

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA21167

Project Name	Public Finance Management Modernization Project 2 (P150381)
Region	EUROPE AND CENTRAL ASIA
Country	Tajikistan
Sector(s)	Public administration- Financial Sector (100%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	Investment Project Financing
Project ID	P150381
Borrower(s)	Republic of Tajikistan
Implementing Agency	Executive Office of President
Environmental Category	C-Not Required
Date PID Prepared/Updated	23-Feb-2015
Date PID Approved/Disclosed	25-Feb-2015
Estimated Date of Appraisal Completion	26-Feb-2015
Estimated Date of Board Approval	10-Apr-2015
Decision	

I. Project Context

Country Context

Tajikistan is a landlocked country with a GNI per capita of \$880 per annum (2012). After years of social and political turmoil and economic collapse, peace and stability have been restored, the economy is picking up, and living standards are improving from the dismally low levels experienced during most of the 1990s. Poverty incidence declined from 81 percent in 1999 to 38 percent in 2013. Even though the economy has recently been gaining momentum, Tajikistan faces serious challenges in reducing poverty. Tajikistan's remoteness from markets, aggravated by poor infrastructure, is a binding constraint to development. The economy remains heavily dependent on commodity exports and remittances from abroad. State institutions are weak and slow to adapt.

Tajikistan's economy moderated to 6.7 percent in 2014 from 7.4 percent in 2013. The growth was driven by construction and services. The remittances contracted by 2 percent in the first half 2014 due to emerging crisis in Russia. Somoni devaluated by 11.1 percent against USD in 2014. The fiscal balance is in surplus of 0.3 percent of GDP in 2014 compared to a deficit of 1.1 percent of GDP in 2013. The outlook shows significant slowdown of economic growth to 3-4 percent due to regional crisis in Russia. Remittances are expected to fall; some migrants are expected to return.

Investments in human and institutional capital would help diversify country endowments, support increased productivity, creation of new and better paid jobs and reduce economic volatility. In recent years, reforms have sought to improve the investment climate, increase access to air transportation, rationalize cotton sector operations, remove restrictions on exports and strengthen governance in selected areas like the National Bank of Tajikistan (NBT), large state-owned enterprises (SOEs) and public expenditure management. The government has sought to increase public spending on education and health in line with its commitment to the Millennium Development Goals (MDGs). On-going reforms seek to improve the efficiency and equity of public spending through per-capita financing in social sectors and structural reforms targeting institutions, human resource management, and infrastructure to improve the quality of and access to public services.

Sectoral and institutional Context

One of the key objectives of the national development of Tajikistan is the creation of an effective public administration system as a basis for sustainable economic development and reduction of poverty. The governance and public administration priorities identified by the Government include: increasing the effectiveness of the national development strategy; improving public administration in line with market economy principles; enhancing the effectiveness of public finance management; establishing a modern professional civil service; developing an administrative and territorial management system; and forming local self-governance capable of providing quality services to the population.

The authorities have sought the Bank's assistance in four areas of this broader agenda: public financial management; public procurement; external audit; and management of public administration reforms. This request builds on earlier Bank support.

Public Finance

In March 2009 the Government adopted the Public Finance Management Reform Strategy (PFMRS) for 2009-2018 which seeks to improve sustainability of government finances, strengthen the policy alignment of resource allocations and improve the efficiency of delivery of public services. Progress towards the PFMRS objectives has been monitored using PEFA indicators. A PEFA assessment undertaken in 2012 revealed progress against most performance indicators, though there have been areas of slippage and progress has been slower than originally anticipated.

There are notable successes in accounting, treasury and the budget process. A unified Chart of Accounts based on 2001 GFS was introduced from January 2014 together with a budget classification that now encompasses administrative, economic, program and funding classifications. The first ten national public sector accounting standards based on the IPSAS standards were also introduced in 2014. A Treasury Single Account (STA) was established for the Republican budget and pilot local authorities in 2013 and coverage gradually extended, encompassing all local treasury accounts as of January 2015. New Treasury legislation is in preparation which should provide a basis for commitment controls, cash management and accounting. Treasury has already been restructured to support these functions. Medium-term expenditure frameworks and program budgets have been developed for six pilot sectors, where they are used as the basis for budget formulation with a three-year indicative expenditure plan. The Ministry of Finance (MoF) is now working on a comprehensive program classification.

Development of an automated financial management information system has supported these reforms. The Ministry of Finance decided to customize a basic accounting and budgeting package acquired from Turkey (TFMIS). All local financial departments have been connected to Headquarters through a common network. An IT Center has been established and staffed and a group of IT specialists have been deployed to provide services to local offices. More than 9,000 employees of budget organizations have been trained on new budget execution and preparation procedures and financial reporting. The 2014 Budget was introduced into the TFMIS budget preparation module. In January 2015, the budget execution module went live.

