

Tajikistan

Policy Notes on Public Expenditures

Policy Note No. 4

Key Issues in Public Finance Management

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REPUBLIC OF TAJIKISTAN
Government Fiscal Year: January–December

Currency Equivalents

(Exchange rate as of June 16, 2014)

Currency Unit = Tajikistan Somoni

USD 1.00 = TJS 4.9237

TJS 1.00 = USD 0.2031

Weights and Measures

Metric System

Abbreviations and Acronyms

<i>CSIP</i>	Centralized State Investment Program	<i>OBI</i>	Open Budget Index
<i>CSO</i>	Civil Society Organization	<i>OBS</i>	Open Budget Survey
<i>DCC</i>	Development Coordination Council	<i>PARS</i>	Public Administration Reform Strategy
<i>DFID</i>	Department for International Development (UK)	<i>PEFA</i>	Public Expenditure and Financial Accountability Assessment
<i>EBFs</i>	Extra-Budgetary Funds	<i>PER</i>	Public Expenditure Review
<i>ECA</i>	Europe and Central Asia	<i>PFM</i>	Public Financial Management
<i>EU</i>	European Union	<i>PFMMP</i>	Public Financial Management Modernization Project
<i>FMIS</i>	Financial Management Information System	<i>PFMRS</i>	Public Finance Management Reform Strategy
<i>GDP</i>	Gross Domestic Product	<i>PIP</i>	Public Investment Program
<i>GFSM</i>	Government Finance Statistics Manual	<i>SGB.NET</i>	FMIS of Turkey
<i>GOT</i>	Government of Tajikistan	<i>SFR</i>	Statement of Fiscal Risks
<i>IMF</i>	International Monetary Fund	<i>SOE</i>	State-Owned Enterprise
<i>IPSAS</i>	International Public Sector Accounting Standards	<i>SOEMD</i>	SOE Monitoring Department
<i>IT</i>	Information Technology	<i>TA</i>	Technical Assistance
<i>LSIS</i>	Living Standards Improvement Strategy	<i>TALCO</i>	Tajik Aluminum Company
<i>MOF</i>	Ministry of Finance	<i>TF</i>	Trust Fund
<i>MABA</i>	Main Administrator of Budgetary Allocations	<i>TSA</i>	Treasury Single Account
<i>MTEF</i>	Medium-Term Expenditure Framework	<i>UCOA</i>	Uniform Chart of Accounts
<i>NGO</i>	Non-Governmental Organization	<i>USAID</i>	U.S. Agency for International Development
		<i>WB</i>	World Bank

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Contents

Abbreviations and Acronyms	iv
Preface	ix
1. Main Messages	1
2. Current State of the PFM Reform in Tajikistan	3
3. How Much Public Money is Being Spent?	9
4. What is the Government Spending Money On?	14
5. What the Government is Trying to Accomplish with the Money it is Spending?	16
6. Conclusions	19
Annexes	21
References	27

List of Figures

Figure 1. Tajikistan’s Progress in PFM Over Time—2007 and 2012 PEFA Scores	4
Figure 2. PFM Performance Among ECA Countries	4
Figure 3. PFM Performance: Tajikistan and Selected Income Group Comparators	4

List of Tables

Table 1. The Progress in Achievement of Intermediate Indicators	5
Table 2. Short-Term PFM Strategy Priorities and the Outcomes	7
Table 3. Extent of Unreported Government Operations	10
Table 4. Oversight of Fiscal Risk from other Public Sector Entities	10
Table 5. Stock and Monitoring of Expenditure Payment Arrears	11
Table 6. Quality and Timeliness of Annual Financial Statements	11
Table 7. Public Access to Key Fiscal Information	12
Table 8. Budget Classification	14
Table 9. Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting	17

List of Boxes

Box 1. Donor Support of PFM Reform in Tajikistan: Issues and Challenges	3
Box 2. Development Coordination Council Initiatives in Support of Tajikistan’s Living Standards Improvement Strategy, 2013–2015	6
Box 3. Key Recommendations on PFM Reform Sequencing	8

List of Annexes

Annex 1. Tajikistan PFMRS for 2009–18: Priorities, Objectives and Targets	21
Annex 2. DCC- GOT Initiative Improving Public Administration and Public Financial Management Outcomes + Indicators	24
	25

Preface

At the request of the Government of Tajikistan the second stage of the Public Expenditure Review (PER-2) continues to support the government in analyzing public expenditures, fiscal management, and fiscal risks and making recommendations. PER-2 consists of three policy notes: *Key Issues in Public Finance Management*, *Fiscal Risks from State-Owned Enterprises*, and *Capital Expenditures and Public Investment Management*.

PER-2 continues the fiscal policy dialogue conducted in FY12–13. It builds on the findings of the three PER-1 Public Expenditure Review Notes completed in FY13: *Government Expenditures: Size, Composition and Trends*; *Review of Public Expenditures on Health*; and *Review of Public Expenditures on Education*.

The PER-2 was prepared by a World Bank team led by Marina Bakanova (TTL, ECSP1). David M. Nummy (Senior Public Sector Specialist, ECSP4) is a primary contributor to this Note. Hassan Aliev (Public Sector Specialist, ECSP4), Zachary Mills (Public Finance Specialist, ECSP4), Jana Kunicova (Senior Public Sector Specialist, ECSP4) also provided valuable contributions. Nasiba Saidova (ECCTJ) and Sarah Babirye (ECSP1) provided support to the team.

Chiara Bronchi (Lead Public Sector Specialist, AFTP5), Frederico Gil Sander (Senior Economist, EASPT) and John Zohrab (Regional PFM Advisor, IMF) were peer reviewers. The team benefited from the guidance and advice of Ivailo V. Izvorski (Sector Manager, ECSP1), Adrian Fozzard (Sector Manager, ECSP4) and Marsha M. Olive (Country Manager, ECCTJ). This note also reflects comments from the World Bank and the International Monetary Fund (IMF) colleagues made in internal presentations and informal discussions.

The team is grateful to the Tajikistan authorities for their collaboration and input during the preparation of the PER-2. The team is particularly grateful to the Ministry of Finance for facilitating the overall coordination of the work from the Government side. The work was coordinated with and benefitted from the continuing technical assistance that is part of the public financial management project.

Support of the ECA regional BOOST initiative, financed by trust funds from Bank-Netherlands Partnership Program and the ECA Public Financial Management Multi-Donor Trust Fund, is gratefully acknowledged.

1. Main Messages

1. Reform of public finance management (PFM) remains a priority for the Government of Tajikistan. This reform is an integral part of Tajikistan's Poverty Reduction Strategies (PRS), including the Living Standards Improvement Strategy (LSIS) for 2013–15. The Public Administration Reform Strategy (PARS) for 2005–15 outlined an ambitious path for improving governance, public service delivery and the government responsiveness to the citizens' concerns and aspirations, including through the strengthening of the PFM and advancing the civil service and institutional reform and decentralization. A ten-year PFM Reform Strategy (PFMRS) for 2009–18 was adopted in 2008.

