to Turkmenistan and together they accounted for 34% of EU's total ODA allocations. In the case of the U.S., democracy was the third and governance was the fourth most funded sector. Combined, these two areas received about 21% of total U.S. ODA allocations. If we were to assume that donors provide development

assistance to countries that meet good governance standards, then ODA from a given donor should increase when the recipient country's governance scores improve. Hence, the section below will examine Turkmenistan's performance on selected governance indicators and compare them to the flows of bilateral ODA from the EU and U.S. to see any parallels in the way these variables evolve over time.

Figure 10 Selected Indicators from Bertelsmann Transformation Index for Turkmenistan (1=lowest, 10=highest)

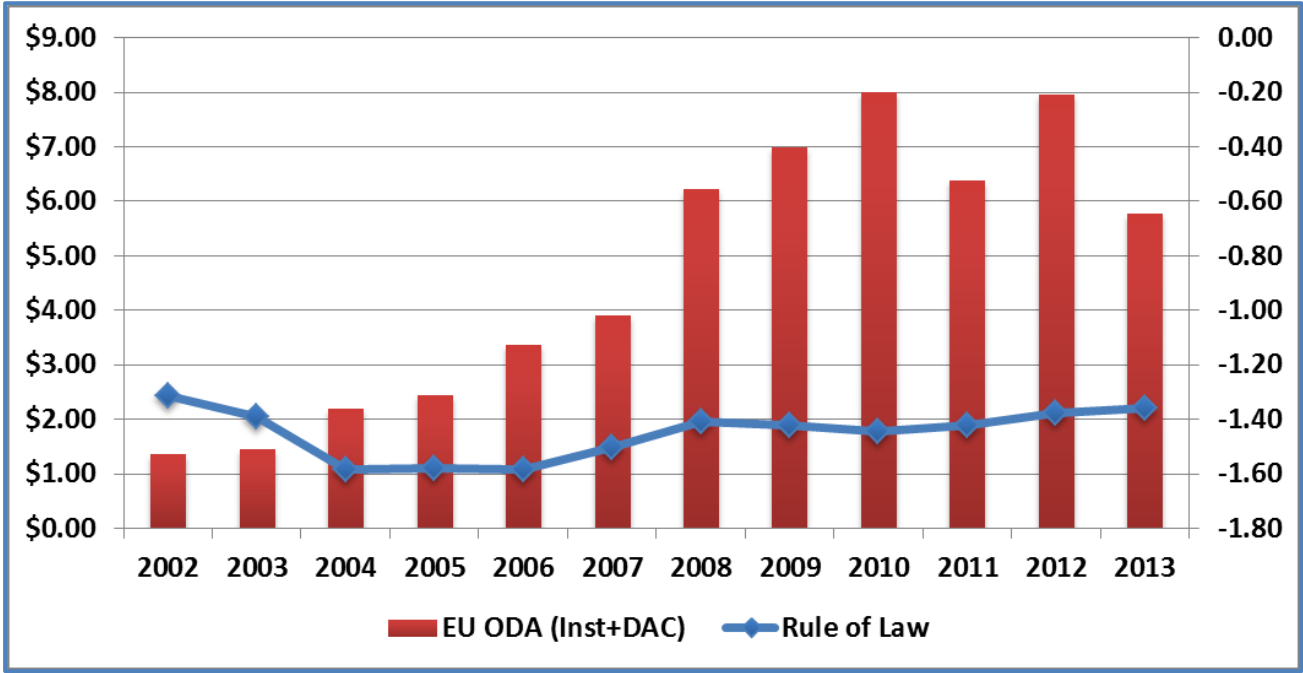


Source: Developed by author using data on Bertelsmann Transformation Index

Western donors are concerned with the level of transition undertaken in Turkmenistan since it is a former Soviet state with centralized political and economic institutions. When considering Turkmenistan's outcome on selected indicators on the Bertelsmann Transformation Index as on Figure 10, one can notice a relatively stable but positive trend following 2006. In particular, economic indicators such as economic performance, currency and price stability or market development made visible improvements. However, one of the

usually cited important factors for providing development assistance – the rule of law – was the area, which transformed the least, only a 0.25-point improvement.

Figure 11 Comparing EU ODA to Turkmenistan’s Performance on the Rule of Law Indicator

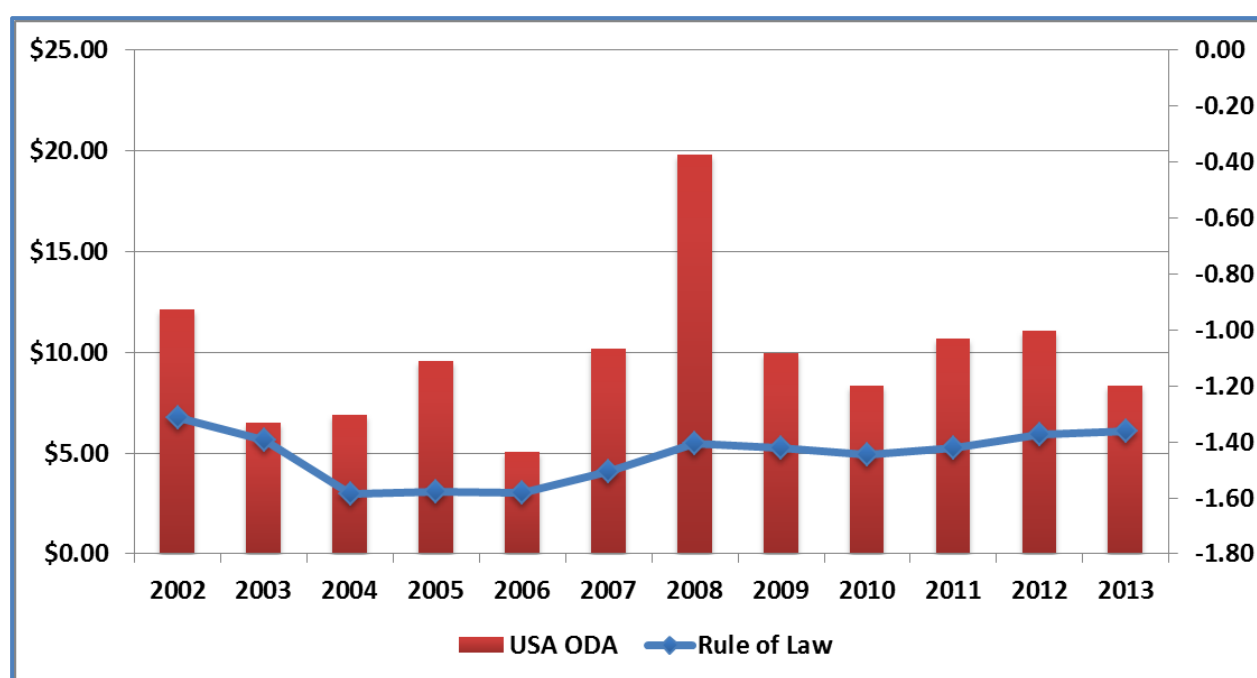


Source: Developed by author using OECD statistics on EU ODA and WGI data

Similarly, when looking at Turkmenistan’s score on the rule of law component of WGI, there is little improvement. This indicator examines society’s level of confidence and abidance by the set rules especially in regard to the quality of contract enforcement, property rights and law enforcement agencies (Kaufmann, Kraay and Mastruzzi 2010). In Figure 11, it is clear that the country’s score on this indicator decreased after 2002, but increased again in 2007 and 2008 after which it more or less stayed the same. It is hard, however, to claim that EU ODA to Turkmenistan increased following the country’s improvements in rule of law because the EU’s assistance steadily increased since 2002, despite the changes in the indicator. Nevertheless, it is surprising since the EU itself has channeled significant amounts of funding into this sector. The Rule of Law initiative is one of the three projects implemented on a

regional level in CA. It supports legal sector reform mainly through political dialogue and technical assistance (Isaacs 2009). In Turkmenistan, for instance, the initiative provides training to legal sector employees and civil servants. Moreover, EU's efforts in Turkmenistan are complemented by the German Technical Cooperation (GIZ), which promotes legislative reforms in trade and commercial laws along with training judges and judicial employees (Isaacs 2009). The EU's business interests might explain the increase in EU's ODA to Turkmenistan because the Union is more interested in commercial/trade law than the rule of law associated with good governance, democracy and human rights (Isaacs 2009). Economic aspects of the rule of law also might be more appealing for the Turkmen government as it helps to improve the investment climate in the country and attract more foreign investment.

Figure 12 Comparing U.S. ODA to Turkmenistan's Performance on the Rule of Law Indicator

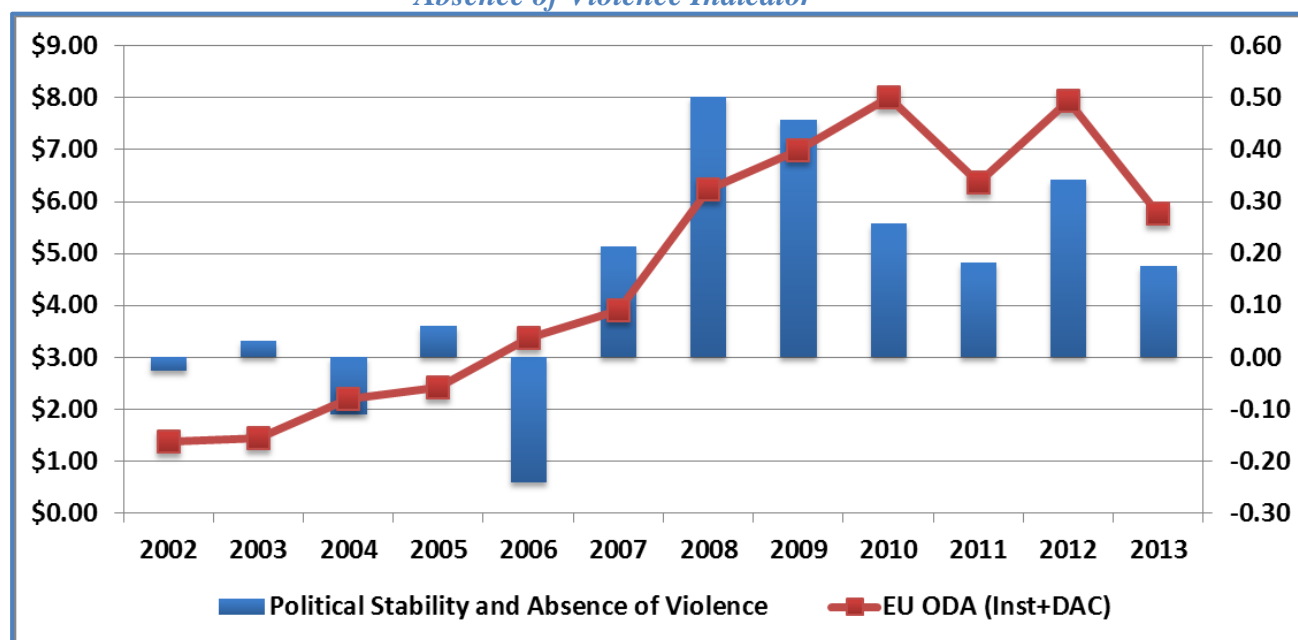


Source: Developed by author using OECD statistics on U.S. ODA and WGI data

Unlike the EU, the U.S.'s development assistance seems to closely follow Turkmenistan's performance on the rule of law. When comparing these two variables, as in

Figure 12, one can notice a trend - when Turkmenistan's score on rule of law worsened the U.S. ODA also decreased and when the score improved the U.S. assistance also increased as well. One possible explanation for the U.S. concern in the rule of law is that it is a strong supporter of economic liberalization in Turkmenistan. For instance, the economic growth and trade program of USAID aims to improve the investment climate in Turkmenistan and help the country to integrate into the regional and global economy. Moreover, the U.S. actively advocates for Turkmenistan's membership in the World Trade Organization (WTO). For example, USAID has been working with the Turkmen government on the possibility and requirements for accession since 2013 (US Embassy 2013). Advancing the rule of law in Turkmenistan would also help to integrate the country in to the global economy and thus, reduce Russia's dominance in the country while creating a friendly environment for U.S. businesses wishing to invest in the energy sector.

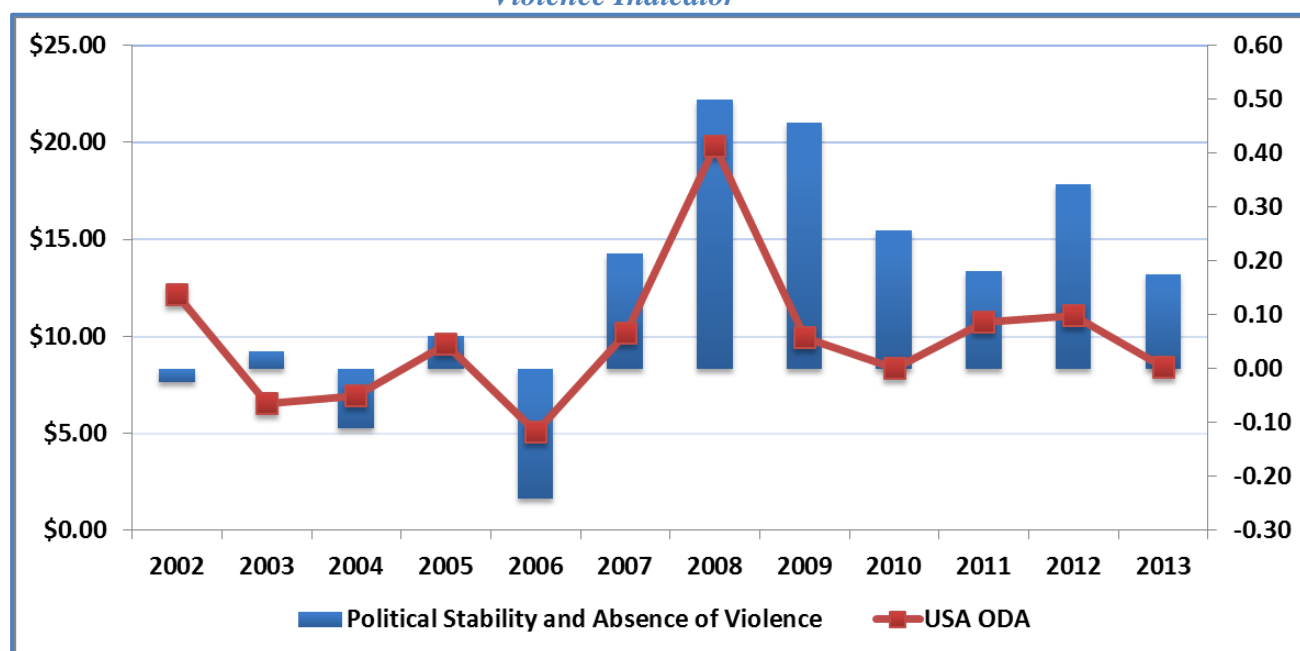
Figure 13 Comparing EU ODA to Turkmenistan's Performance on Political Stability and Absence of Violence Indicator



Source: Developed by author using OECD statistics on EU ODA and WGI data

Moreover, Turkmenistan demonstrates an improvement on political stability and absence of violence indicator, which examines the possibility of government overthrow through violent or unconstitutional means (Kaufmann, Kraay and Mastruzzi 2010). The EU seems to care about stability in Turkmenistan because the development assistance from the Union tends to increase along with improving scores on political stability and absence violence index. This is not surprising because the 2007 Central Asia Strategy for a New Partnership highlighted security and stability as the main EU strategic interests in CA (The EU and CA: Strategy for a New Partnership 2007). Furthermore, the 2010 uprising in Kyrgyzstan, which resulted in the overthrow of President Kurmanbek Bakiyev and ethnic violence leading to 470 deaths and over 400,000 displaced people (Boonstra 2009), demonstrated how instability could potentially have a negative effect on the EU. These kinds of threats become especially alarming in the light of the recent immigration crisis in the EU where the Union is unable to meet the needs of over 1 million refugees and manage the increasing rates of crime and instability. Sweden, for example, a country that received the highest number of per capita refugees also experienced a 500% increase in sexual assaults and registered the second highest number of rapes in the world (Greenfield 2013). Hence, the primary objective of the EU's development assistance in Turkmenistan and CA is to help countries prevent and resolve their security challenges such as ethnic tensions, internal instability, religious radicalization, drug trafficking or interstate tensions. A stable and secure CA would insulate the EU from the potential spread of organized crime, terrorism, drug trafficking and refugee influx.