Both 2012 PEFA assessment and 2014 PFM Policy Note stress that significant challenges remain. Introduction of commitment controls is particularly important for effective cash management and budget control and for avoiding the build-up of expenditure arrears, especially during a period of fiscal compression. So too is a strengthened monitoring regime for State-Owned Enterprises (SOEs) which constitute a significant fiscal risk. Improvements in the quality, coverage and timeliness of financial information generated by the PFM system will need to be translated into routine financial reports, greater public disclosure and the use of information by decision makers and managers. Considerable work is needed to strengthen the links between policy making, planning and investment and recurrent budgets and to introduce some consideration of performance and results, all of which constitute important steps towards the long-term goal of a fully-fledged program budget and medium-term expenditure framework. Once the financial management routines have been established, once technicians and managers have become familiar with modern financial planning, budgeting, accounting and treasury management practices, the Ministry of Finance will need to reassess its IT requirements and explore the feasibility of a more sophisticated, integrated financial management information system.

Public Procurement

The Procurement Law of 1997, including subsequent revisions in 2006, established a public procurement system based on principles of economy, efficiency, transparency and fairness. The 2012 PEFA assessment argued that a legal framework is relatively robust and noted improvements in the quality of information on procurement plans and processes. However, PEFA rating showed only marginal improvement overall in part because of the relatively large share of contracts using restricted tendering procedures and also because of the lack of independence of the procurement complaints system.

The 2013 Country Procurement Status Review (CPSR) proposed a procurement reform agenda. Key elements include: strengthening the regulatory function of the State Agency for Public Procurement (SAPP) by establishing a separate department in the Ministry of Finance to conduct procurement on behalf of other procuring entities not certified to conduct procurement on their own; development of a comprehensive set of implementing regulations and procurement manual, together with separate Standard Bidding Documents (SBDs) for goods, works and services; more effective integration of procurement planning and the budget processes; improvements in performance monitoring and streamlining of processes by implementing a robust e-Government Procurement (e-GP) system; and building procurement capacity within the implementing entities and regulating bodies, ultimately developing a procurement profession. The revised Public Procurement Law currently in preparation and scheduled for submission to Parliament in 2016 will provide the legal framework for many of these reforms.

The World Bank is actively engaged in procurement reforms. It has supported several initiatives in this area: revision of the public procurement law; development of an e-Procurement Strategy and a roadmap by the SAPP; design of the Public Procurement Portal and implementation of an e-Procurement quotation module; and development of a procurement curriculum, public procurement training and enhancement of public procurement certification.

External Audit

The Law on External Audit establishing the audit function and the Chamber of Accounts (COA) was signed in June 2011. COA has made some progress in developing secondary legislation, including operational regulations and manuals and a staff code of conduct. COA was formally admitted to INTOSAI in November 2013. In January 2014, the COA staffing was increased from 16 to 65, following a Presidential decree redeploying staff from the Anti-Corruption Agency. The World Bank has supported COA in setting up its internal management arrangements, designing and drafting internal procedures manuals, and building capacities in audit planning and implementation, reflecting INTOSAI standards. However, the COA's coverage of Government operations is still very limited. Audits and inspections are still undertaken by several bodies, including the Internal Audit Department of the Ministry of Finance and the Tajikistan Anti-Corruption Agency, and the COA's role is limited to collating the results of various reviews and reporting to Parliament.

Immediate priorities are for COA to strengthen the legislative framework, develop and implement new audit methodologies and build the technical capacity of staff. At the same time COA will need to build credibility, working with the executive and legislature to establish the effective independence of the audit function and a culture accepting of independent oversight.

Management of Public Administration Reforms

The Executive Office of the President (EoP) was reorganized in early 2014 to create a Strategic Planning Department (SPD), charged with policy coordination and overseeing policy implementation. SPD will be responsible for ensuring that policy objectives are reflected in government and sector strategies, the budget and medium-term expenditure framework. SPD will also support the Ministry of Finance's efforts to implement expenditure planning and budgeting reforms across the public sector.

The second element of the public administration reforms seeks to align civil servants' goals and objectives with the broader development agenda. The Government has adopted a civil service Performance Appraisal Regulation. This builds on the Automated Civil Service Registry Database, which connects all forty seven government ministries and agencies and civil service departments throughout the country, providing key information on individual employees, their qualifications, and employment history. The Performance Appraisal System seeks to link performance and promotion and eventually replace the traditional attestation system. This approach complements the reforms proposed in the planning and budgeting system, which are beginning to put in place mechanisms to assess the performance of institutions. At a more operational level, the Performance Appraisal System will have to be built into human resource management and payroll systems currently being developed in collaboration with the Ministry of Finance.