2. Tangible gains have been achieved since the adoption of the PFMRS but progress has been slow and uneven and falls short of the Government's ambitious targets. A 2012 Public Expenditure and Financial Accountability (PEFA) assessment revealed an overall improvement across most performance indicators, with slippage in some areas and no change in rating for others compared with the 2007 PEFA assessment. Fewer than 60 percent of the intermediate indicators of the PFMRS were achieved by 2013, and only 4 out of 11 targets for a PFMRS short-term priority objective were achieved by 2013. Overall, despite a commendable progress in some PFM area, the ability to command public funds in efficient, transparent and equitable way remains limited. It remains still a challenge to respond in a comprehensive and timely manner to the most basic questions about the public resources being mobilized, allocated, and deployed to provide services to citizens: *How much public money is being spent?; What is the Government spending money on?; and, What is the Government trying to accomplish with the money it is spending?*

3. As the PFMRS has passed its mid-point by now, the efforts need to be focused on completing the establishment of core PFM functions and on creating preconditions for more advanced reforms. The government is invited to consider the following recommendations to help achieve the stated PFM reform objectives:

- Reflect all public spending in the budget in a transparent way. Strengthen monitoring of state-owned enterprises (SOEs) and improve the presentation of fiscal risks from SOEs. Adopt and start implementing a time bound plan for phasing out quasi-fiscal activities.
- Prioritize the practice of recording commitments to provide more complete information on resources being deployed for public purposes and to avoid the risk of unexpected cash requirements that could lead to a buildup of arrears.
- Continue progress on inclusion of all units of government, including at the local level, into the Treasury Single Account (TSA).
- Facilitate implementation of the Financial Management Information System (FMIS), the adaptation of the SGB. NET software, so that information on resources being utilized is collected and reported accurately and timely.

4. A complete understanding on what public funds are spent is a fundamental aspect of managing a country's finances. The Government of Tajikistan is advised to:

- Build upon the achievement of creating the 2014 budget on the basis of the new budget classification and account for all expenditures, including for donor-financed projects, in accordance with the new chart of accounts.
- Re-prioritize the goal of automating a centralized payroll management system to provide details on the amount of expenditure related to payment of salaries of civil servants.

5. Articulating what the government is trying to accomplish with public spending is a more complex goal. Tajikistan has chosen the implementation of a Medium-Term Expenditure Framework (MTEF) as a vehicle to make progress on this goal but some key obstacles need to be addressed for progress to occur. The Government of Tajikistan is advised to:

- Strengthen the links between capital and recurrent budgets. A strategic implementation plan for integration of investment budgeting into the overall budget process should be quickly considered.
- Build capacity to develop long-term plans and achieving efficient implementation of sectoral strategic frameworks to better align strategic priorities and budget spending.
- Phase in the implementation of a full-fledge MTEF and program budgeting once important preconditions have been met and priority actions addressed.

6. The reasons for delays in PFM reform in Tajikistan have not generally been technical but have resulted from the challenges of managing the change associated with reform. A formal recognition of the requirement to manage change and incorporation of a change management element in the action plan would incorporate this key lesson from the first years of reform implementation and could mitigate expected future challenges as PFM reforms become more advanced and far reaching.

2. Current State of the PFM Reform in Tajikistan

7. The Government of Tajikistan has pursued a comprehensive PFM reform agenda for many years, often with the donor's support. The 2008 PFMRS laid out seven reform priorities: one short-term, four medium-term, and two long-term priorities—with 33 attendant objectives (See Annex 1 for details). A detailed three-year Action Plan of the PFMRS for 2012–14 was developed and adopted by PFM Council in August 2011. The Action Plan for the remaining years of the PFMRS implementation is considered by the Government at the moment. Development partners have provided a sizable support to both the development and the implementation of the PFMRS (see Box 1 and Annex 2 for details).

Box 1. Donor Support of PFM Reform in Tajikistan: Issues and Challenges

PFM has traditionally been one of the key areas of donor support of the economic transformation of the Republic of Tajikistan. Over time, the issues arose pertaining to: (i) the Government limited absorption capacity amid wide donors supply pressure; (ii) the Ministry of Finance limited authority to address wider problems of civil service and public administration; and (iii) poor coordination and sometimes fragmented approaches of donors to PFM reforms, resulting in poor sustainability and lack of sufficient Government buy in. The Government of Tajikistan has requested greater continuity of funding and donor coordination across the PFM reform agenda.

Since 2009, a coordinated multi-donor approach has gradually replaced previous independent interventions by different donors. A Multi-donor World Bank Public Finance Management Modernization Trust Fund for Tajikistan has been established in 2009 with the total value of US\$12.2 million. DFID has provided £2.4million to the project, with other contributions made by the World Bank (US\$5 million), European Commission (EC) (US\$2.6 million) and Japan (US\$0.96 million). The Government of Tajikistan is contributing an equivalent of US\$1.33 million in local currency for telecommunications infrastructure and maintenance of IT equipment. The TF has helped to: (i) harmonize donors' approach; (ii) facilitate long term commitment to ensure continuity of support; (iii) provide effective management and administration of a portfolio of work with a range of different national partners; and (iv) minimize transaction costs. A PFM Co-ordination Group, a sub-group of the Development Co-ordination Council's (DCC) Governance group, was established in 2009. Yet, there is a widespread perception that it needs to assume a more direct role in donor co-ordination and maintain links with Ministry of Finance and other government agencies, involved in the PFM reform.

There is still an ample room for the improvement of donor coordination in the PFM area. As discussed and agreed at the DCC PFM Co-ordination Council, donors should consider the following actions: (a) to coordinate better especially between technical assistance efforts in PFM/PSR; and (b) to promote more effective and closer policy dialogue with the Government on PSR/PFM reform as part of a DCC-led flagship process (sub-group on the PFM reform).

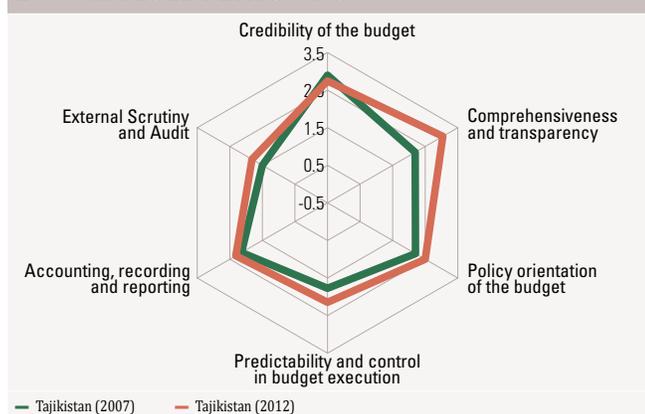
Outside of technical reforms, the donors should widen their efforts in helping to build the capacity of Government/Ministry of Finance, Parliament and civil society to achieve a greater degree of budget transparency and Government accountability of budget related information. Demand side PFM reforms are essential to support technical supply side reforms. Greater involvement of non-governmental organizations (NGOs) and civil society organizations (CSOs) into this process is essential.

Source: Adopted from the DFID PFMMP Annual 2013 Report and minutes of the discussions at the DCC PFM Coordination Council.

8. **The PFMRS utilized the PEFA scores as the primary method for establishing initial benchmarks for the PFMRS objectives, and intermediate and final outcome targets.** As a benchmark, the scores of the first PEFA—conducted in 2007—have been used. For some objectives, activities and actions were described that were not captured in PEFA indicators. Intermediate targets were set for 2013 and final outcome targets for 2018. The second PEFA assessment, which was completed in 2012, is used in this Note to assess progress with the achievement of the intermediate targets.