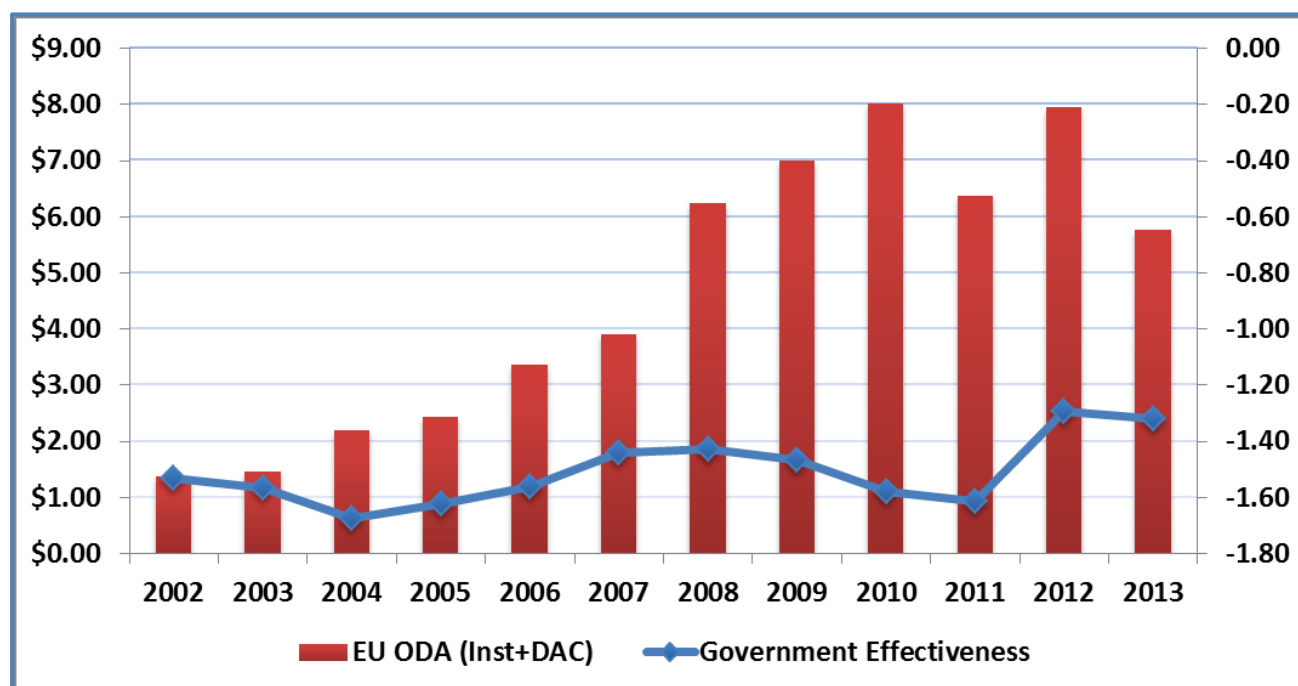
Figure 14 Comparing U.S. ODA to Turkmenistan's Performance on Political Stability and Violence Indicator



Source: Developed by author using OECD statistics on U.S. ODA and WGI data

Likewise, the U.S. seems to base its decision to provide aid on political stability in Turkmenistan. Although the relevant magnitude of changes is drastic, in general the U.S. ODA tends to follow a similar trend as the political stability and absence of violence indicator. In 2006 Turkmenistan scored low on political stability and absence of violence due to uncertainty caused by the unexpected death of President Niyazow. However, once the power was smoothly transitioned to then temporary and later elected President Berdimuhammedow, the country's performance on this indicator improved too. Moreover, during his first years in office Berdimuhammedow implemented promising reforms. This might have also increased the U.S. bilateral aid as shown in Figure 14.

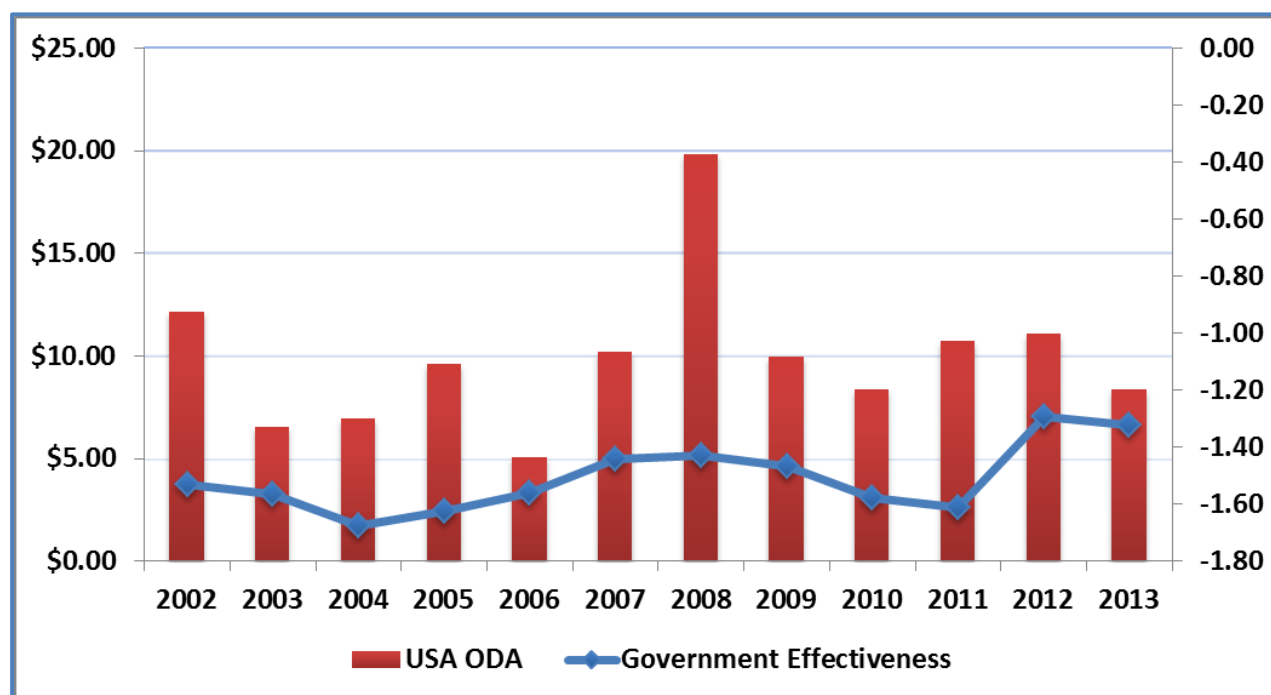
Figure 15 Comparing EU ODA to Turkmenistan's Performance on Government Effectiveness Indicator



Source: Developed by author using OECD statistics on EU ODA and WGI data

Government effectiveness is a variable that assesses the quality of public and civil services, along with the quality of policy formulation and implementation (Kaufmann, Kraay and Mastruzzi 2010). Turkmenistan's performance on this indicator is highly volatile, while the EU ODA to Turkmenistan is progressively growing. Starting from 2002 until 2004 Turkmenistan's outcome on this indicator declined whereas the EU ODA increased on the opposite. The indicator picked up in 2005 and steadily increased until 2008, which also coincided, with an increase in EU's ODA. However, after 2008 when the government effectiveness worsened, the EU ODA kept increasing. An increase in the index from 2011 to 2012 was also accompanied by an increase in EU's ODA. Consequently, it is hard to argue that the EU ODA followed the quality of government effectiveness in Turkmenistan since its assistance kept increasing regardless of the country's shortcomings in this area.

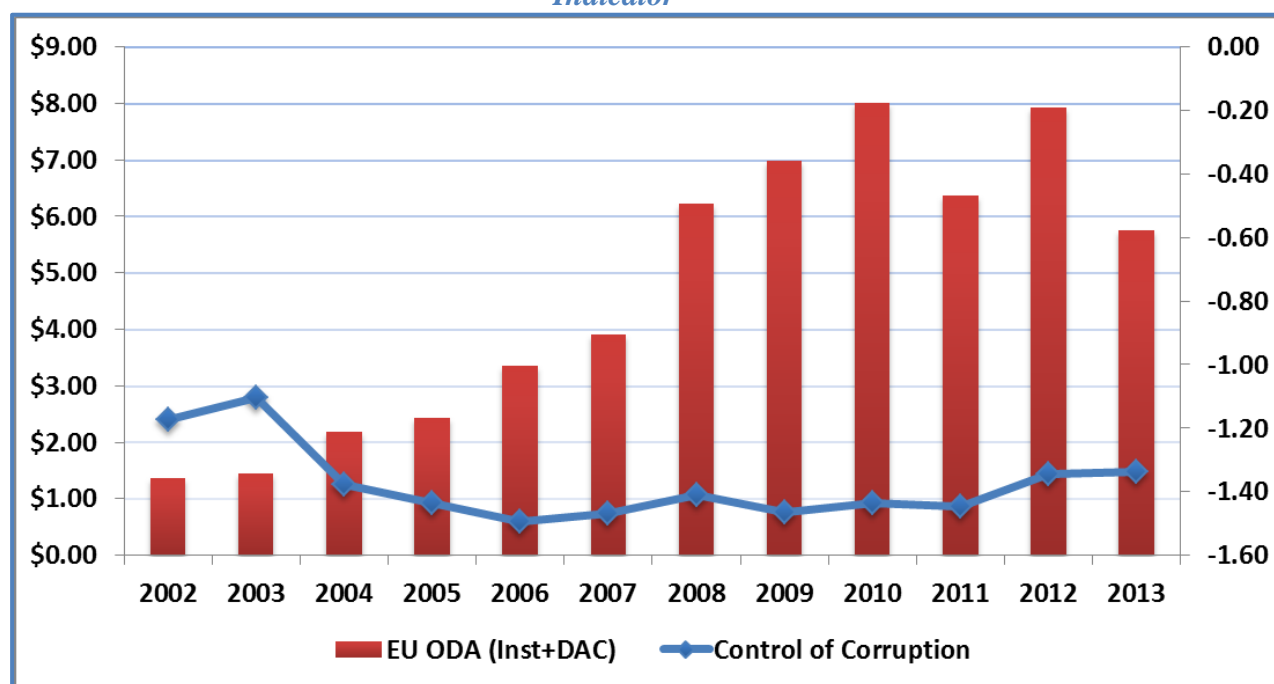
Figure 16 Comparing U.S. ODA to Turkmenistan's Performance on Government Effectiveness Indicator



Source: Developed by author using OECD statistics on U.S. ODA and WGI data

The U.S. ODA however seems to be somewhat closely aligned with the government effectiveness indicator. When comparing the two variables over time, the U.S. ODA decreases at times of poor government effectiveness like in 2004 and 2010, and increases when the indicator improves like in 2007 and 2012. There are two instances, however, when the U.S. ODA increased significantly. It was in 2002 when the U.S. needed Turkmenistan's support with its ongoing war in Afghanistan and later in 2007 when the new leadership came to power in Turkmenistan. Overall, it can be said that the U.S. ODA allocations are being influenced by Turkmen government's effectiveness to ensure quality of service delivery.

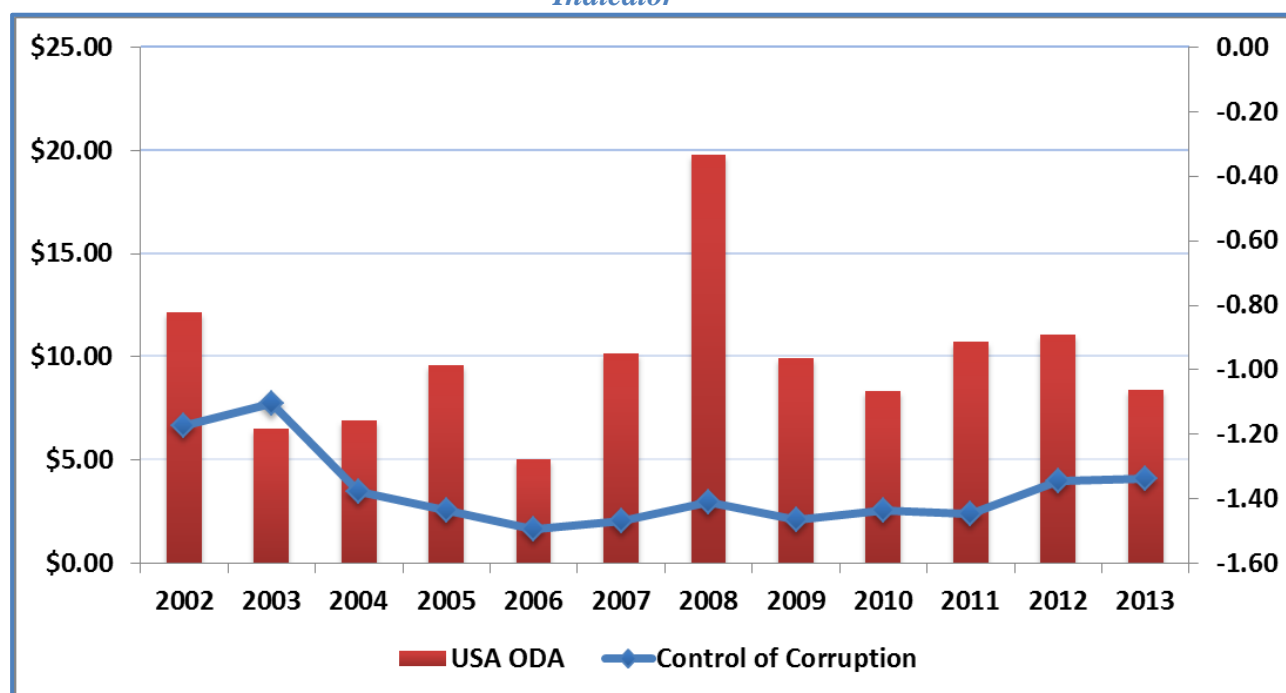
Figure 17 Comparing EU ODA to Turkmenistan's Performance on Control of Corruption Indicator



Source: Developed by author using OECD statistics on EU ODA and WGI data

The control of corruption indicator measures the extent to which public officials misuse their position for their individual gain (Kaufmann, Kraay and Mastruzzi 2010). For the given time period, with the exception of 2002 and 2003 when Turkmenistan scored relatively better on corruption control, the country's performance remained stable but low. Yet, the EU's ODA to Turkmenistan maintained an upward sloping trend. Hence, it can be assumed that the EU is less concerned with the level of corruption in Turkmenistan and possibility of its development aid being misused.