The third element of the public administration reform is e-Government. Tajikistan's e-Government

strategy is laid out in 2011 Concept of Building Electronic Government. Its long-term goals are the provision of relevant government information in electronic form to the citizens in a timely manner, improved service delivery to citizens, improved productivity and cost savings in doing business with suppliers and customers of government, and empowerment of citizens through participation in decision-making. Elements of ICT infrastructure and an online presence have been put in place in government agencies, including with assistance of the World Bank and other donor agencies. However, Tajikistan is still at a very early stage of ICT development. Progress is hampered by constraints of technical capacity, financing and poor coordination across Government. The Information Technology Unit (ITU) in the Executive Office of the President, has been established to help address these constraints. ITU will be responsible for the e-Government strategy implementation, formulation of key policies related to the use of information and communication technologies (ICT) in the public sector, and an institutional framework for e-Government.

Relationship to CPS

The project will contribute to the Bank Group's twin objectives of ending extreme poverty and promoting shared prosperity by the following: enabling the allocation of resources in line with national development and poverty reduction goals through improvements in budgeting and expenditure planning; contributing to improvements in the efficiency in the application of resources in support of these goals through improvements in budget execution, financial control and public procurement systems; and finally creating incentives for improvements in financial management through strengthened policy coordination, external oversight and performance management for senior personnel. These issues are addressed in the World Bank Group Country Partnership Strategy (CPS) for FY2015-18 where governance is treated as a cross-cutting theme, supporting the core objectives of private sector development, social inclusion and regional integration.

II. Proposed Development Objectives

The development objective of the project is to improve effectiveness, control and accountability of public expenditure.

III. Project Description

Component Name

1. Public Finance Management Modernization

Comments (optional)

This component will be implemented by the Ministry of Finance. The component supports implementation of the Public Financial Management Reform Strategy, strengthening the expenditure planning, budget execution, treasury, accounting and financial reporting functions across government. It expands the use of the existing automated financial management system (TFMIS) with the addition of new modules and provides the basis for developing and implementing a longer-term strategy for financial management information systems. It also extends accounting reforms to additional budget organizations and SOE's. There are three sub-components: (i) capacity building for the implementation of PFM reforms; (ii) development of information systems; and (iii) enhancement of accounting and financial reporting.

Component Name

2. Strengthening Public Procurement

Comments (optional)

This component will be implemented by the State Agency for Public Procurement. The component seeks to strengthen regulatory and institutional framework for public procurement and support implementation of an e-Procurement system. There are three sub-components: (i) enhancement of the legislative and regulatory framework; (ii) capacity building for the State Agency for Public Procurement; and (iii) development of the e-Procurement system.

Component Name

3. Strengthening External Audit

Comments (optional)

This component will be implemented by the Chamber of Accounts. The component will assist the Chamber of Accounts in implementing the Strategy and Action Plan for Developing External Audit Body. There are two sub-components: (i) organizational development of the Chamber of Accounts; and (ii) development of professional audit capacity.

Component Name

4. Managing Public Administration Reforms

Comments (optional)

This component seeks to develop the institutional capacity of the Strategic Planning Department and Information Technology Unit in the Executive Office of the President. The component also supports implementation of a human resources management system and provides for its link to payroll systems already in development. There are three sub-components: (i) strengthening of the strategic planning function; (ii) development and implementation of the e-Governance Roadmap; and (iii) development of the Human Resource Management system.

Component Name

5. Project Management

Comments (optional)

This component will finance the Project Implementation Unit that will coordinate the project implementation, ensure the timely and efficient implementation of each activity, provide administrative and fiduciary assistance, and interact with all local and international entities involved in the project execution.

IV. Financing (in USD Million)

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			10.00
Total			10.00

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x

Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Hassan Aliev
 Title: Public Sector Specialist
 Tel: 5210+15809
 Email: haliev@worldbank.org

Borrower/Client/Recipient

Name: Republic of Tajikistan
 Contact: Mr. Abdusolom Kurbonov
 Title: Minister of Finance
 Tel: 992372213290
 Email: min_fin@tojikiston.com; alik_tj@mail.ru

Implementing Agencies

Name: Executive Office of President
 Contact: Shuhrat Maqsudzoda
 Title: Head of Department
 Tel: 992372215834
 Email: eop@gov.tj

VIII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500
 Fax: (202) 522-1500
 Web: <http://www.worldbank.org/infoshop>