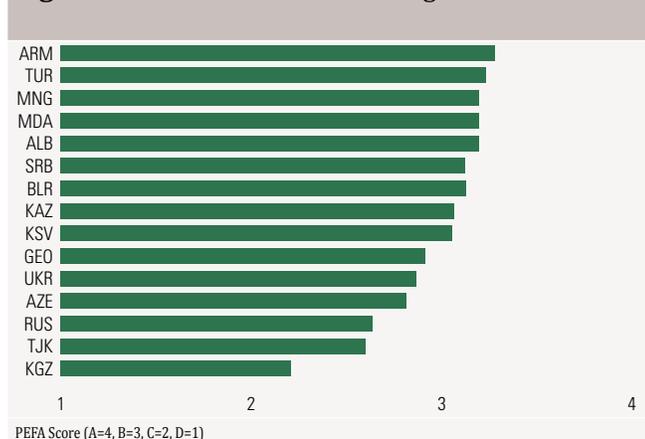
9. **A 2012 PEFA assessment revealed an overall improvement across most performance indicators (PIs), with slippage in some areas and no change in rating for others compared with the 2007 PEFA assessment.** The TSA became operational and will eventually capture all the public financial resources of the national and sub-national budgets, including resources of special funds of budget organizations.¹ In 2008 an SOE monitoring unit was established and is designed to assess and monitor fiscal risks associated with large state owned enterprises (SOEs) on a regular basis. The PEFA also has identified slow progress and weaknesses in a number of key areas of Tajikistan’s PFM system, including, *inter alia*, low reliability of the fiscal framework for budget planning, insufficient linkages between the budget and the policies, weaknesses in financial reporting and accounting, weak payroll control, internal audit and external audit. Overall, across six broad areas, covered by PEFA, there has been a very little progress in accounting, recording and reporting and in policy-based budgeting and the deterioration in the areas of external scrutiny and audit and credibility of the budget (Figure 1).

Figure 1. Tajikistan’s Progress in PFM Over Time—2007 and 2012 PEFA Scores



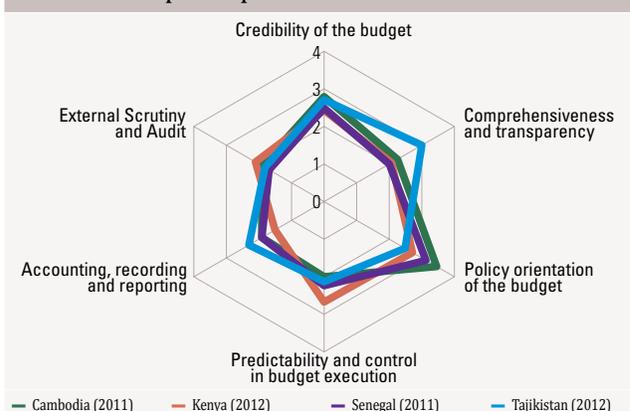
Source: 2007 and 2012 PEFA assessments for Tajikistan.

Figure 2. PFM Performance Among ECA Countries



PEFA Score (A=4, B=3, C=2, D=1)
Source: PEFA Assessments. www.pefa.org.

Figure 3. PFM Performance: Tajikistan and Selected Income Group Comparators



Source: PEFA Assessments. www.pefa.org.

1 Currently TSA covers only the Republican Budget and five local budgets. It is expected that all local budgets will be included in 2014.

10. **A cross-country comparison also provides a mixed picture.** As Figure 2 indicates, Tajikistan has the lowest average PEFA score among the countries of ECA after the Kyrgyz Republic. A comparison with relevant comparators outside ECA from the same income group, for which a PEFA has been completed recently, such as Cambodia, Kenya and Senegal, suggests that Tajikistan fares relatively well on dimensions such as comprehensiveness and transparency of the budget and accounting, recording and reporting but it is either at par or lags behind these countries in other areas (Figure 3).

11. **Overall, fewer than 60 percent of the intermediate indicators of the PFMRS were reached by 2013.** This outcome, summarized in Table 1 and in Annex 1, can be viewed in several ways. One view is that progress has been made on the PFM reform objectives as measured by the intermediate targets, indicating that there is a commitment to move forward on reforms but that the pace is slower than originally projected. Another view is that the projected pace of overall reform was overly ambitious given the lack of technical and human capacity in Tajikistan in 2008.

Table 1. The Progress in Achievement of Intermediate Indicators

Targets	Status	Percentage
31 PEFA Intermediate Targets for 2013	18 achieved	58
	13 not achieved	42
9 Non-PEFA Intermediate Targets for 2013	5 achieved	56
	3 not achieved	33
	1 not due	11

12. **The achievement of the target indicators for the short-term priority was slightly above one third.** Looking at progress in achievement of the PFMRS more closely, out of seven targets for the short-term priority—*Reinforce stability, credibility, comprehensiveness, and transparency of the budget*—only four of the 11 PEFA scores targeted for 2013 were achieved as measured by the 2012 PEFA assessment. This outcome results in an achievement rate of 36.3 percent. At the same time, both non-PEFA indicators were achieved.

13. **Despite recent improvements in the donor practices, remaining weaknesses continue to challenge the Government's ability to advance PFM reform.** External assistance plays an important role in supporting the country development. It involves approximately 80 partners, including bilateral and multilateral donors as well as non-governmental organizations. The donor coordination and alignment of the donor support with the Government's strategic priorities has improved since 2009 (see Box 2). However, the 2012 PEFA still rated donor practices low in all three dimensions: (i) D1: Predictability of direct budget support (D+); (ii) D2: Financial information provided by donors for budgeting and reporting on project and program aid (C); and (iii) D3: Proportion of aid that is managed by use of national procedures (D). As compared to 2007 PEFA, the rating for D2 has improved from D to C because of improved financial reporting, including timely provision of budget estimates and in-year (quarterly) allocations. However, the classification used in these reports is not consistent with the budget classification. Classification of donor activities using the unified chart of accounts (UCOA) will help to better align the strategic planning, sector strategies and donor support. It is also an important transitory step towards the use of country systems.

14. **However viewed, a consistent conclusion is that some positive gains have been achieved by Tajikistan in the PFM reform but the progress has been slow and much remains to be accomplished.** As the PFMRS has passed its mid-point by now, the focus needs to shift to delivering all targeted core reforms in the short- and in the medium-term and advancing on long-term priorities. It is important to address those issues that build the

Box 2. Development Coordination Council Initiatives in Support of Tajikistan's Living Standards Improvement Strategy, 2013–2015

1. Public administration and governance: The DCC's two initiatives in this area are designed: (a) to strengthen parliament's ability to fulfill its public expenditure oversight role and, in addition, to expedite implementation of ongoing public finance management reforms; and (b) to improve the access of marginalized or vulnerable groups to the country's legal system. Together, they would help improve clarity, consistency, and transparency in Tajikistan's public administration and the creation of an effective legal system.

2. Private sector-led growth: The purpose of DCC initiatives under this heading is: (a) to support implementation of reforms focused on simplifying procedures for investors, strengthening investor protection, and improving public-private sector dialogue; (b) to help the government implement Tajikistan's commitments to the World Trade Organization following its accession last year; and (c) to help create conditions at national, regional, and local levels for inclusive rural growth through value chain support. Together, these actions would reinforce ongoing efforts to improve the business environment that are needed to enlarge the private sector's contribution to growth, including much higher levels of domestic and foreign investment.