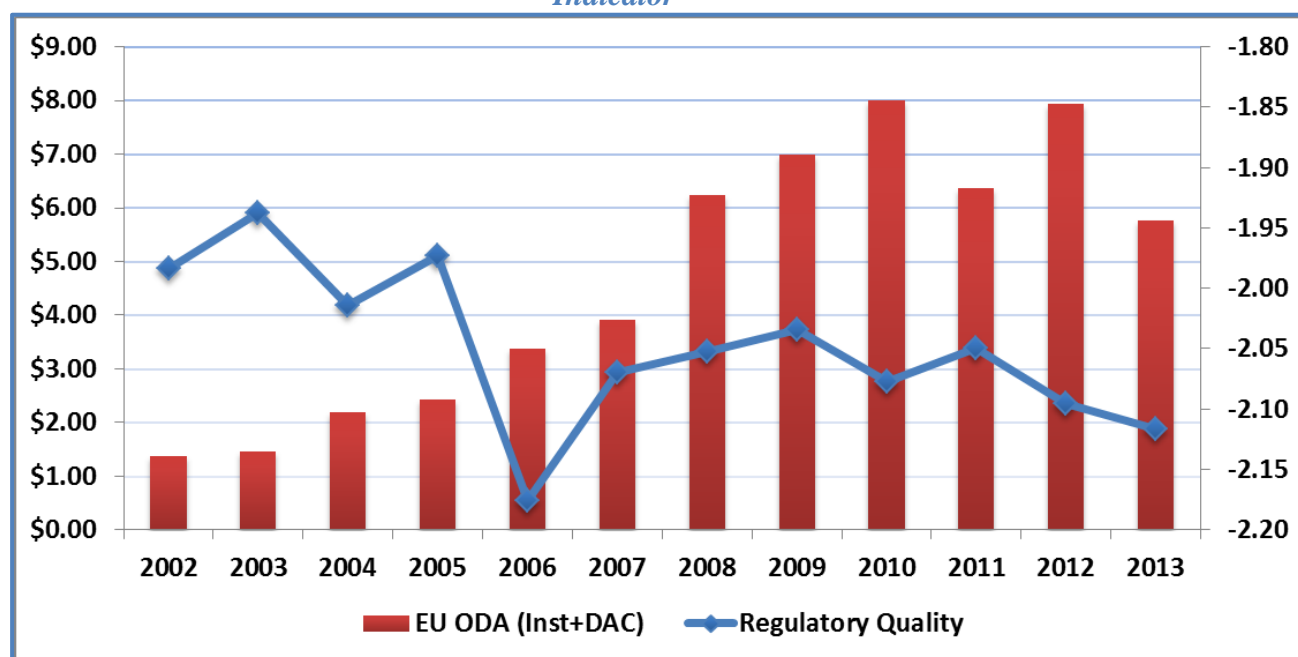
Figure 18 Comparing U.S. ODA to Turkmenistan's Performance on Control of Corruption Indicator



Source: Developed by author using OECD statistics on U.S. ODA and WGI data

Unlike the EU, the U.S. seems to be concerned about the levels of corruption in Turkmenistan as for the most part the U.S. ODA followed a similar trend as the control of corruption indicator. However, there were times when the U.S. ODA decreased even when the corruption control improved like in 2003, and times when the U.S. assistance increased when the indicator actually worsened as in 2005. This phenomenon could be explained by examining broader foreign policy objectives of the U.S. and specific geopolitical concerns in Turkmenistan. Nevertheless, the U.S. development projects in Turkmenistan do include those targeting corruption. For example, as a way to increase transparency and tackle corruption, which partly occurs due to the rigid bureaucratic processes, USAID pioneered the implementation of 'e-governance' procedures in Turkmenistan (USAID 2015).

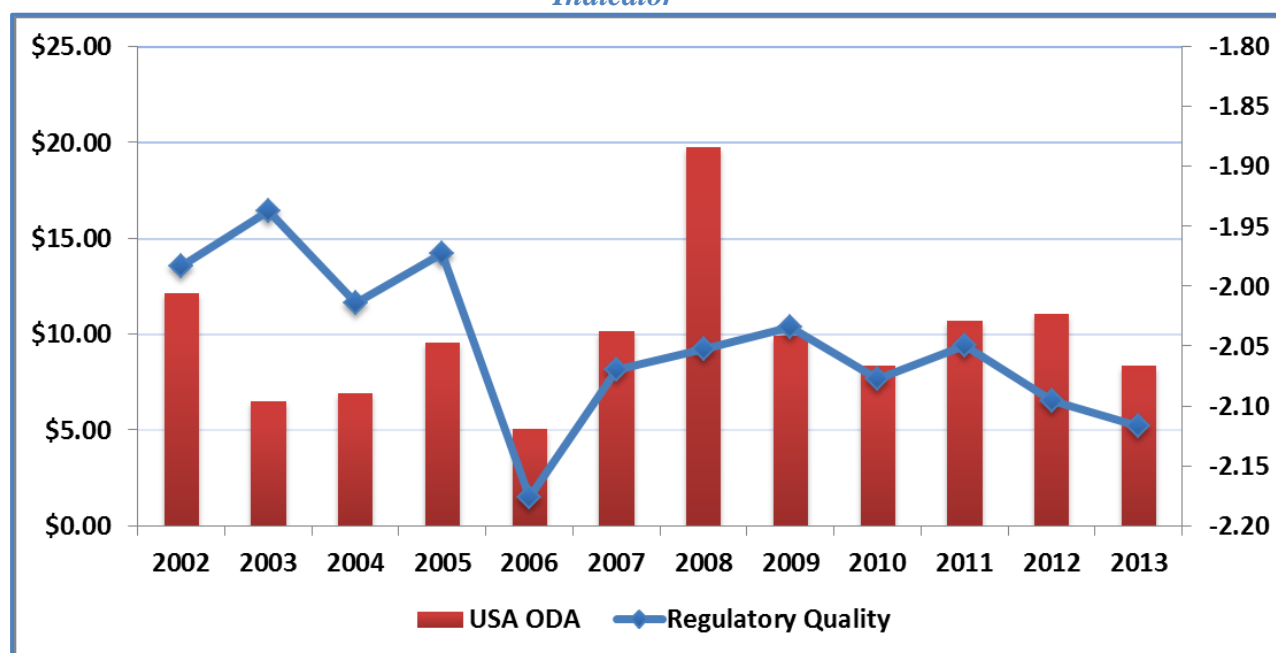
Figure 19 Comparing EU ODA to Turkmenistan's Performance on Regulatory Quality Indicator



Source: Developed by author using OECD statistics on EU ODA and WGI data

The regulatory quality indicator examines the extent to which the government is able to develop and adopt sound policies that promotes the private sector development (Kaufmann, Kraay and Mastruzzi 2010). After comparing the EU ODA to Turkmenistan's performance on this indicator it is clear that there is no clear link between these two variables. While the EU's gave little bilateral aid when the country actually did relatively well on the indicator for the period from 2002 to 2005, it actually kept increasing when the indicator deteriorated. However, if we were to assume a one-year lag between these variables, then the two variables seem to follow a similar trend as in 2010 when the regulatory quality in Turkmenistan worsened after which the EU ODA decreased in 2011.

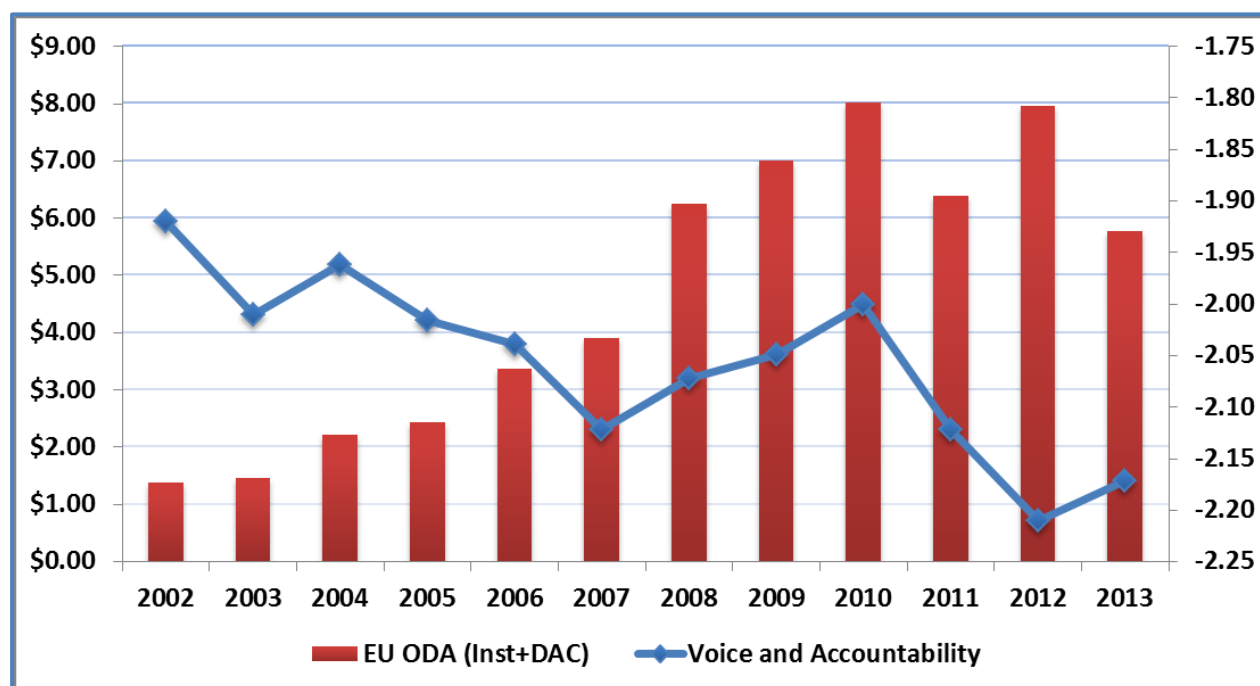
Figure 20 Comparing U.S. ODA to Turkmenistan's Performance on Regulatory Quality Indicator



Source: Developed by author using OECD statistics on U.S. ODA and WGI data

When comparing the U.S. ODA to Turkmenistan's outcomes on the regulatory quality indicator, it seems that these variables followed a similar trend after 2005. Almost every improvement in the regulatory quality was followed by an increase in the U.S. development aid to Turkmenistan. A possible explanation might be that the U.S. is strongly interested in promoting open market economy in Turkmenistan and thus might reward the country for making it easier for the private businesses to operate.

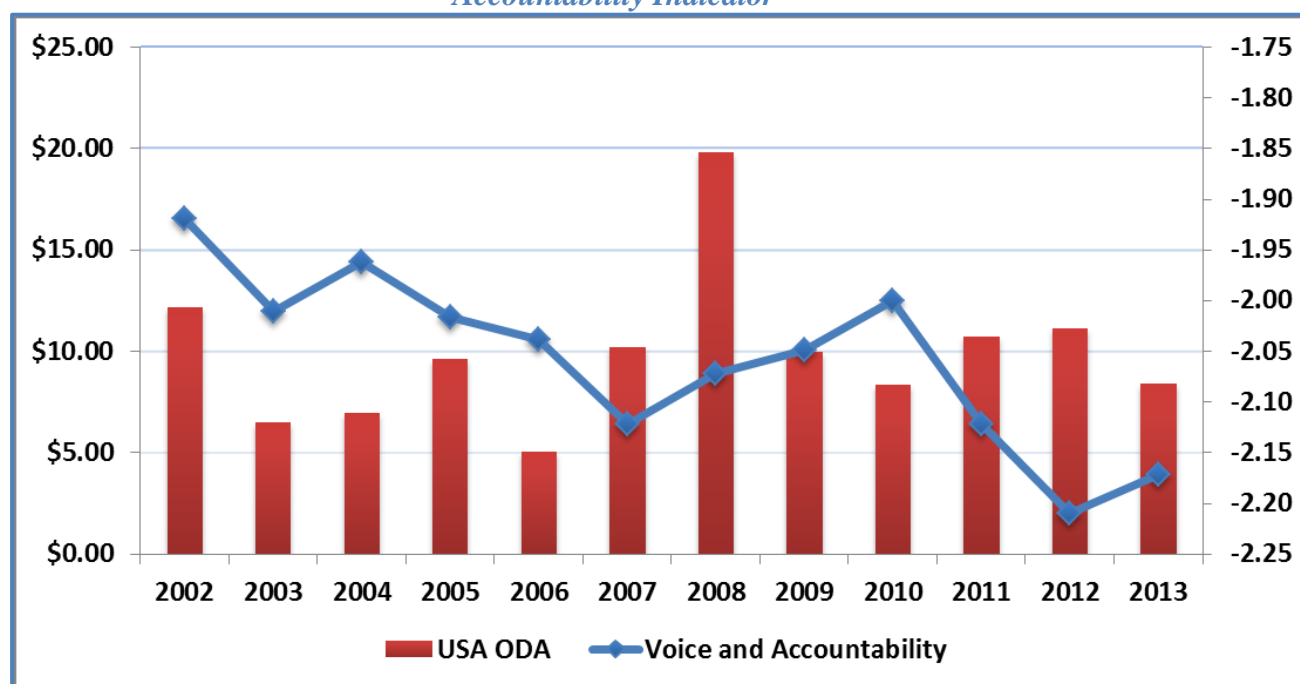
Figure 21 Comparing EU ODA to Turkmenistan's Performance on Voice and Accountability Indicator



Source: Developed by author using OECD statistics on EU ODA and WGI data

‘Voice and Accountability’ is a measure of democratic practices that ranges from elections to freedom of expression, association and media (Kaufmann, Kraay and Mastruzzi 2010). The EU ODA was small during Turkmenistan’s relatively high performance on the voice and accountability indicator, from 2002 to 2006. There was a sequence of several years, mainly from 2008 until 2010 when the two variables both increased upward. However, after 2010 the indicator sharply declined and reached its lowest point whereas the EU assistance only slightly declined. It fell from \$8.01 million to \$6.38 million from 2010 to 2011, but it bounced back again in 2012. Therefore, it is hard to say if the EU ODA distribution to Turkmenistan was based on the country’s commitment to democratic practices.

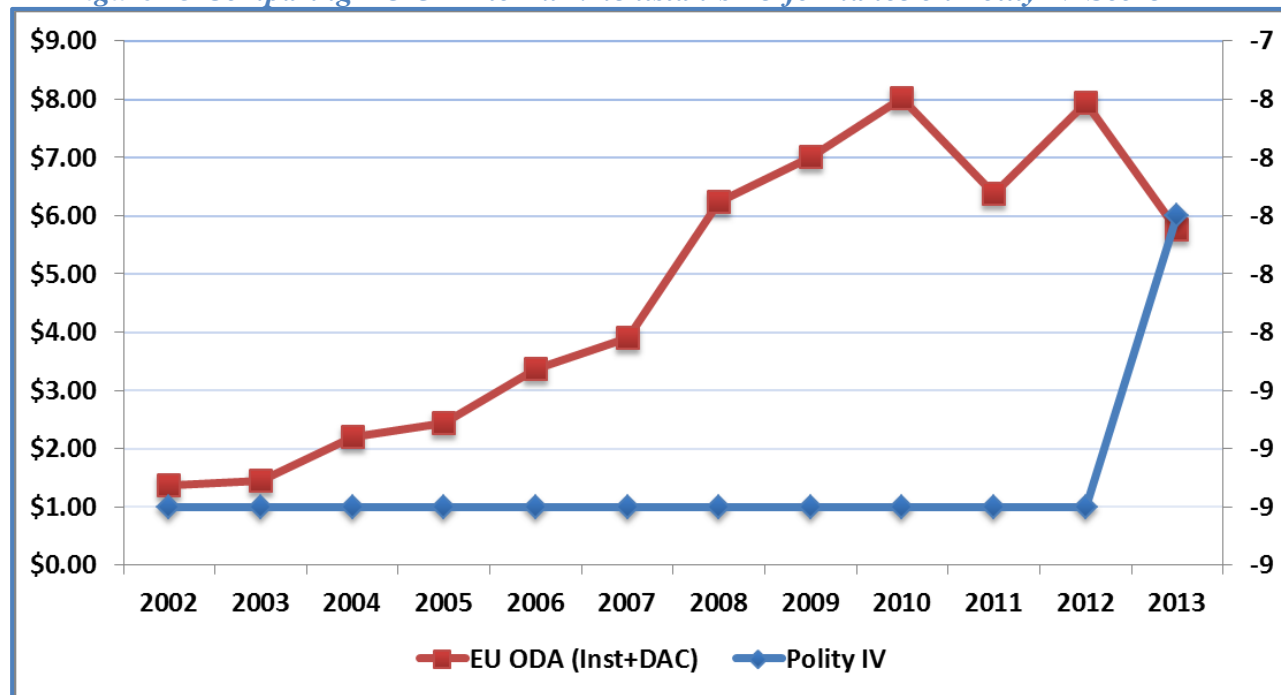
Figure 22 Comparing U.S. ODA to Turkmenistan's Performance on Voice and Accountability Indicator



Source: Developed by author using OECD statistics on U.S. ODA and WGI data

Similarly, it is hard to see any relation between the U.S. ODA and Turkmenistan's results on the voice and accountability indicator. The indicator fell sharply from 2002 to 2003 and was also followed by a decrease in U.S. ODA. When the indicator somewhat improved in 2004 it was again followed by a slight increase in U.S. assistance. There is also a parallel between these two variables in 2008 where 0.05-point improvement in voice and accountability led to almost doubling of the U.S. ODA. Overall, the U.S. seems to care about voice and accountability more compared to the EU. Although democracy is the third priority area for both of the donors, the U.S. spent twice as much on democracy related project as the EU.