3. Development of human potential: DCC initiatives directed towards further development of Tajikistan's human capital would: (a) help increase the efficiency of public spending on health while improving the coverage and delivery of the 'basic benefit' package; and (b) support creation of a nation-wide communal services development fund linked to decentralized water supply services. These complementary actions would enhance the population's access to primary health care services, as well as to safe drinking water (including in Dushanbe).

4. Energy security: The DCC's energy initiative comprises two elements designed to help reduce winter electricity shortages, export summer electricity surpluses, and address sector governance and management issues: *first*, by implementing four short- and medium-term actions that also advance long-term energy security; and *second*, by intensifying measures to rehabilitate existing hydropower assets, improve overall transmission and distribution system efficiency, and strengthen energy sector governance.

5. Food Security: DCC support for food security focuses on four areas: (a) increasing the output, processing, and export of agricultural produce; (b) promoting individual household production of agricultural products for domestic consumption in support of livelihood development, focusing especially on women; (c) scaling-up implementation of interventions to prevent and treat malnutrition, including Tajikistan's participation in the UN Secretary-General's "Scaling Up Nutrition" initiative; and (d) disseminating food security and nutrition information and market and farm price data.

6. Connectivity: The DCC's transport connectivity initiative focuses on: (a) rehabilitating and upgrading the existing regional highway infrastructure; (b) maintaining and improving the national road network; (c) strengthening the legal and regulatory framework to maximize private sector involvement; (d) enhancing cross-border transport operations; and (e) expanding airline connectivity, especially to non-CIS international (cargo and passenger) markets. Together, these actions would help accelerate cross-border transport, increase efficiency, reduce costs, and facilitate regional and international trade.

Source: World Bank Group Country Assistance Strategy for Tajikistan for the period FY15–18, Annex 4. Report No.86372-TJ, May 14, 2014.

foundational tools for ongoing momentum toward modern PFM practices (see Box 3). In doing so, it is important to see the PFM reform as a key component of the broader reform agenda aimed at addressing Tajikistan's key development challenge of establishing transparent and efficient governance. The ability of the PFM system to accomplish its main objectives depends on the progress in other dimensions of the broad governance agenda, which are outside the scope of this Note.

Table 2. Short-Term PFM Strategy Priorities and the Outcomes

	PFM Strategy Priority	PEFA Indicator	Benchmark PEFA 2007	Target 2013	PEFA 2012	Status
1.1	Significantly improve the quality of macroeconomic and fiscal forecasting by 2012.	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	D+	C	D+	X
1.2	By 2012, significantly improve the quality of planning of revenues (extra-budgetary funds [EBFs] and additional budget).	PI-1 Aggregate expenditure outturn PI-2 Composition of expenditure out-turns.	B C	B+ C+	A C+	X O
1.3	Ensure that in 2009–12 government borrowing comply with the approved Public Debt Management Strategy.	PI-17 Recording and management of cash balances, debt and guarantees.	C	B	B	X
1.4	Obtain adequate insight in the fiscal risks, mainly focusing on State Unitary Enterprises (SUEs).	PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C	B	C+	X
1.5	In 2009, elaborate, approve and start implement an Action Plan for harmonization of national accounting standards in public sector to IPSAS on accrual basis for 2009–18.	Non-PEFA.				O
1.6	In 2009–12, prepare and implement the unified chart of accounts (COA).	Non-PEFA.				O
1.7	Starting from 2010, ensure budget preparation based on administrative classification; starting from 2012, ensure preparation of the annual budget reports, based on COA integrated with budget classification.	PI-5 Classification of the budget.	D	C	B	O
1.8	Ensure the presentation of one Investment plan starting from 2011.	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	D+	C	D+	X
1.9	By 2012, (a) Improve the efficiency and effectiveness of revenue collection; and (b) develop an e-system for tax management and integrate it with e-system of public finance management.	PI-13 Transparency of taxpayer obligations and liabilities. PI-15 Effectiveness in collection of tax payments.	C NA	C C	B D+	O X
1.10	By 2011, ensure full compliance of public procurement practices with the Public Procurement Law.	PI-19 Transparency, competition and complaints mechanisms in procurement.	C	B	C+	X
1.11	Create a system for management of commitments by 2012.	PI-20 Effectiveness of Internal Control for Non-salary Expenditures.	C+	C+	C+	O

Source: Tajikistan PFM Strategy, 2007 and 2012 PEFA Assessments for Tajikistan.

Note: O – achieved, X – not achieved.

15. The reasons for delays in PFM reform in Tajikistan have not generally been technical but have resulted from the challenges of managing the change associated with reform. These kinds of challenges include the need to build consensus among policy officials and other stakeholders in the need for specific reforms, the creation of a legal foundation for new business processes through new instructions, decrees, and laws, and assisting affected staff to understand the benefits of reform. The PFM strategy and action plans have not explicitly included a change management component. A formal recognition of the requirement to manage change and incorporation of a change

Box 3. Key Recommendations on PFM Reform Sequencing

The first priority in PFM reform is to establish a minimum operational level of core PFM functions. These core PFM functions primarily focus on financial compliance and fiscal control. Recognizing that a realistic (or credible) budget is fundamental to financial control, achieving a realistic budget can, together with financial compliance, be considered as part of the “core” functions. This level of PFM attainment can be indicated by target scores on PEFA indicators, although in practice these scores need to be supplemented by other information, especially on dimensions not adequately covered by PEFA.

It should be recognized that many countries, especially low-income countries (LICs), fail to meet the target scores in core PFM functions on a wide range of PEFA indicators. This implies most sequencing decisions must focus on achieving this core level functionality, where it is essential to adopt a strategy that is viable in each specific country context.

Before advancing to reforms aimed beyond core PFM functions, it is important to establish an adequate IT basis, accounting system, and regulatory framework, on which to anchor subsequent reforms. The benchmarks for attaining this PFM operational level are the establishment of a financial management information system, an accounting system that can at least meet International Public Sector Accounting Standards (IPSAS) cash reporting standards for central government operations, and budget legislation that meets critical control standards and is adequately enforced.

With this as a platform, subsequent PFM reforms should be sequenced along three tracks: further improving compliance; a progressive move from annual to medium-term budget planning; and a staged move from traditional line-item budgeting to program, and eventually performance budgeting. With sequencing priorities set in this order, the exact choice of reform actions and pace of moving along these three tracks should be determined by specific country circumstances and preferences.

Source: Diamond, Jack (2013). Good Practice Note on Sequencing PFM Reforms.

management element in the new action plan would help mitigating expected future challenges as PFM reforms become more advanced and far reaching.

3. How Much Public Money is Being Spent?

16. The Tajikistan PFMRS has adopted a widely used framework for thinking about PFM and the functions it must accomplish to be effective. These are: (i) aggregate fiscal discipline: to control and achieve a sustainable balance between revenues, expenditure, and debt; (ii) allocative efficiency: to allocate resources to uses that reflect the government’s policy priorities; and (iii) operational efficiency: to deliver public services efficiently and effectively. This approach—with some specificity—has been recognized as the most acceptable by the *Good Practice Note on the Sequencing of the PFM Reforms* (Diamond, 2013).