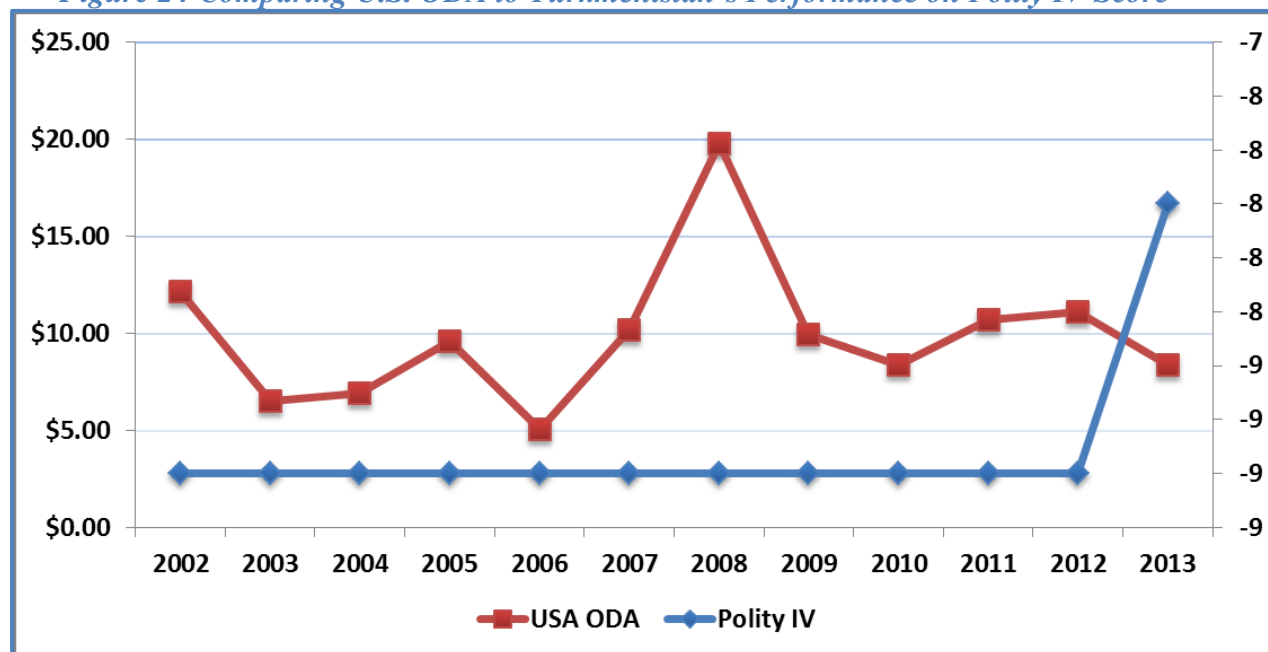
Figure 23 Comparing EU ODA to Turkmenistan's Performance on Polity IV Score



Source: Developed by author using OECD statistics on EU ODA and Polity IV Score

The Polity IV is a dataset that examines the quality of executive recruitment, constraints on executive authority and political competition in a given country (The Polity Project 2014). When comparing Turkmenistan's performance on Polity IV to EU's ODA, aid flows do not follow improvements in Polity IV. As shown in Figure 23, the EU ODA to Turkmenistan steadily increased even in the absence of improvements in the Polity IV. Yet, when Turkmenistan's score improved by 1 point in 2012, EU's ODA actually decreased from \$7.94 million in 2012 to \$5.77 million in 2013. Similar to EU, the U.S. ODA also slowed down after 2012 when Turkmenistan improved in Polity IV.

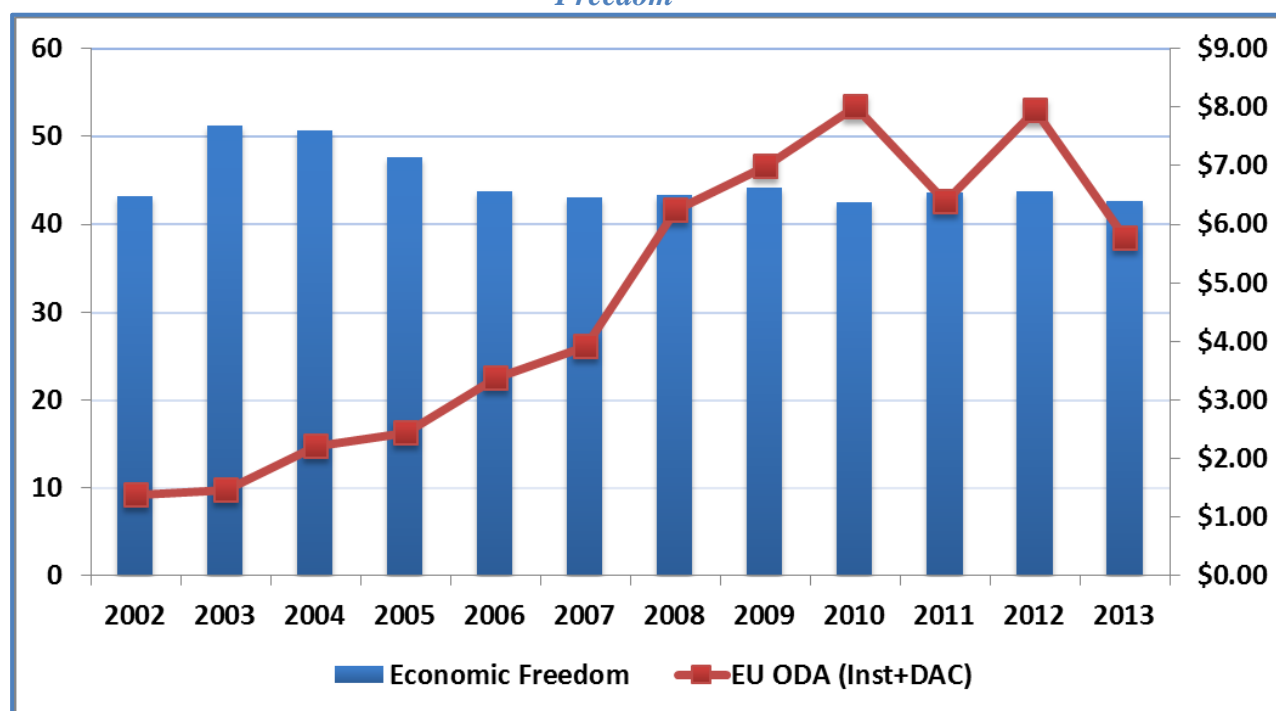
Figure 24 Comparing U.S. ODA to Turkmenistan's Performance on Polity IV Score



Source: Developed by author using OECD statistics on U.S. ODA and Polity IV Score

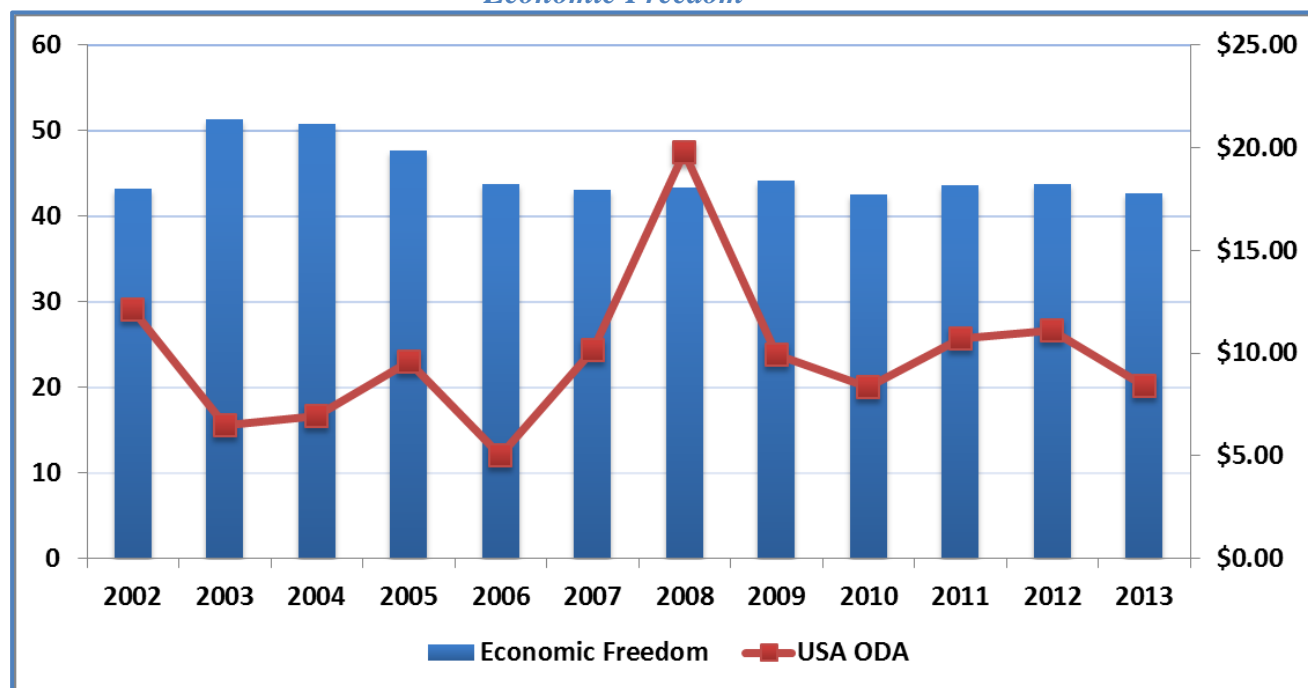
Furthermore, the Index of Economic Freedom (IEF) evaluates the extent to which there is freedom of labor, consumption, production and investment as well as free flow of labor, capital and goods (Index of Economic Freedom 2015). Figure 25 shows an inverse relation when comparing the EU's ODA flows to Turkmenistan with country's results on this indicator. The EU's ODA flows were small when the Turkmen economy was relatively freer, and they were high when the country's economy was constrained. Similarly, the U.S. ODA to Turkmenistan decreased following 2002 when the country actually scored relatively high on economic freedom and assistance sharply increased on the eve of presidential elections in 2007. It decreased thereafter following a more stable trend. As a result, it can be assumed that the EU and U.S. ODA distribution does not follow improvements in economic freedom.

Figure 25 Comparing EU ODA to Turkmenistan's Performance on the Index of Economic Freedom



Source: Developed by author using OECD statistics on EU ODA and IEF

Figure 26 Comparing U.S. ODA to Turkmenistan's Performance on the Index of Economic Freedom



Source: Developed by author using OECD statistics on U.S. ODA and IEF

Overall, the analysis of empirical data suggests that the U.S.'s decision to provide development assistance to Turkmenistan is altered by the country's performance on selected governance indicators, meanwhile the same does not hold for the EU. Out of eight indicators assessing different aspects of good governance, the U.S. decision to allocate ODA seems to be influenced in five out of the eight cases. These five indicators include the rule of law, political stability and absence of violence, government effectiveness, corruption control and regulatory quality. The indicators which did not effect the U.S. ODA allocations, were Polity IV, economic freedom and to some extent voice and accountability. Likewise, the EU seems to be concerned more about the rule of law and political stability and absence of violence when deciding on its ODA allocations to Turkmenistan. The areas in which the EU did not feel that strong about were corruption, Polity IV, economic freedom and to a lesser extent government effectiveness, regulatory quality and voice and accountability. The striking difference between these two donors is that the U.S.'s ODA allocations to Turkmenistan are influenced by country's (perceived) ability to control corruption while for the EU it was not a major issue.

3.3 Hypothesis 3: Donors Choose to Provide Development Assistance to Advance their Security Interests

There is a wide range of literature arguing that security interests became less relevant after the end of the Cold War. However, in the light of recent global instability, competition over energy resources, increase in religious extremism, and hostile relations among global and regional powers, security interests become an influential factor in deciding about development cooperation. Therefore, the section below examines the bilateral ODA from the EU and U.S. to Turkmenistan vis-à-vis their security interests in the country. In order to examine if donors'

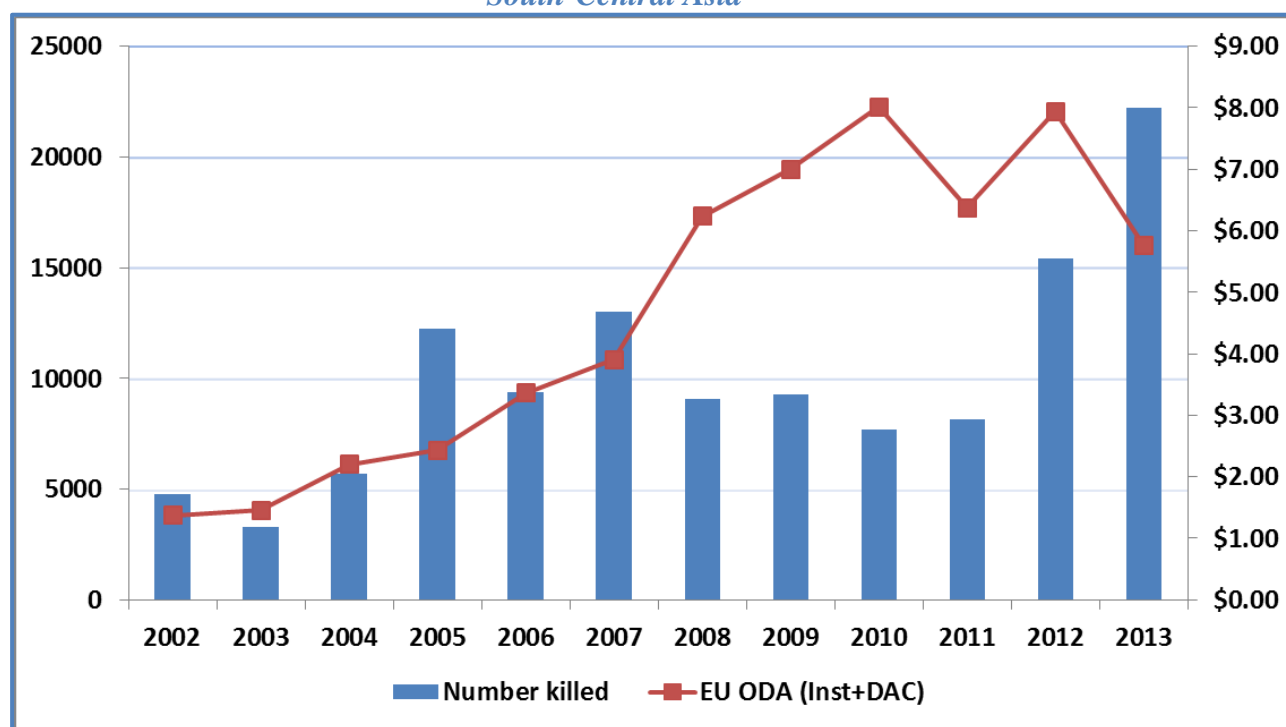
security interests influence their aid allocations, the section provides a statistical analysis that compares the number of killed people in terrorist activities in South and Central Asia to bilateral ODA to Turkmenistan. The basic assumption here is that at higher rates of casualties caused by terrorist activities in the region, bilateral donors will provide more development assistance to Turkmenistan and visa versa.