17. The PFMRS laid out four principles for prioritization to guide the focus of the reform and to determine where efforts should be concentrated. The principles are based on the recognition of the comprehensiveness of the PFMRS, a ten-year period for its implementation and the low level of capacity at the start of implementation. These principles are:

- (i) Focus on the fundamentals of the PFM system to ensure that the basic elements and the core functions are in place;
- (ii) Focus on capacity improvements to ensure that the required skills are in place to implement the planned reforms;
- (iii) Focus on a “step-by-step” approach building any further initiatives upon the results achieved;
- (iv) Follow the logical sequence of reforms.

18. As the strategy is at its mid-point, there is an opportunity to reflect on its achievements and failures and refocus efforts and resources for better results. The PFMRS remains highly relevant and topical and it is broad and flexible enough to allow modifications while maintaining focus on the key areas. Focus on the core PFM functions implies the government’s ability to answer the most basic questions about its command of the resources being mobilized, allocated, and deployed to provide the services to its citizens that every government should be held accountable. The three straightforward questions that a government should be able to answer are as follows:

- (i) How much public money is being spent?
- (ii) What is the Government spending money on?
- (iii) What to the Government trying accomplish with the money it is spending?

19. The three basic questions should be considered in terms of whether they can be answered, to what level of depth, and what is necessary to be able to answer the question more precisely and more fully.

20. Upon careful analysis and despite substantial progress, the Government of Tajikistan cannot answer the first question in a satisfactory and a timely manner. This is one of the most basic questions that a government should respond to regarding its use of resources to meet public purposes. While budgets can be unclear and there are different methods to describe the components of spending, providing the total amount spent should be straightforward. The PEFA framework incorporates this question, though not directly, into several of its indicators.

21. Comprehensiveness and coverage of Tajikistan's budget has improved since 2007, largely due to better reporting and recording of donor funded activities. The most straightforward indicator for the assessment of the budget comprehensiveness and coverage is PI-7, *Extent of Unreported Government Operations*. As shown in Table 13, Tajikistan's score on this indicator has improved since 2007. This overall improvement, however, appears to be due to only one aspect of capturing information on public purpose activities, those that are funded by donors. The methodology for this indicator looks at the financial statements issued and whether donor funded activity is reflected in financial statements. Thus, at large, the improved performance is influenced by greater disclosure in Tajikistan's documents of donor funded activities (loans and grants). While reflecting donor funded activity improves the understanding of resources being spent on public purposes, it does not impact the ability of the government to capture domestic resources spent on public purposes.

Table 3. Extent of Unreported Government Operations

PEFA	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-7	C+	Not included	B+

22. It can be argued, however, that a sizable amount of spending for public purposes still remains outside the budget and is not captured by any PFM system. One key area concerns spending by SOEs. In a companion public expenditure policy note, *Fiscal Risks from State-Owned Enterprises*, it is noted that there is no single source of reliable information on the amount of public spending being managed through SOEs and that what is known about these activities is not being included in the Tajikistan budget. In effect, there is an unknown quantity of public spending that is likely to be occurring outside of the PFM systems and this activity could be significant. This situation is captured to some extent in PEFA indicator PI-9, *Oversight of aggregate fiscal risk from other public sector entities*, and Tajikistan's score on this indicator has shown only marginal improvement between 2007 and 2012 and still remains at a low level (Table 4). The improvement acknowledges the establishment of SOE monitoring department (SOEMD) at the Ministry of Finance and the preparation and publishing of Statements of Fiscal Risks from SOEs.

Table 4. Oversight of Fiscal Risk from other Public Sector Entities

PEFA	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-9	C	No target	C+

23. Furthermore, Tajikistan does not record commitments, which has the potential to understate the amount of resources being deployed for public purposes and increase the risk of a buildup of unpaid bills (arrears). A simple way to look at the question of how much money is being spent is to think only in terms of cash that has been expended. However, while simple, this approach is misleading. Governments enter into obligations through formal and informal contracts with individuals and firms to provide goods and services that impact the provision of public services. These obligations have the same effect as immediate cash payments as they cause

activities to take place and benefits to be received. If a PFM system is unable to capture the value of these activities then a correct answer to the question of how much money is being spent cannot be provided. The ability to capture these obligations is referred to as recording commitments. The PEFA indicator that evaluates the monitoring of arrears is PI-4, *Stock and monitoring of expenditure payment arrears*, and on this indicator, Tajikistan scores low as there is currently no system in place to capture information on unpaid bills that are overdue (Table 5).

Table 5. Stock and Monitoring of Expenditure Payment Arrears

PEFA	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-4	C+	No target	D+

24. **Quality and timeliness of financial statements has improved since 2007, but still remains low.** PEFA's indicator PI-25—*Quality and Timeliness of Annual Financial Statements*—provides an indication of how well the accounting system is operating (Table 6). While scoring on this indicator does not directly address the question of whether all resources deployed are being captured, it does evaluate completeness, timeliness, and the quality of accounting standards being used. On this indicator, Tajikistan does not score highly but does exceed its intermediate target which did not project any improvement during the first five years of the PFM strategy. The improvement in the score is due to Tajikistan having a strong legal framework for its financial statements, not due to the comprehensiveness of the financial information and a C is still low on the scale.

Table 6. Quality and Timeliness of Annual Financial Statements

PEFA	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-25	D+	D+	C+

25. **Public access to key fiscal information has improved since 2013, but there is a room for expanding opportunities for public participation in the budget process.** Whether a government has the capacity to answer the question about the total amount of spending on public purposes is critical for rational government decision making, how easy it is for outside stakeholders to obtain that same information is another important dimension. The PEFA framework incorporates this issue of transparency in its indicator PI-10, *Public Access to Key Fiscal Information*. As the Table 7 shows, Tajikistan scores somewhat better on this indicator in 2012 versus 2007 but still receives a low score and did not achieve the target it set for itself in its PFM strategy. Tajikistan's 2012 Open Budget Index (OBI)² score is 17 out of 100, which is well below the average score of 43 for all the 100 countries surveyed. Tajikistan's score indicates that the government provides the public with scant information on the national budget and financial activities during the course of the budget year, making it challenging for citizens to hold the government accountable for its management of the public's money. The Ministry of Finance has started implementing measures to increase budget transparency, including through the preparation and publishing 2014 Citizens Budget. The next important step would be expanding opportunities available to the public to participate in

2 OBI is constructed based on the Open Budget Survey (OBS) conducted by the Open Budget Initiative (IBI)—a global research and advocacy program to promote public access to budget information and the adoption of accountable budget systems. OBS is a comprehensive analysis and survey that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level. 2012 OBS covers 100 countries.

national budget decision-making processes. These opportunities can be provided throughout the budget cycle by the executive, legislature, and supreme audit institution.³

Table 7. Public Access to Key Fiscal Information

PEFA	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-10	D	B	C

26. There are PFM reforms in progress that should, if implemented in full, help the government answer the question of how much money is being spent for public purposes. Let us consider these in turn.

27. Recently, the government has made some progress in monitoring SOEs and the associated fiscal risks. The SOEMD was established at the Ministry of Finance in September 2008 with the main responsibility to monitor the financial performance of the largest SOEs. The number of SOEs monitored increased from 10 in 2009 to 16 in 2010 and to 24 in 2013. The SOEMD produces a Statement of Financial Risks (SFR), which is submitted regularly to the government for review and decision-making. The 2011 and 2012 SFRs are available to the general public from the Ministry of Finance website (www.minfin.tj). Recently, the Government took a long-awaited decision on SOEs' dividend policy, to be in effect from 2014. The tax committee has started developing new criteria for inclusion of SOEs in the Large Taxpayers Unit and on arrears management. The information is still far from being complete and accurate: coverage remains low (some important SOEs, i.e. TALCO management, are still not covered), SOEs remain poorly integrated into the budget system and the powers, and the responsibilities of SOEMD are limited. The PER Note on *Fiscal Risks from State-Owned Enterprises* discusses these issues in detail and provides recommendations.