The primary security concern for the EU and U.S. in Turkmenistan and in CA is the threat of religious extremism originated mainly in Afghanistan. In a predominantly Muslim society with one-third of its population being below 15 years of age and having limited economic and political opportunities create a fertile soil for youth radicalization (Central and Southwest Asian Countries: Trends 2009). Although there may not be religious movements inside Turkmenistan, there are many young Turkmen who join the forces of Al-Qaeda in Syria. When looking at per capita number of volunteers joining ISIS (Islamic State of Iraq and Syria) and other terrorist organizations, Turkmenistan shows the highest results in CA where 1 in 14,400 Turkmen join the groups. Moreover, when considering the total number of foreign fighters in Syria, Turkmenistan ranks second in CA after Kyrgyzstan where 360 people or 0.007% percentage of population have left to fight in Syria. These are mainly people from marginalized minority groups who do not affiliate themselves with national or clan identity in Turkmenistan. They also include Turkmen immigrant workers in Russia who work in low paid jobs and become recruited by Caucasian religious groups (Dyner 2015). Turkmen men who choose to travel and join these extremist groups might feel the urge to support their tribesmen living in Afghanistan, Iraq and Syria. Turkmen in Syria, for example, were long oppressed by the Assad regime and hence, once the war started, they took up arms against the government. They formed several fractions, which are primarily supported by Turkey and the Gulf States. While these Turkmen mainly fight the Syrian government alongside the Free Syrian Army and the Islamist Ahrar al-Sham, they are also known to

cooperate with al-Qaeda affiliated Nusra Front, which has the objectives of establishing an Islamic State in Syria and beyond (Who Are the Turkmen in Syria 2015).

The EU has strategic interests in CA, as it wants to see a “peaceful, democratic and economically prosperous CA” (The EU and CA: Strategy for a New Partnership 2007). Since CA serves as a passageway for religious extremists and drug traffickers to reach European countries, the region plays an important role in minimizing the security risks for the Union. Especially after the Southern Caucasus became part of the European Neighborhood Policy, the EU geographically became closer to CA (The EU and CA: Strategy for a New Partnership 2007). In order to mitigate potential negative spill over of insecurity, EU’s MIP for CA 2014-2020 prioritizes Regional Sustainable Development and Regional Security for Development. In particular, under security, the EU plans to minimize security threats posed by terrorist activities in Afghanistan as well as address the primary causes of youth radicalization (Turkmenistan: Country Strategy Paper 2014-2020). Since youth have a double responsibility of helping their old parents and sustaining their own families, they have strong monetary incentives to join these extremist groups. This might be the major reason why the EU decided to concentrate on human development in Turkmenistan for the upcoming six years. Providing quality education and jobs might restrain youth from joining extremist groups and threatening the national, regional and transnational security.

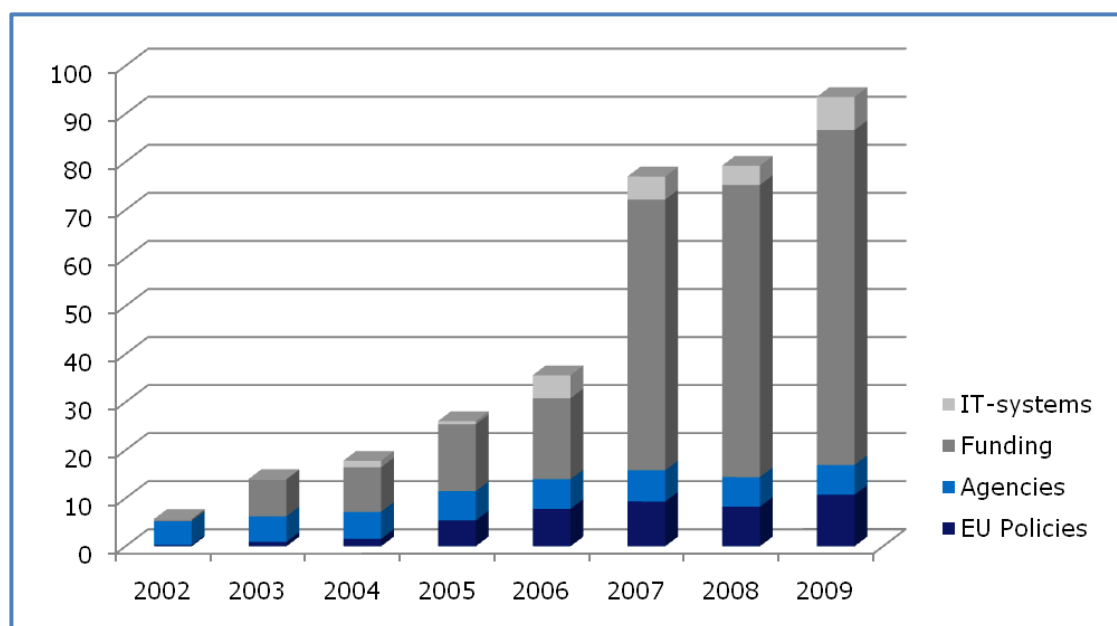
Figure 27 Comparing EU ODA to TKM to the Number of Killed in Terrorist Activities in South-Central Asia



Source: Developed by author using OECD statistics on EU ODA and Global Terrorism Database

In order to see whether or not terrorist activities in the region influence the EU's aid allocation, Figure 27 illustrates how terrorist casualties and the EU ODA to Turkmenistan evolved over time. Here, number of killed refers to the number of civilians and terrorists killed in terrorist activities in South and Central Asia. From 2002 until 2007, at increasing rates of casualties, the EU ODA to Turkmenistan also increased. However, between 2008 and 2012, when the number of victims decreased, the EU ODA kept increasing while in 2013 when the number of fatalities reached its peak, the EU ODA actually decreased. The increase in this period might be due to the EU's desire to strengthen its relations with the newly elected President Berdimuhammedow. The decrease, however, might reflect the shifting priorities in EU's foreign policy and need to address urgent matters such as the Ukrainian crisis and Russia's aggressive foreign policy in EU's immediate neighborhood.

Figure 28 Total Costs of European Counterterrorism (CT) Measures in € millions 2002–2009



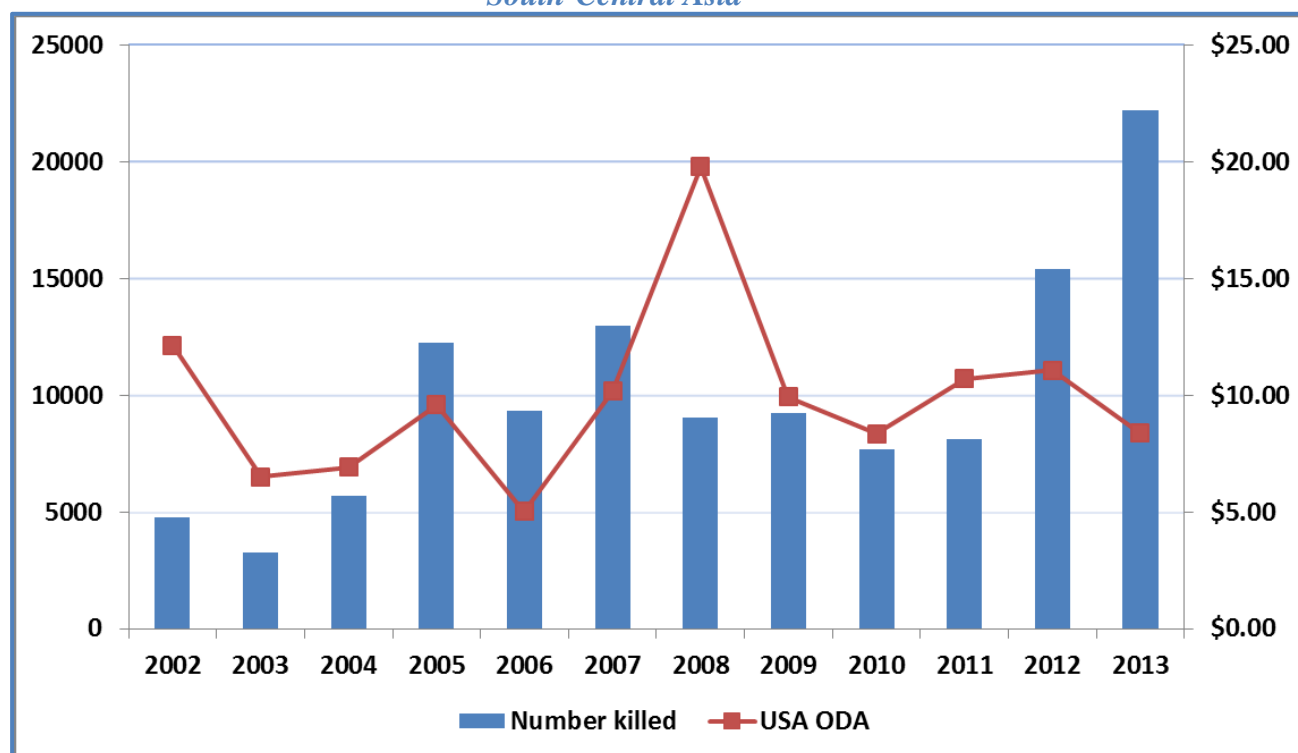
Source: Wensink, van de Velde and Boer 2011

Furthermore, putting side by side the data on EU's ODA to Turkmenistan and EU's spending on counterterrorism measures, one can notice a similar upward sloping trend. The cost of counterterrorism (CT) activities in the EU rose from €5.7 million in 2002 to €93.5 million in 2009 (Wensink, van de Velde and Boer 2011). It is interesting, however, that the biggest increase in EU's CT spending occurred in period from 2007 to 2009, which is also when the EU developed its CA Regional Strategy for a New Cooperation. The current data suggests that the EU's ODA allocations to Turkmenistan surged at the times when EU's security spending also increased. Consequently, it can be assumed that the EU's security concerns significantly influence its decisions to provide development assistance.

The U.S., similar to the EU, is predominantly concerned about the rise of religious extremism and terrorism in the region. However, unlike the EU, in U.S. this concern escalated following the terrorist attacks on September 9, 2001 after which the U.S. has initiated a global war on terror. Under the Operation Enduring Freedom, the U.S. invaded Afghanistan to dismantle al-Qaeda and remove Taliban from power. During the military operations,

Turkmenistan, along with other CA countries, became strategically important due to its geographical proximity to Afghanistan. Although Turkmenistan has not provided military assistance in the war, due to its neutrality status, it helped with transporting humanitarian assistance to Afghanistan (Central and Southwest Asian Countries 2009).

Figure 29 Comparing U.S. ODA to TKM to the Number of Killed in Terrorist Activities in South-Central Asia



Source: Developed by author using OECD statistics on U.S. ODA and Global Terrorism Database

The U.S. ODA allocations resemble that of EU where extremist activities in the region influence donor's decision to provide aid. As shown in Figure 29, when the number of casualties in the region decreased, the amounts of U.S. ODA also went down, and when the number of casualties increased, the U.S. assistance also went upward. Although in 2002 the number of victims was relatively low, the U.S. ODA was high. This is because the U.S. wanted to support its war in Afghanistan. When in 2001 the U.S. militarily invaded to Afghanistan, Turkmenistan became strategically important due to its geographical proximity to the latter. Although Turkmenistan would have been a perfect station for the U.S. military,

the Turkmen government refused such access justifying by the country's positive neutrality status. Nevertheless, Turkmenistan allowed refueling and blanket overflights for the U.S. military aircrafts at Ashgabat's airport. The latter is a special permission that was granted for the purposes of humanitarian assistance and stabilization efforts in Afghanistan (Turkmenistan - US Relations 2015). Likewise, Turkmenistan sent fuel and goods by trucks and train to Afghanistan (Nichol 2013). Furthermore, a small unit of the 455th Air Expeditionary Wing was stationed in remote areas of Turkmenistan (Nichol 2013). For example, in the light of increased American investment in its energy sector, Turkmenistan granted access to U.S. to its Soviet era air base in southern region of Mary to transport nonlethal goods to Afghanistan (Tynan 2009). Moreover, in 2005 the US security assistance to Turkmenistan climbed up from \$0.97 million to \$8.98 million, which is an increase of 825%. This was the time when the Turkmen government allowed the U.S. to transport nonlethal goods using its land routes (Tynan 2009). Likewise, as part of the "National Defense Authorization Act for fiscal year 2010," Turkmenistan earned \$821 million by selling gasoline to U.S. during its military operations in Afghanistan (Tynan 2009). This further illustrates the U.S.'s security interests being the driving force behind its development assistance to Turkmenistan.

Despite its neutrality status, Turkmenistan participates in NATO led operations by providing non-military assistance such as humanitarian relief and rescue operations. Likewise, the representatives from the Turkmen armed forces take advantage of trainings provided by NATO and its member states in areas such as arms control, counterterrorism, drug trafficking, border management, defense planning, budgeting and English language. In particular, Turkmenistan actively participates in counter narcotics trainings provided by the NATO-Russia Council (NATO's relations 2015). Moreover, Turkmenistan engages with NATO under the Partnership for Peace and the Science for Peace and Security, which provides a

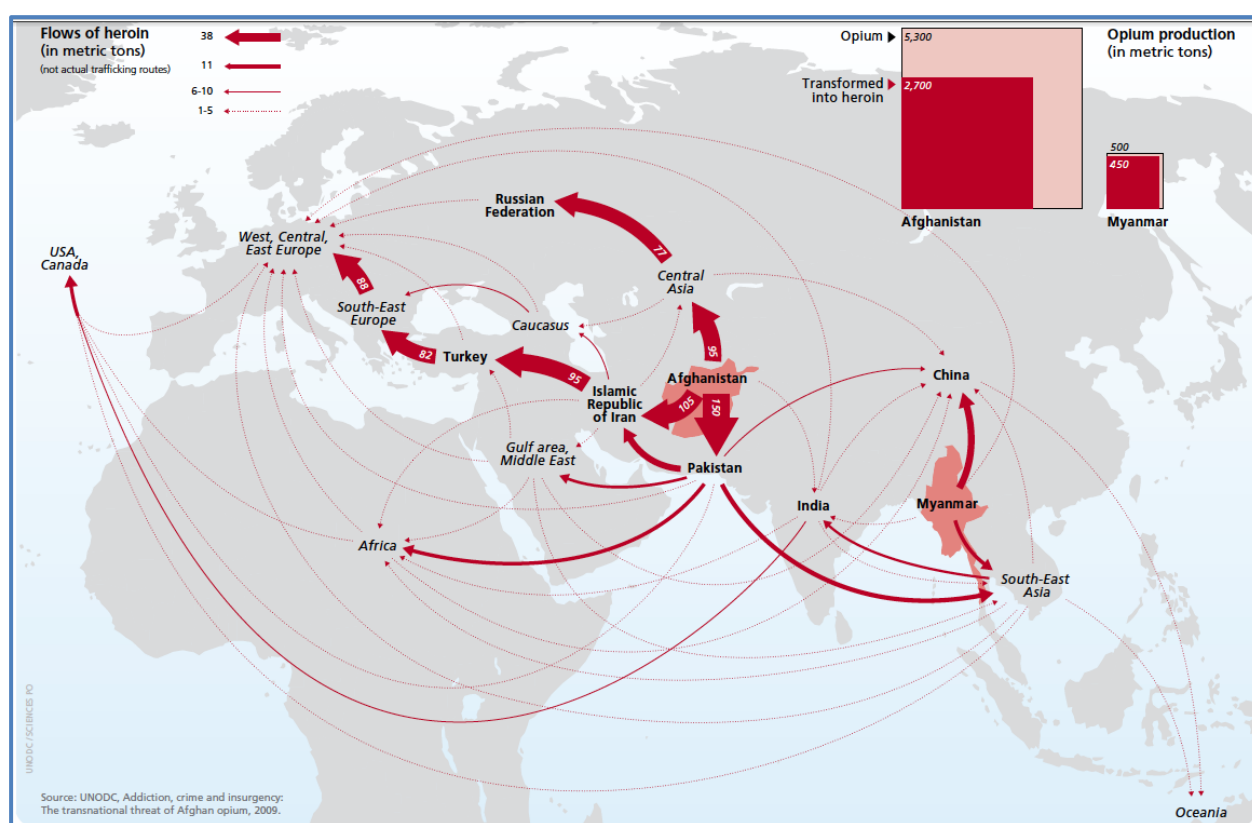
platform for discussing common security concerns in the region. The major issue that is being discussed presently is the future of the region after the coalition forces leave Afghanistan in 2016 (NATO, Turkmenistan 2014). However, this increases the security concerns for neighboring countries like Turkmenistan, which has experienced several-armed collisions with Taliban, involving killings of several Turkmen border guards on its 744 kilometer long border with Afghanistan (Turkmen 2015). Until now, a group of 120 ethnic Turkmen, under the leadership of Gurbandurdy, was fighting the Taliban on the Afghan side trying to keep them away from the Turkmen border (Sadykov 2014). However, the Taliban forces not only outperform these groups in number of fighters, but also in terms of arms and skills, because these are simple farmers with no appropriate training and equipment.

Since destabilization in Afghanistan has the potential to spill over to Turkmenistan, the Turkmen government has asked for U.S. military assistance and equipment (Putz 2015). It is, however, unclear how this assistance will look like since Turkmenistan's neutrality status limits country's possibility for military cooperation. The current U.S. security assistance to Turkmenistan includes trainings, technical assistance and equipment to counternarcotic and border patrol officers to improve their efficiency and effectiveness in controlling the border, preventing terrorist activities and trafficking in humans, drugs and money (U.S. Department of State 2013). For example, the US Department of Defense provided \$227,754 to Turkmenistan for 2011-2013 to address areas including counterterrorism, stabilization operations and security sector reform (What is U.S 2015) another \$1.3 million in 2014 (Jarosiewicz 2015). The possible explanation for strengthening security partnership between the U.S. and Turkmenistan is the latter's soaring relations with Russia, the traditional protector of the region and Russia's interventionist policy in its near abroad.

Furthermore, the geographical proximity of Turkmenistan to the Golden Crescent (Iran, Afghanistan and Pakistan), the world's largest opium producer, makes it strategically

important for the EU and U.S. Today, 90% of world's heroin is produced from opium grown in Afghanistan (Crime and Insurgency 2009). Due to weak law enforcement in Afghanistan, country is unable to detect, capture or stop heroin leaving its territories. For example, in 2008 around 375 tons of heroin left country's borders while only 3 tons (1%) were seized. Out of this amount, about 150 tons were shipped to Pakistan, 105 tons to the Islamic Republic of Iran and 95 tons to CA countries, primarily Tajikistan, Uzbekistan and Turkmenistan. These countries not only serve as the end users but also as transit corridors as majority of these volumes get trafficked to Russia and Europe.

Figure 30 Opium Production and Global Heroin Flows, Average for 2002 – 2008

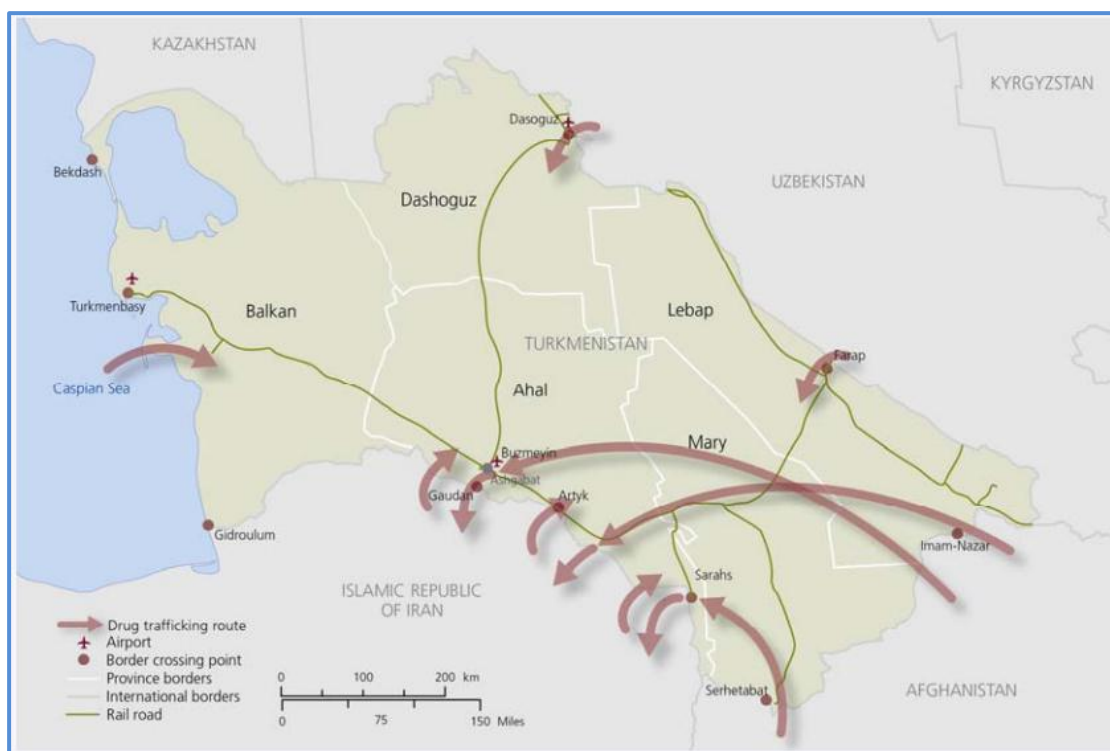


Source: "The Global Heroin Market." In World Drug Report 2010 (United Nations Publication, Sales No. E.10.XI.13). pp. 37. Available from: UNODC, https://www.unodc.org/documents/wdr/WDR_2010/World_Drug_Report_2010_lo-res.pdf

The European market is essential for illicit drug dealers both in terms of volumes and revenues. Europeans yearly consume around 135 metric tons of heroin 90 percent of which is

supplied by Afghanistan. Of that amount, about 30 percent is transited to European markets through CA countries (ICG 2006). As illustrated in Figure 30, there are two main routes for illicit drugs to reach lucrative European markets. The biggest one is the Balkan route, which starts off in the Islamic Republic of Iran and passes through Turkey, Greece and Bulgaria before reaching the western European countries. The second one is the northern route that traverses through CA to reach Russia and Europe. About 95 tons (25%) of heroin travels through this route while the Balkan route transports over 140 tons (Crime and Insurgency 2009). Similarly, the European buyers pay the highest price for Afghan drugs. For example, the price for one-kilogram of heroin is worth around \$2,000-2,500 in Afghanistan while it increases up to \$8,000 once it reaches the Greek border. In terms of yearly profits, the Balkan route approximately makes \$20 billion while the Northern passage makes about \$13 billion (Crime and Insurgency 2009).

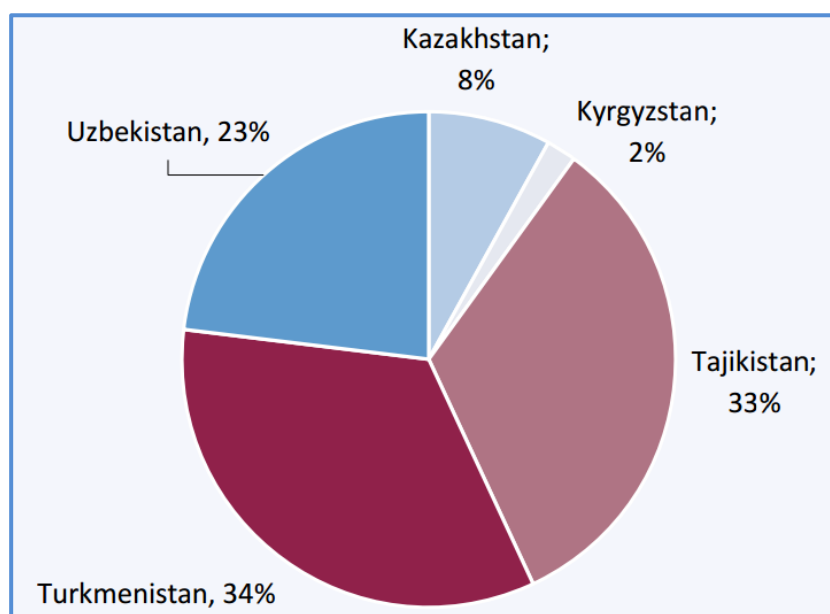
Figure 31 Main Drug Routes and Transportation Corridors in Turkmenistan



Source: "The Global Heroin Market." In World Drug Report 2010 (United Nations Publication, Sales No. E.10.XI.13). pp. 37. Available from: UNODC, https://www.unodc.org/documents/wdr/WDR_2010/World_Drug_Report_2010_lo-res.pdf

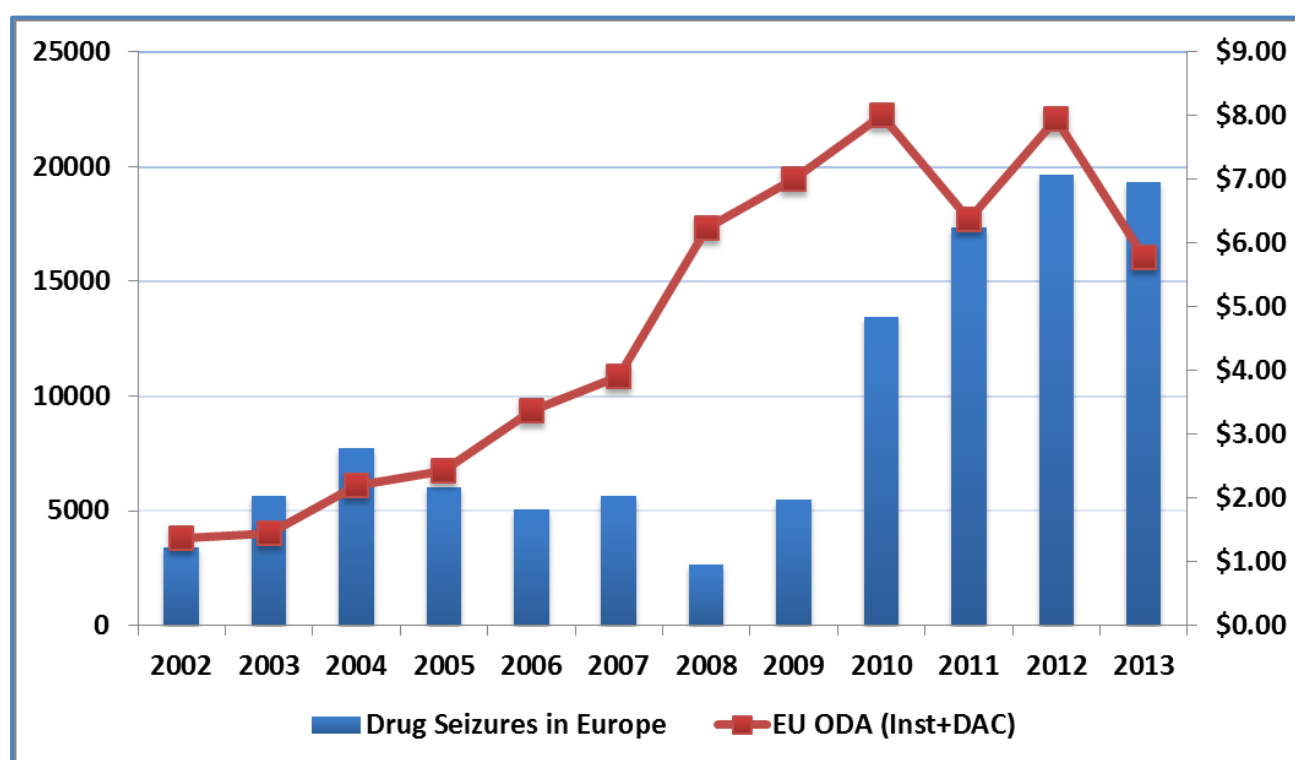
Since Turkmenistan borders Afghanistan, it serves as a transit country for both of the routes. As Figure 31 illustrates, drugs entering Turkmenistan leave in two main destinations – Russia through Uzbekistan and Kazakhstan, and European countries through Iran and the Caspian Sea. This might be the reason why in 2010, for instance, Turkmenistan seized the largest amount of opium (34%) passing through CA (Crime and Insurgency 2009). The Turkmen-Afghan border is one of the major transition points where due to the weak and corrupt border management, addressing drug trafficking is extremely problematic. As one of the European officials shared, “As long as border-guard salaries are low and Afghans are growing poppies, anything we do is like bringing ice to the North Pole” (ICG 2006). If strong and effective security systems are in place, CA could potentially help the EU curtail the risks posed by the religious extremism and drug trafficking.

Figure 32 Distribution of Opium Seizures in Central Asia by Country (2010)



Source: UNODC Regional Office for Central Asia

Figure 33 Comparing EU ODA to TKM to Drug Seizures in Europe (in kg)



Source: Developed by author using OECD and UNODC statistics on EU ODA and drug seizures in Europe

When comparing the volumes of heroin seizure in Europe to the EU ODA to Turkmenistan, as on Figure 33, it is striking to see how these variables follow the similar trend. From 2002-2004 the EU ODA to Turkmenistan rose along with increasing seizures of heroin in Europe. However, from 2005 the volumes of seized heroin somewhat dropped while the EU ODA to Turkmenistan retained upward sloping trend. Later in 2010 the variable for heroin seizure increased sharply, which was followed by an increase in EU's development assistance. Hence, it can be assumed that the EU's security concerns such as illicit drug trafficking has an influence on EU's decision to provide development aid.

Unlike the EU, the US is mainly concerned with illicit drugs providing funds to extremists groups (US Department of State 2012). The Islamic Movement of Uzbekistan (IMU) in CA is a perfect example of an insurgency group that raises its revenues from illicit drug trade (UNODC 2009). Likewise, while some of the Taliban's funding come from Al-Qaeda and the private donors from the Gulf States, the big chunk of it comes from domestic

contributions including drug trafficking. Although growing poppy is religiously prohibited, it does not stop Taliban from levying tax on farmers and traders of drugs in order to support their cause (UNODC 2009). Furthermore, the major opium grown region in Afghanistan is the province of Hilmand, southern Afghanistan that also happens to host strong Taliban insurgency groups (Crime and Insurgency 2009).