28. The establishment of a TSA makes it easier to capture information on at least the total amount of cash being expended. Tajikistan has established a TSA for all republican level budget organizations and is in the process of expanding the TSA to the sub-national level. However, as noted earlier, if activity is being funded outside the budget, as is the case for SOEs, and if the commitments of resources that have not yet gotten to the cash disbursement phase of a transaction are not being recorded, the information captured within the TSA is not a complete answer.

29. Adoption of an automated financial management system is important to support a better command of public funds. Even with the establishment of a TSA and assuming that recording of commitments was established and that information on all public purpose activity in SOEs began to be captured, it is extremely difficult to capture all of this information in a reliable and timely manner without an automated financial management system. A key part of Tajikistan's PFM reform is to adapt an automated system from Turkey—SGB.NET—to serve as an interim system until a more robust FMIS system is acquired later in the PFM strategy timeline. Currently, the budget planning module became operational for preparation of the 2014 budget but the budget execution module did not become operational by its target date of January 1, 2014. Implementing the budget execution module is now targeted for January 1, 2015, with additional modules including cash management and commitment control to follow. Meeting this timeline will be extremely important to make progress in PFM reform as it is fundamental to most of the reforms envisioned in the PFM strategy.

³ For more details, see Open Budget Survey 2012. <http://internationalbudget.org/wp-content/uploads/OBI2012-TajikistanCS-English.pdf>

30. **In summary**, to make progress on having complete information on the amount of resources being deployed to meet public purpose objectives, the Government of Tajikistan is invited to consider the following:

- Reflect all spending for public purposes in the budget on a transparent basis. Strengthen monitoring of state-owned enterprises (SOEs) and improve the presentation of fiscal risks from SOEs. Adopt and start implementing a time bound plan for phasing out quasi-fiscal activities.
- Prioritize the practice of recording commitments to provide more complete information on resources being deployed for public purposes and to avoid the risk of unexpected cash requirements that could lead to a buildup of arrears.
- Continue progress on the roll out of the TSA to all levels of government.
- Consolidate the progress in adaptation of the SGB.NET software so that information on resources being utilized is collected accurately and in a timely manner.

4. What is the Government Spending Money On?

31. **To answer this question, all parts of government need to track expenditures using the same categories so that information can be consolidated in a consistent manner.** In PFM terms, these categories are labeled as budget classification and the practice of common adherence to these categories is labeled as the UCOA. Understanding the types of goods, services, or works that are being acquired with public funds is an equally important and basic question that a government should be able to answer. Understanding the amount of funds being spent on items such as salaries of civil servants, travel, energy, other components of spending is important information to manage resources. Without this information, basic analysis on efficiency of operations and the appropriate mix of resources to be applied to a desired activity cannot be conducted. Many international guidelines exist that can inform governments on common practices.

32. **Adoption of a standard budget classification and the UCOA is an important step toward a better use of public funds.** The PEFA framework uses indicator PI-5, *Classification of the Budget*, to evaluate how well a PFM system establishes the various categories of spending and whether these categories are being consistently followed by all parts of the public sector. As shown in the Table 8 below, Tajikistan has improved on this indicator and exceeds its intermediate target.

Table 8. Budget Classification

PEFA	Description	2007 PEFA Score	PFM Strategy Target for 2013	2012 PEFA Score
PI-5	Budget Classification	D	C	B

33. **Progress towards full implementation of the UCOA is important to achieve the expected improvement in the fundamentals of the PFM system.** Looking behind the score for this indicator, the improvement has been based on adoption of a standard definition of budget classification and the UCOA but these systems have not yet been fully implemented throughout government. The government approved UCOA for public institutions, prepared the 2012 state budget based on new administrative budget classification. The Government Finance Statistics Manual 2001 (GFSM 2001) based economic and functional segments, has been introduced for budget execution from January 1st, 2014, in conjunction with the new UCOA. It is a massive preparatory effort, with more than 6,800 budget organizations (BOs) involved in training and subsequent implementation. The UCOA integrates budget and financial accounting, which provides consistency on those types of accounting information. The first 10 accounting standards based on international public sector accounting standards (IPSAS) are to be introduced from 2014. A new Treasury organizational structure has been approved and is being implemented from January 1, 2014, to support implementation of the UCOA and the accounting reform. Reinforcing the importance of automation to the adoption of reforms, the goal to have SGB.NET operational by January 1, 2014, proved to be an action forcing event that drove adoption of the new classification and the UCOA. While only the budget planning module actually did become effective by this date, it achieved the effect of requiring a new uniform classification.

34. **Understanding what money is spent on a more disaggregated level arises in relation to one of the largest categories of expenditure in the Tajikistan budget, payroll for civil servants.** Wages is one of the largest categories of public spending, accounting for 6.6 percent of Gross Domestic Product (GDP) in 2013 or 23.5 percent of total state budget expenditures. Currently, payroll is a decentralized function and many salaries are paid in cash as the banking system does not cover the entire country sufficiently to make payments electronically. Gross payroll requests are submitted by budget organizations and gross payment is made through the TSA. While this process provides an answer to the question of how much is being expended for salaries in total, it does not provide any consistent aggregate information on the details of that spending, for example, by the grade levels of employees or by categories of employees. The need to automate payroll management was included in the PFM strategy through Objective 6.7, but this objective was only targeted to be accomplished by 2018. Given the significance of this kind of information, the Government of Tajikistan should consider reprioritizing this reform earlier in the strategy timeline. This may also require more intensive and timely donors' technical assistance.

35. **In summary,** a complete understanding of what money is spent on is a fundamental aspect of managing a country's finances. To make progress on this core ability, the Government of Tajikistan is invited to:

- Build upon its achievement of creating the 2014 budget on the basis of its new budget classification, and account for all expenditures, including those on donor-financed projects, in accordance with its new chart of accounts. For the first time, Tajikistan has a common accounting language that can provide uniform data suitable for analysis of efficiency of inputs and patterns of spending.
- Bring forward the goal of automating a centralized payroll management system that will provide details about the salaries paid civil servants.

5. What the Government is Trying to Accomplish with the Money it is Spending?

36. **This question is inherently more complex than the questions of how much in total is being spent and on what.** The question can also be answered as broadly as providing education opportunities for young people to as detailed as providing opportunities for children with disabilities in rural areas. Most governments have a desire to accomplish more than what available resources allow which is why it is important that an orderly PFM process requires that all competing needs are considered at one time and trade-offs are made with a full understanding of what those trade-offs are. Ability to more comprehensively manage resources in a manner that allows for an accurate answer to what is trying to be accomplished through public expenditure is also a prerequisite to significant advancement of tying policy to expenditure.

37. **How governments attempt to answer this question varies around the world.** Some governments choose to define specific programs with quantifiable objectives. Others add a further dimension by introducing the concept of performance into PFM with measurable indicators to demonstrate progress toward meeting those objectives. By adding human resource management into this approach, many governments attempt to hold officials accountable for achievement of objectives through performance budgeting techniques.

38. **Tajikistan's PFMRS strategy includes activities necessary to address this question in *Priority 5, Introduce Policy Based Budgeting*.** The strategy is centered on introducing an MTEF into the budget process with an initial emphasis on the social sectors and expanding the concept to all of government by 2016. Introducing elements of performance and program budgeting is also envisioned in the strategy. MTEF's require substantial capacity to develop long-term plans, be able to determine the cost of those plans, and then to prioritize the plans to fit within the expected level of resources within at least a three-year horizon. The ability to accurately project available resources over the next three years being a capacity that itself is complex.

39. **The authorities have prepared MTEFs for 2014–16 for six pilot sectors but the process has been hampered by the excessive number of Main Administrators of Budget Allocations (MABAs).** The pilot sectors are health, education, social protection, agriculture, transport and energy. Preparation of the Budget for 2014 and Budget Forecasting Parameters for 2014–16 has been a two-phase process: a strategic phase of developing MTEF (from January to June 1), and a phase of developing budgets for 2014 and two subsequent years. The first phase was completed by the end May. All critical dates were met, except for the preparation of baseline budgets for investment projects due to existing institutional problems in capital budgeting (see below) and preparation of budget ceilings for MABAs due to their large number (58 – at the end of 2013) and fragmentation in sectors; an issue that has been raised by donors for a prolonged period of time. Due to the recent changes in the structure of the Government, following the presidential elections in November 2013, the number of MABAs has increased slightly but the discussion about the optimization of MABAs continues (see Annex 2).

40. **The greatest potential obstacle to Tajikistan's goal of implementing the MTEF process arises due to the fact that the process of budgeting for capital and current expenditures is bifurcated.** Capital budgeting is

managed by the Ministry of Economy and the current budgeting is managed by the Ministry of Finance. The processes for these two systems are not well synchronized and operate under different timelines, and methodologies, resulting in inefficiencies, and dysfunction in managing public resources predictably and effectively. This is exacerbated by the weak link within capital budget—between domestically financed Centralized State Investment program (CSIP) and externally financed Public Investment Program (PIP). Moreover, all donor projects are classified as capital expenditures without proper consideration of the future maintenance needs, further hindering the process of the strategic alignment of public spending and efficient public service delivery.

41. The bifurcation in capital and current expenditure contributes to the low score for Tajikistan on PEFA indicator, PI-12, Multi-year perspective in fiscal planning, expenditure policy and budgeting. As Table 9 indicates, no progress has been made on this indicator and the modest improvement projected in the strategy’s intermediate target has not occurred. In considering how to best focus resources for PFM reform, Tajikistan should consider the need to better synchronize its management of capital and current spending as a prerequisite to further advancement of its MTEF goals. A strategic implementation plan for integration of investment budgeting into the overall budget process has been drafted and it should be quickly considered. A companion PER Note *Capital Expenditures and Public Investment Management* analyzes this issue in a more detail.

Table 9. Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

PEFA	2007 PEFA Score	PFM Strategy target for 2013	2012 PEFA Score
PI-12	D+	C	D+

42. Another dimension of answering the question of what is trying to be achieved with money being spent relates to different levels of government and their ability to deliver services. A World Bank Policy Note, *Improving Service Delivery through Governance Reforms: Is Decentralization the Answer for Tajikistan*, discusses this question and notes that the policy problem behind the decentralization debate is the need to improve service delivery. The relevant policy question is: *How can public administration and PFM in intergovernmental relations be strengthened so that they improve the efficiency of the allocation and use of public resources and service delivery while at the same time reinforcing the peace and stability in Tajikistan?* In this context, the country faces three fundamental governance challenges in its efforts to improve service delivery. These are: (i) the efficient allocation of public resources; (ii) their efficient and transparent use; and (iii) the existence of a feedback mechanism from citizens to the government on service delivery. The Note suggests pathways to improve service delivery that address the above challenges while recognizing that full-scale decentralization may not be a viable option for Tajikistan at this stage.

43. In summary, being able to link the policy priorities of government to actual expenditure is a more complex goal. Tajikistan has chosen the implementation of an MTEF as its vehicle to make progress on this goal but some key obstacles need to be addressed for progress to occur. The Government of Tajikistan is advised to focus on:

- Integrating the processes and timelines related to formulation of both the capital and the current budgets, assuring that these are more closely linked and that a complete understanding of how each of these uses of funds are being deployed to achieve government policies. A strategic implementation plan for integration of investment budgeting into the overall budget process should be quickly considered.

- Building capacity to develop long-term plans and achieving efficient implementation of sectoral strategic frameworks.
- Phasing in an introduction of a full-fledged MTEF and program-budgeting, after the completion of establishment of core PFM functions and systems and frameworks to anchor more advanced PFM reforms.

6. Conclusions

44. The main conclusions of this Note are as follows:

- Since 2009, significant progress has been achieved in strengthening the PFM systems in Tajikistan.
- The PFM reform agenda remains large and complex and further progress depends upon the overall progress in establishing transparent, efficient, and equitable governance.
- The reasons for delays in PFM reform in Tajikistan have not generally been technical but have resulted from the challenges of managing the change associated with reform. These kinds of challenges include the need to build consensus among policy officials and other stakeholders in the need for specific reforms, the creation of a legal foundation for new business processes through new instructions, decrees, and laws, and assisting affected staff to understand the benefits of reform.
- The Government is urged to refocus its efforts on delivering all targeted core reforms to achieve the following objectives: (i) obtain and share with the public complete information on the amount of resources being deployed to meet public objectives; (ii) gain a complete understanding of what money is being spent on; and (iii) articulate what is to be accomplished with public spending.
- Improvement in donor practices will help achieve the three above-mentioned core objectives, facilitate planning, better align budget spending with the country strategic goals and strengthen accountability.
- As the PFMRS has passed its mid-point by now, the efforts need to be focused on completing the establishment of core PFM functions and on creating preconditions for more advanced reforms. The government is invited to consider the following recommendations to help achieve the stated PFM reform:
 - Reflect all spending for public purposes in the budget on a transparent basis. Strengthen monitoring of state-owned enterprises (SOEs) and improve the presentation of fiscal risks from SOEs. Adopt and start implementing a time bound plan for phasing out quasi-fiscal activities.
 - Prioritize the practice of recording commitments to provide more complete information on resources being deployed for public purposes and to avoid the risk of unexpected cash requirements that could lead to a buildup of arrears.
 - Continue progress on the roll out of the Treasury Single Account to all levels of government.
 - Facilitate implementation of FMIS by consolidating progress in adaptation of the SGB.NET software so that information on resources being utilized is collected accurately and timely.

- Build upon its achievement of creating the 2014 budget on the basis of its new budget classification, account for all expenditures, including for donor-financed projects, in accordance with the new chart of accounts.
- Re-prioritize the goal of automating a centralized payroll management system to provide details on the amount of expenditure related to payment of salaries of civil servants.
- Strengthen the links between capital and recurrent budgets. A strategic implementation plan for integration of investment budgeting into the overall budget process should be quickly considered.
- Build capacity to develop long-term plans and achieving efficient implementation of sectoral strategic frameworks to better align strategic priorities and budget spending.
- Phase in the implementation of a full-fledge MTEF and program budgeting once important preconditions have been met and priority actions addressed.