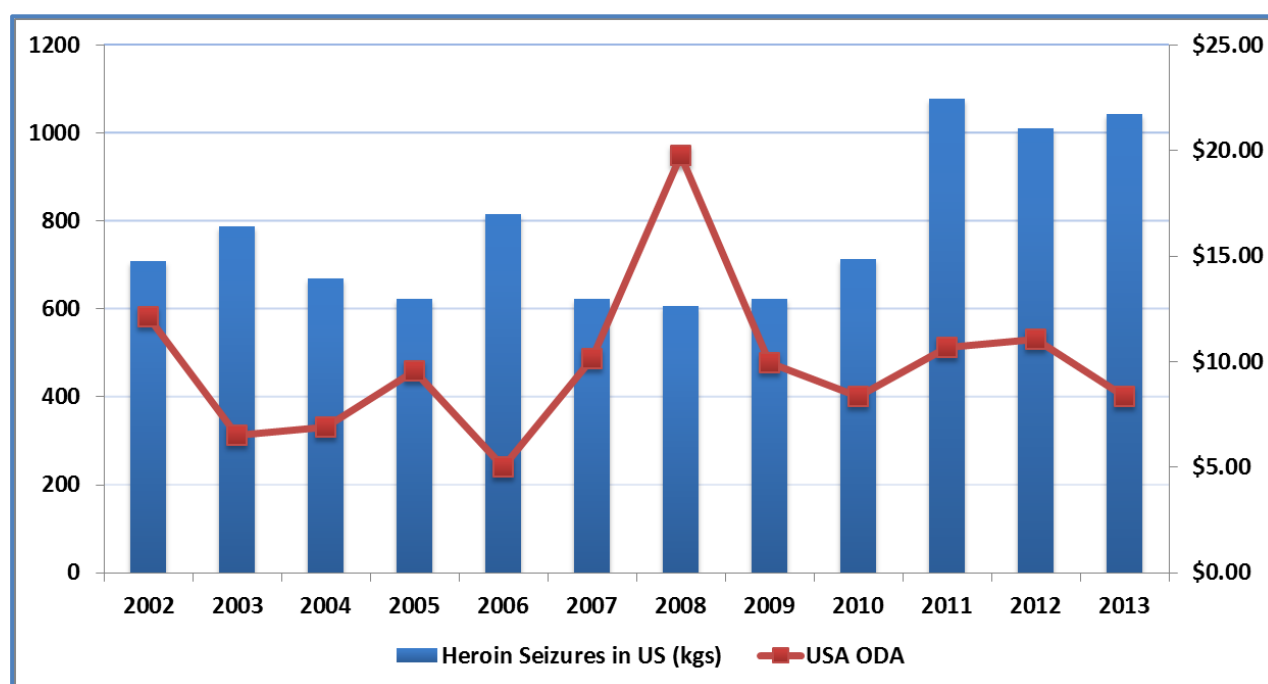
The major ways the Taliban groups can benefit from drug cultivation and trafficking are through territorial control and escorting. Firstly, they collect 2.5% *zakat* or wealth tax on farmers and traders who operate in areas under their control. Secondly, Taliban charges a fee on traffickers who ship their cargo through insurgent controlled areas. Similarly, Taliban groups may sometimes impose an arbitrary tax known as *haspana* or assistance, in support of their ongoing wars. Moreover, occasionally Taliban groups are directly involved in trafficking when they cooperate with drug traffickers to ship large volumes of opium or heroin to major drug dealers on the Afghanistan-Pakistan border. In this case, they will share the profits, which range from 2.5-5% of the total value of the drug (UNODC 2009).

In an attempt to calculate Taliban's profit driven from drug trafficking, UNODC approximated that insurgent groups gained about 2.5-5% of the total drug trade value (\$10.5 billion) in 2005-2008 through taxation. The monetary value accrued to Taliban for the given period is around \$350-650 million (UNODC 2009). In addition to this amount, Taliban groups also gain substantial profits by getting directly involved in trafficking. Here, the net profit of drug traffickers is roughly \$4 billion. Raising enough incomes is crucial for Taliban to finance its activities, which can range between \$800 million and \$1billion per year (UNODC 2009). As UNODC estimates, around 10-15% of its budget might be derived from opiate trafficking.

Drug trafficking in South and Central Asian region also endangers the global security, especially given the big volumes in which they are being produced. The recent statistics on

opium production in Latin America and Mexico indicate that substantial portion of heroin demand in U.S. is being met by Afghanistan (Crime and Insurgency 2009). Moreover, the availability of various means of transportation such as land, air and sea, allow drugs to travel far away from its origin country. For instance, in 2004 the U.S. Navy captured a boat operated by Al-Qaeda that was transporting hashish worth \$8-10 million (UNODC 2009). What is also alarming is that, of \$55 billion total revenues from global illicit drug trafficking, only \$2.3 billion accrues to Afghan farmers and traders (Crime and Insurgency 2009). Hence, it is not only in the interest of Afghan farmers and traders to maintain this business running, but also important actors including insurgency and organized crime groups who pocket the lion's share of drug revenues.

Figure 34 Comparing U.S. ODA to TKM to Heroin Seizures in U.S.(in kg)



Source: Developed by author using OECD and Drug Enforcement Administration statistics on U.S. ODA and drug seizures in U.S.

When comparing the domestic heroin seizures in U.S. to its ODA allocations to Turkmenistan, there is no obvious link between the two variables. This might be because

insignificant volumes of Afghan drugs, which are trafficked through Turkmenistan, reach the U.S. market. Nevertheless, the U.S. is concerned and thus actively supports the CA's governments in fighting illicit drug trafficking in the region. For instance, in 2012 the Department of State provided \$4.2 million to counternarcotics agencies in CA (US Department of State 2012). Also, the Bureau of International Narcotics and Law Enforcement Affairs (INL) provided \$14 million in bilateral assistance to advance law enforcement and rule of law programs in CA. Similarly, the U.S. Department of Defense has a budget over \$101 million for counternarcotics programs in CA (US Department of State 2012).

Overall, the EU and U.S. have important security agendas in Turkmenistan as they aim to fight terrorism and drug trafficking that pose serious security risks to the regional and global stability. This being said, both the EU and U.S use their development assistance as a foreign policy tool to promote their security interests while minimizing the risks of negative spill over. This security cooperation is also partly demand driven given the serious security threats existing in Turkmenistan.

3.4 Hypothesis 4 – Donors Provide Development Assistance to Advance their Energy Interests

Another donor motivation to provide aid that is widely cited in the development literature is access to country's raw materials. This explanation becomes a valid argument given Turkmenistan's rich natural resource base. Hence, to examine whether bilateral donors' decision to provide ODA is influenced by Turkmenistan's energy reserves, this section will compare EU's ODA flows to Turkmenistan to Europe's imports of energy products from Russia. Since the EU is highly dependent on Russia to meet its energy needs, Turkmenistan could help diversify its energy suppliers and lower its dependence on Russia. Hence, it is assumed that the more dependent EU on Russia is, the more likely it is to provide aid to

Turkmenistan. Since the U.S. is more interested in transporting Turkmen gas to Afghanistan, rather than to its domestic consumers, the similar analysis could not be made for the U.S. Nevertheless, the section provides a comprehensive analysis of the U.S. energy interests in relation to Turkmenistan.

Turkmenistan presents a real dilemma for the EU because it has to balance between promoting its moral values and ensuring its energy security (Boas 2012). However, the EU's role of a moral actor might run short at the wake of its increased energy interests. Since the EU has to import more than half of its energy needs from non-EU countries (Eurostat. 2015), Turkmenistan, a country with world's fourth largest gas reserves (British Petroleum 2015), might be an optimal solution for the Union to boost competition among its energy providers.

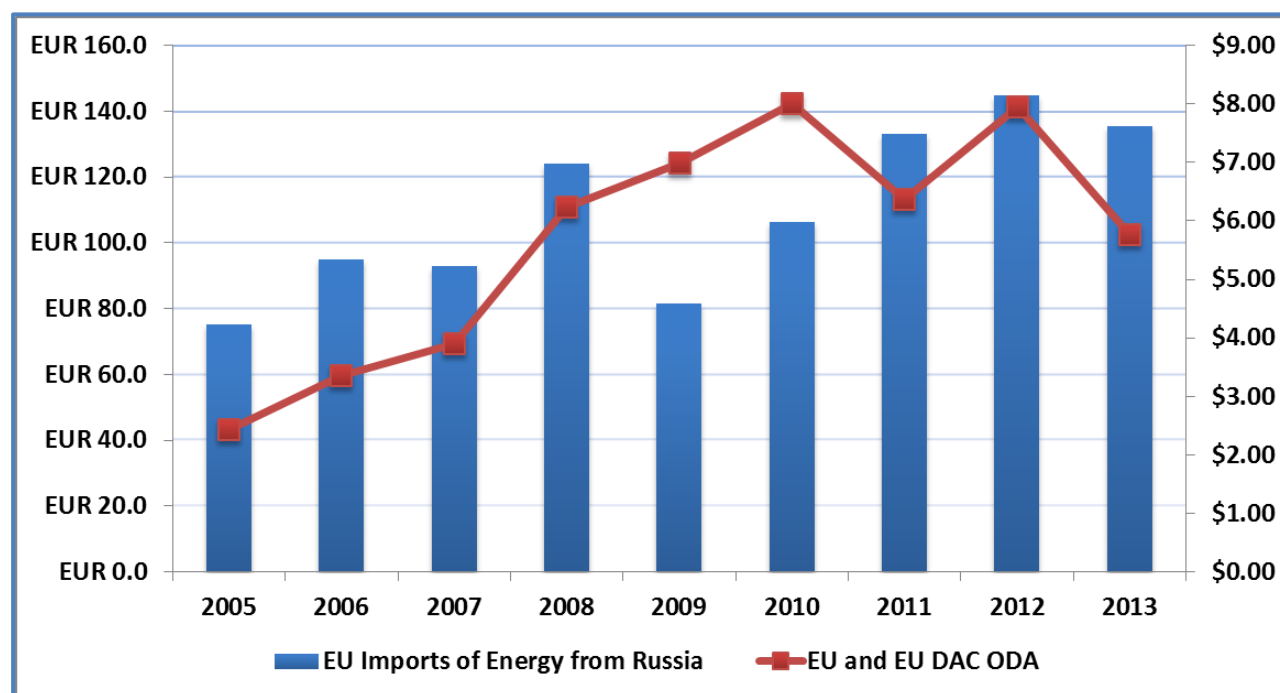
First of all, energy security is a crucial policy priority for the EU since it imports over 54% of its energy needs. This makes the EU the world's largest energy importer. It imports over 80% of its oil and 60% of its gas needs. Moreover, it is projected that EU's reliance on imported hydrocarbons will reach 70% by 2030 (The Institute of International and European Affairs 2013). However, what is even more alarming is that the EU depends on few countries to meet its energy demands. These countries include Russia, Norway and Algeria, which account for 85% of EU's natural gas and 50% of crude oil imports. In 2013, for example, Russia alone provided 33.5% of the EU's oil and 39% of gas consumption (The Institute of International and European Affairs 2013). There is a serious danger of being too dependent on few suppliers as it gives them the market power to set the price for the commodity and reach preferential treatments advancing suppliers' interests. The EU runs the risk of losing its bargaining power and leverage vis-à-vis the energy suppliers.

Secondly, the EU is eager to diversify its energy suppliers because its current energy trading partners are becoming less reliable. The EU has traditionally imported its energy resources from the Middle East and Russia. However, the ongoing security concerns caused

by ISIS and the war in Syria make the countries of Middle East unreliable energy partners. Since the existing energy resources are located in high-risk zones and geographically far from Europe, it is too costly and complicated to import energy from these routes (Belkin 2008). Thus, Turkmenistan presents cheaper, easier and safer ways to transport energy given the relative stability and geographically proximity to Europe (Boas 2012)

EU can neither depend on Russia, a country that uses energy as a foreign policy tool. Following the events such as the Russia-Ukraine gas dispute in 2006 and Russia's recent military intervention in Ukraine, relations between Russia and the EU sored politically. Moreover, in response to EU's pressure and sanctions over its annexation of Crimea, Russia canceled the Southern Stream gas pipeline which was supposed to bring about 63 billion cubic meters (bcm) of natural gas to the EU across the Black Sea by 2015 (Boersma 2014). Likewise, Russia is less likely to renew the gas contract with Ukraine, which expires in 2019 (The Momentum 2015). All these events have pushed the EU to restart the talks with Turkmenistan over the trans-Caspian pipeline, which would transport gas from coastal countries such as Azerbaijan, Turkmenistan and Kazakhstan. To this end, the EU signed a Memorandum of Understanding in energy cooperation with Turkmenistan in 2008 (EU External Action Service). As Maros Sefcovic, the Vice President of the European Commission in charge of Energy Union announced, already by 2019 Europeans will be consuming Turkmen gas (Pannier 2015). However, there is no agreement between the Caspian littoral states about the legal status of the sea, while Russia and Iran have been opposing this pipeline on the basis of environmental concerns.

Figure 35 Comparing EU ODA to TKM to EU 28 Imports of Energy Products from Russia (in billions EUR)



Source: Developed by author using OECD Statistics on EU ODA and Comext, Eurostat data on EU energy imports

When comparing data on EU ODA to Turkmenistan to EU's imports of energy products from Russia, as in Figure 35, it is clear that the EU's energy concerns highly influence the Union's aid allocations. More specifically, when expenditures associated with energy imports from Russia increased, the amounts of ODA to Turkmenistan escalated as well. There are few exceptions as in 2010 and 2011 when the energy imports decreased while the EU ODA increased upward. This decrease in energy imports from Russia to Europe was caused by Russia-Ukraine price dispute in 2009 when Russia cut off gas supplies to Ukraine after it refused to pay the price increase (Kramer 2009). Gas deliveries to EU countries were also affected since they traverse through Ukraine. On the other hand, the increase in EU ODA to Turkmenistan during this period might be explained by the EU's desire to diversify its energy routes with alternative energy suppliers.

To advance the Trans-Caspian Pipeline (TCP) project and minimize the potential barriers, the EU has been playing an important role as a mediator between Turkmenistan and

Azerbaijan. The two countries have tight relations due to the contested oil fields in the Caspian Sea (Sikorski 2011). Similarly, as the Bulgarian Prime Minister Boyko Borisov stated, “As part of a revitalized European energy and climate diplomacy, the EU will use all its foreign policy instruments to establish strategic energy partnerships with producing and transit countries such as Algeria and Turkey; Azerbaijan and Turkmenistan; the Middle East; Africa and other potential suppliers” (The Revival 2015). Rather than relying on Russia to bring gas from producing countries such as Turkmenistan, now the EU is planning to reach out to these countries and make deals directly with them.

In addition, energy security in the EU is mainly related to natural gas since oil is relatively flexible commodity and it is easier to shift suppliers in the event of disruption (EU Energy 2013). Meanwhile energy relations for natural gas require financial investment and long-term commitment since it is not easy to relocate pipelines in case of disruption or conflict. The Turkmen government showed a willingness to deliver to European countries around 30 bcm of natural gas annually (Socor 2012). Although this might seem an insignificant amount compared to 65 bcm of gas that Turkmenistan promised to supply to China by 2020 (Abdurasulov 2014), it becomes important when you add up all potential energy supplies from the region.

Furthermore, the major advantage of this potential energy partnership is that there is a mutual interest as Turkmenistan is also desperate to diversify its energy buyers. Firstly, transporting gas to the European markets would help Turkmenistan limit its dependence on few buyers. Historically, Russia maintained dominance in CA since it had the monopoly over Soviet built transit routes (Boas 2012). Therefore, by diversifying its export routes and energy partners, the Turkmen leadership would become politically more independent from Russia (Boas 2012). However, now the dependence seems to shift from Russia to China, a country that currently purchases over 60% of Turkmen gas (EU-Central 2015). Since 2009

Turkmenistan started exporting gas to China, which agreed to finance the construction of Central Asia - China gas pipeline, including the Turkmen part of the pipeline. However, this contract obliges Turkmenistan to provide unknown volumes of gas for free until it repays its debt to China. This becomes especially painful following the fall in world gas prices and high expenditures associated with hosting the Asian games in 2017, as Turkmenistan is in desperate need of cash.

Overall, the EU's anxiety about energy security makes its development aid susceptible to biased decisions. As Bossuyt and Kubicek (2011) pointed out, the EU is less likely to push for democratic change when it has strategic interests in the country. Also, under promoting good governance, the EU's primary activities in Turkmenistan aim at reforming the legal sector through strengthening the institutions and legal capacity building (Bossuyt and Kubicek 2011). The common criticism about the EU's rule of law programs is that they might actually advocate for reforms, which benefit European companies that plan to invest in the energy rich Turkmenistan (Crawford 2008). To further illustrate this point, some Members of the European Parliament (MEP) have urged the European Parliament (EP) to ratify the PCA by providing several justifications including potential economic and energy benefits for the Union (Jeggle, Vaidere and Borys 2011). While this document was meant to serve as a 'stick' to punish counties' rights abuses, it actually might run short when confronted with the Union's energy interests.

While both the EU and U.S. have energy interests in Turkmenistan, unlike the EU who has more immediate needs for energy resources, the U.S. aims to promote global energy security and help to revive the Afghan economy vis-à-vis increasing its influence in the region's energy markets. The U.S. is interested in increasing its leverage in the Caspian basin, which roughly holds 15 percent of world's oil reserves (O'Neil, Hawkins and Zilhaver 2011). In particular, the U.S. aims to promote the independence of coastal countries such as

Turkmenistan and diversify energy suppliers to the West while limiting Russia's dominance over the energy routes (Hearing on US 2001). As the recent experience with Russian dominated gas pipelines showed, in resource dependent countries like Turkmenistan, whoever controls the pipelines has the political leverage. This is why the U.S. is supporting the construction of trans-Caspian pipeline that would bring Turkmen gas to the European markets while diminishing Russia's influence over the country's energy resources. Even though the U.S. might not be able to directly benefit from Turkmen gas, it could however ship oil from Turkmenistan to meet its domestic energy needs. Moreover, there is a fear that Russia and Iran might join efforts in controlling the oil fields in the Caspian Sea. If this ever happens, then two countries would control 20% of world's oil and 55% of world's gas reserves (O'Neil, Hawkins and Zilhaver 2011). This would then give them a market power to influence the global energy prices and to set the rules of the game.

Secondly, the U.S. is interested in Turkmenistan's energy resources because it would help to revitalize Afghan economy. The U.S., after its military intervention in Afghanistan and overthrow of Taliban regime, feels obliged to stabilize and develop Afghanistan before departing from the country in coming years. To this end, the U.S. is actively lobbying for the construction of Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline that not only will support economies of its strategic partners such as Pakistan and India, but also help revive the Afghan economy (NATO, Turkmenistan 2014). The pipeline is perceived as the ultimate and long-term solution for Afghanistan. As U.S. believes, the pipeline has the potential to stabilize the security situation, boost Afghan economy by creating new jobs, attracting international investment and bringing the needed capital through transit fees (Afonin 2011). Moreover, the U.S. wants to improve its image among the locals and Muslims worldwide (Afonin 2011) who have criticized US interference in Afghanistan as one that did more harm than good. Hence, the U.S. does not want to leave Afghanistan in total mess, and

would try to bring stability and prosperity to the country so it could take credit for it. Since U.S. was against the construction of the gas pipeline from Iran to Pakistan (Iran-Pakistan-India), TAPI would provide an alternative way of bringing energy to impoverished Pakistan (Shah 2015). However, given the high security risks of TAPI, the Iranian suggestion sounds more feasible and economically sound. Initially, India and Pakistan favored this option, but they had to refuse under the U.S. pressure (PressTV 2015). Turkmenistan, in this case, is an important actor for U.S. because it has the necessary resources and potential to limit Iran's dominance in the region's energy market. Thus, the U.S. ODA distribution to Turkmenistan becomes vulnerable in the light of U.S.'s hegemonic aspirations in South and Central Asia.

Similarly, in order to contribute to Afghanistan's development and maintain its presence in the region, in 2011 the former U.S. Secretary of State Hillary Clinton proposed a *New Silk Road* initiative to which Turkmenistan is also part. In particular, the project meant to achieve peace, stability and economic growth in Afghanistan by improving regional economic cooperation and infrastructure (Nichol 2013). It consists of four programs. First, the U.S. aims to create regional energy markets by linking rich energy resources of CA countries through Afghanistan to South Asia, a region with high demands for energy resources due to its large population and growing economies. In this respect, the U.S. supported the establishment of 1000 regional electricity grids along with \$15 million financial contribution. Similarly, since 2010 the U.S. has provided \$1.7 billion to build energy transmission lines and hydropower plants in Afghanistan (U.S Support 2015). Second, the trade and transport programs enhance the regional infrastructure and the harmonization of national customs systems and eliminate barriers to trade. In this area, the U.S. financed the construction and rehabilitation of over 3000 kilometers of Afghan roads as well as assisting Afghanistan, Kazakhstan and Turkmenistan with the accession to the World Trade Organization (WTO). Third, the customs and border operations program aims to improve border management and

effectiveness in detecting illegal trafficking of humans, drugs and arms. As a result, by 2009 the regional trade in CA increased by 49 percent, while border-crossing time in the region decreased by 15 percent (U.S Support 2015). Finally, the business and people-to-people program promotes opportunities for local youth, women and minority groups to advance their well-being. For instance, under the U.S. funded programs, hundreds of Afghan students received higher education in CA countries (U.S Support 2015).

Finally, supporting the diversification efforts of Turkmenistan would also create new investment opportunities for U.S. businesses. It must be alarming both for the U.S. and the EU to know that Gazprom is the world's largest gas company, which controls 20% of global supply. However, this increases the Russian influence in the global energy market and on the security of energy supply. Therefore, the U.S. wants to make sure that Russia's influence in the region as well as in the world is balanced. This might be the major reason behind the U.S.-Turkmenistan Business Council, a Washington DC based non-profit organization that aims to strengthen the commercial relations as well as increase trade and investment between these two countries (U.S.-Turkmenistan Business Council 2011). Moreover, the American leading energy company in Turkmenistan, Chevron, has established a public-private partnership with USAID where it accounts for 20% of USAID's yearly budget in Turkmenistan (History 2015). This signals the desire of U.S. energy companies to invest in development projects in Turkmenistan to advance their private gain. However, this might also indicate that the U.S. government's decisions to allocate development assistance to Turkmenistan might be influenced by these business incentives as opposed to mere unselfish motivations.

To conclude, both the EU and U.S. are interested in Turkmenistan's rich natural resources as they could help diversity energy supplies to the EU while promoting stabilization in Afghanistan and limiting Russia's dominance in the region's energy market for the US. Although these donors have somewhat different reasons behind their motivations, both try to

promote secure and uninterrupted supply of energy resources. Turkmenistan, with its vast gas and oil reserves, could potentially help both of the donors to advance their energy interests in the region. It could help limit the EU's dependence on Russia by providing natural gas, and it could also supply energy to impoverished Afghanistan while limiting the U.S.'s adversaries' (Russia and Iran) influence in the regional energy market. Accordingly, donors' decision to provide development assistance to Turkmenistan is affected by their desire to reach lucrative energy deals and increase their leverage vis-à-vis the energy providers.

Figure 36 Summary of Bilateral Donor Motivations to Provide Development Assistance to Turkmenistan

Donor/Hypotheses	H1: Need Based	H2: Good Governance	H3: Security Interests	H4: Energy Needs
EU	X		X	X
U.S.		X	X	X

Source: Developed by author

Conclusion

Development assistance was and still is a tool for rich and powerful countries to advance their political, economic and security interests in the world's less privileged countries. Russia's recent military intervention in Ukraine and annexation of Crimea demonstrated that power and dominance are still relevant. The ongoing war in the Middle East, the rise of ISIS, the refugee crisis in Europe or the multibillion drug trafficking from Afghanistan prove that no country is immune from these global security risks and that geographical borders became meaningless in containing or preventing these risks. Hence, in the light of these developments, the explanation of donors' motivations from the security perspective becomes relevant.

To answer the specific research question set in this thesis, *why do donors decide to provide development assistance to recipient countries with little prior probability of aid effectiveness*, four alternative explanations were used. They are:

H1: Donors Choose to Provide Development Assistance Based on Need in Recipient Countries;

H2: Donors Choose to Provide Development Assistance to Countries that Meet 'Good' Governance Standards as they Ensure Aid Effectiveness;

H3: Donors Choose to Provide Development Assistance to Advance their Security Interests;

H4: Donors Provide Development Assistance to Advance their Energy Interests.

To examine these hypotheses and decide which one(s) best explain(s) donors' motivation to provide aid, Turkmenistan was used as a case study. Despite high economic performance, there is still a significant portion of population in Turkmenistan living below poverty line. The country also faces security challenges associated with illicit drug trafficking and religious radicalism. At the same time, Turkmenistan presents strategic importance to the Western donors due to its geographical location (neighboring Iran and Afghanistan) and its rich natural

resources. Hence, when analyzing donor motivations to provide aid, the case of Turkmenistan becomes a reality check because it both presents an opportunity for security and energy cooperation as well as a need for promoting reforms. This particular case helps to examine whether the development assistance by bilateral donors is driven by donors' altruistic motives, desire to promote reform or rather by their geopolitical interests such as accessing country's natural gas reserves or benefiting from its proximity to the source of insecurity in the region.

The empirical data presents several important findings about donor motivations in Turkmenistan. First of all, the U.S. ODA to Turkmenistan is relatively volatile while the EU's assistance maintained an upward sloping trend. On the one hand, this illustrates that the EU's decision to provide development assistance to Turkmenistan is not influenced by country's economic performance or good governance results because it might want to maintain its presence in the country no matter what. On the other hand, unstable U.S. assistance to Turkmenistan signals to the relative ease at which the U.S. can alter its aid allocations at times of high security concerns. Moreover, the EU, unlike the U.S., based its decision to provide development assistance to Turkmenistan on country's development needs. From total EU ODA to Turkmenistan, about 63% financed development projects while in the case of U.S., the development sector received only 23% of ODA funding. Similarly, Turkmenistan's results on governance indicators significantly influenced the U.S.'s decision when allocating ODA, whereas it had a limited effect on EU ODA allocations. Changes, or lack thereof, in five out of eight governance indicators led to changes in the U.S. ODA while for the EU it was true only in the case of two of the indicators. The indicators that concerned both of the donors are the rule of law and political stability and absence of violence. This is not surprising given both the EU and U.S. are concerned about internal stability in Turkmenistan while pushing for legal sector reforms that would create an attractive investment climate for donor countries'

businesses. However, on the indicator measuring control of perceived corruption, the two donors had opposite reaction where at high rates of perceived corruption the U.S. slowed down its development assistance to Turkmenistan while the EU 's assistance maintained high.

Furthermore, the EU and U.S. have important security agenda in Turkmenistan as they aim to fight terrorism and drug trafficking while ensuring energy diversification. This being said, the two donors have slightly different reasons behind these motivations. The EU is worried that drug trafficking and religious extremism will alter domestic stability in Europe. It also urgently needs to diversify its energy suppliers in order to limit its dependence on Russia. The U.S., on the other hand, is concerned about stability and economic revival in Afghanistan; terrorism and religious extremism along with illicit drug trafficking that provides funding for insurgent groups; and balancing out the regional energy tycoons (Russia and Iran) from monopolizing regional energy routes. Hence, while the EU has long-term motivations in Turkmenistan, given its immediate energy and security needs, the U.S.'s interests in Turkmenistan varies depending on its overall foreign policy priorities. Nevertheless, both the EU and U.S use their development assistance as a foreign policy tool to promote their security and energy interests.

Appendix 1 – Summary of Database for Bilateral Donors' ODA by Area and Year

Donors	Year	Geopolitics 1 (Security)		Geopolitics 2 (Energy)		Governance		Development		Democracy	
		Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD
EU Institutions and EU DAC Member States	2002					1	0.00754	15	1.2058	1	0.1305
	2003							29	1.2933	1	0.1029
	2004							22	2.1462		
	2005					4	0.42380	21	2.0046		
	2006	1	0.0145	1	0.2789	5	0.52720	12	2.2001		
	2007	3	0.2284	1	0.2028	6	0.74280	16	2.7132	2	0.1076
	2008	2	0.2000			7	1.74560	51	4.4089	2	0.1590
	2009	1	0.1296	1	0.0319	8	1.30370	47	3.1860	5	1.5876
	2010	2	0.1221	1	0.1322	14	2.42270	42	3.7830	8	1.4678
	2011			2	0.1931	11	1.98480	31	3.1147	9	1.0830
	2012			1	0.0434	8	2.36220	42	4.3655	11	0.7370
	2013			1	0.0266	12	1.24450	37	3.7589	5	0.2159
	TOTAL by Area	9	0.694578511	8	0.908876513	76	12.76483935	365	34.1802	44	5.591306572
USA	2002	3	0.4750					8	3.715	4	1.5970
	2003	1	0.0500	3	0.7340	7	1.1750	13	2.4810	4	1.1640
	2004	1	0.1860	2	0.1570	6	0.6250	9	2.0380	7	1.2460
	2005	4	4.9290			6	0.5160	18	2.9430	7	0.9470
	2006	2	0.0560	2	0.1200	5	0.4440	21	3.0410	7	1.4070
	2007	1	0.0001			6	0.6341	43	4.0944	14	1.3580
	2008	15	10.3996	9	1.1572	10	0.5598	76	4.2436	20	3.5560
	2009	9	1.7436	2	0.1295	12	1.2727	58	3.9606	18	2.4640
	2010	6	0.4812	4	0.1541	21	1.4249	52	3.0049	13	1.7936
	2011	9	0.7527	5	0.3105	13	2.3508	38	3.5982	13	1.3500
	2012	8	0.9729	4	0.4118	11	1.3758	65	5.1507	20	2.1562
	2013	10	1.9366	2	0.2623	12	1.9087	34	2.8260	14	0.6991
	TOTAL by Area	57	16.2866	26	2.4254	79	8.8926	323	22.7840	98	12.0189

Appendix 2 – Summary of Database for Multilateral Donors' ODA by Area and Year

Donors	Year	Geopolitics 1 (Security)		Geopolitics 2 (Energy)		Governance		Development		Democracy	
		Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD	Number of Projects	Amounts of aid in Millions USD
World Bank	1994			1	1.9000	1	8.8000				
	1995										
	1996										
	1997					1	0.1600	2	64.5000		
	1998										
	1999					1	0.3240				
	2000										
	2001					1	0.2379				
	2002										
	2003										
	2004										
	2005										
	2006										
	2007							1	1.9700		
	2008					1	0.3900	1			
	2009										
	2010					1	0.3875				
	2011					6	10.2994		66.47		
	TOTAL by Area			1	1.9	12	20.5988	4	132.94		
UNDP (current prices million USD)	2004			3	0.085725	2	0.4743	8	0.3737399	1	0.1106108
	2005			3	0.09937	3	0.2207	11	0.6639	2	0.1217
	2006			3	0.2258	3	0.1319	7	0.6144	2	0.1895
	2007			3	0.1439	2	0.0731	7	0.6064	3	0.3224
	2008					4	0.3310	5	0.6889	4	0.1539
	2009	1	0.00616	2	0.034	8	0.2712	7	0.2654	3	0.2362
	2010			1	0.01741	7	0.2476	9	0.1073	2	0.1850
	2011	1	0.105	3	0.1126	3	0.2221	2	0.0604	1	0.0584
	2012	1	0.0331	4	0.0718	7	0.0040	2	0.0490	3	0.0547
	2013			3	0.0785	2	0.1348	4	0.2125	3	0.0577
	TOTAL by Area	3	0.14426	25	0.869105	41	2.1107	62	3.6420	24	1.4901

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