Annexes

Annex 1. Tajikistan PFMRs for 2009–18: Priorities, Objectives and Targets

PRIORITIES AND OBJECTIVES						
Objective	PEFA Indicator	Benchmark PEFA 2007	Target 2013	PEFA 2012	Met/Not met	
Priority 1: Reinforce Stability, Credibility, Comprehensiveness and Transparency of the Budget						
1.1	Significantly improve the quality of macroeconomic and fiscal forecasting by 2012.	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	D+	C	D+	X
1.2	By 2012, significantly improve the quality of planning of revenues (EBFs and additional budget).	PI-1 Aggregate expenditure outturn. PI-2 Composition of expenditure outturn.	B C	B+ C+	A C+	X O
1.3	Ensure that in 2009–12 government borrowing comply with the approved Public Debt Management Strategy.	PI-17 Recording and management of cash balances, debt and guarantees.	C	B	B	X
1.4	Obtain adequate insight in the fiscal risks, mainly focusing on State Unitary Enterprises (SUEs).	PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C	B	C+	X
1.5	In 2009, elaborate, approve and start implement an Action Plan for harmonization of national accounting standards in public sector to IPSAS on accrual basis for 2009–18.	Non-PEFA.				Achieved
1.6	In 2009–12, prepare and implement the unified chart of accounts (COA).	Non-PEFA.				Achieved
1.7	Starting from 2010, ensure budget preparation based on administrative classification; starting from 2012, ensure preparation of the annual budget reports, based on COA integrated with budget classification.	PI-5 Classification of the budget.	D	C	B	O
1.8	Ensure the presentation of one Investment plan starting from 2011.	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	D+	C	D+	X
1.9	By 2012, (a) Improve the efficiency and effectiveness of revenue collection; and (b) develop an e-system for tax management and integrate it with e-system of public finance management.	PI-13 Transparency of taxpayer obligations and liabilities. PI-15 Effectiveness in collection of tax payments.	C NA	C C	B D+	O X
1.10	By 2011, ensure full compliance of public procurement practices with the Public Procurement Law.	PI-19 Transparency, competition and complaints mechanisms in procurement.	C	B	C+	X
1.11	Create a system for management of commitments by 2012.	PI- 20 Effectiveness of Internal Control for Non-salary Expenditures.	C+	C+	C+	O

PRIORITIES AND OBJECTIVES						
Objective	PEFA Indicator	Benchmark PEFA 2007	Target 2013	PEFA 2012	Met/ Not met	
Priority 2: Clear Definition of Responsibilities at A Central Level						
2.1	By 2011, clearly define PFM functions for line ministries.	PI-11 Orderliness and participation in the annual budget process.	B	B	B+	0
2.2	Undertake an institutional reorganization of the Ministry of Finance to clearly reflect its PFM functions by 2011.	None				Not achieved
2.3	By 2012, strengthen the political guidance in budget preparation.	PI-11 Orderliness and participation in the annual budget process.	B	B	B+	0
Priority 3: Building National PFM Capacity						
3.1	By 2012, create an effective system of training and retraining of personnel employed in the budget system.	None				Not achieved
3.2	From 2010, ensure an efficient coordination of donors' support/projects aimed at the PFM capacity-building.	None				Achieved
Priority 4: Improvement of the System of Checks and Balances						
4.1	Establish by 2012 an independent external audit body to take a role of the Supreme Audit Institution of the Republic of Tajikistan. By 2014, the Parliament considers the report on budget execution based on the conclusion of the SAI of RT.	PI-26 Scope, nature and follow-up of external audit	D+	C	D	X
		PI-27 Legislative scrutiny of the annual budget law.	C	C	B+	0
4.2	By 2018, improve Parliamentary oversight on the public finance and services, assuring an active participation of the Parliament in examination and debates of budget documents (including capacity building of the Parliament and strengthened supported by a well-trained permanent staff).	PI-28 Legislative scrutiny of external audit reports.	D	D	D	0
4.3	Ensure an access for general public to major budgetary documents and policies via the official website of the Ministry of Finance by 2013.	PI-10 Public access to key fiscal information.	D	B	C	X
4.4	Ensure by 2014, the internal audit units in line ministries operate according to international standards of internal audit.	PI-21 Effectiveness of internal audit.	D+	C	C+	0

PRIORITIES AND OBJECTIVES						
Objective	PEFA Indicator	Benchmark PEFA 2007	Target 2013	PEFA 2012	Met/ Not met	
Priority 5: Introduction of Policy-Based Budgeting						
5.1	Ensure a priority use top-down principles of the MTEF design in the preparation of the budget of the social sectors for the fiscal year 2010.	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	D+	C	D+	X
5.2	Ensure a priority use bottom-up principles of the MTEF design in the preparation of the budget of the social sectors for the fiscal year 2011.	PI-16 Predictability in the availability of funds for commitment of expenditures.	D+	C	D+	X
5.3	Ensure that the budget of all sectors is based on the MTEF principles starting from 2016.	None				Not due
5.4	Make preparations for initiating program and/or performance based budgeting on the long term.	None				Achieved
Priority 6:Automatization of the Government PFM System and Implementation of Adequate TSA						
6.1	By 2012, create a technical capacity to support countrywide IT infrastructure for PFM automation.	None				Achieved
6.2	By 2018, create an adequate TSA, i.e. a single account for republican and local budgets, including own-source funds of budget organizations.	PI-22 Timeliness and regularity of accounts reconciliation.	B	A	B+	X
6.3	By 2013, ensure a possibility to consolidate the state budget automatically.	None				Not achieved
6.4	By 2012, modernize the existing IT infrastructure of the Treasury to allow for all basic functions of modern cash management and commitment control.	PI-17 Recording and management of cash balances, debt and guarantees.	C+	B	C+	X
6.5	By 2015, ensure the reporting and monitoring of the budget execution with the use of a new Financial Management Information System (FMIS).	PI-20 Effectiveness of internal controls for non-salary expenditures	C+	C+	C+	0
		PI-24 Quality and timeliness of in-year budget reports	C+	C+	C+	0
		PI-25 Quality and timeliness of annual financial statements.	D+	D+	C+	0
6.6	By 2018, ensure that all Line Ministries are connected to the Treasury FMIS system.	PI-20 Effectiveness of internal controls for non-salary expenditures	C+	C+	C+	0
		PI-24 Quality and timeliness of in-year budget reports	C+	C+	C+	0
		PI-25 Quality and timeliness of annual financial statements.	D+	D+	C+	0
6.7	By 2018, payroll management is automated for all Main Administrators of Budget Funds.	PI-18 Effectiveness of payroll controls.	D+	D+	D+	Not due

PRIORITIES AND OBJECTIVES						
Objective	PEFA Indicator	Benchmark PEFA 2007	Target 2013	PEFA 2012	Met/ Not met	
Priority 7: Development of Fiscal Decentralization						
7.1	In the medium term, ensure that the budget allocation among different levels of government is based on a stable, objective and transparent methodology.	PI-8 Transparency of Inter-Governmental Fiscal Relations.	B	B+	B+	0
7.2	In the long term, ensure that local government is financed in alignment with its functional responsibilities.	PI-8 Transparency of Inter-Governmental Fiscal Relations.	B	B+	B+	0

Annex 2. DCC- GOT Initiative Improving Public Administration and Public Financial Management

February 1, 2014

A. Problem Description

- Some strategic decisions, determinant for the success of Public Finance Management (PFM) reforms, are beyond the decision level of the Ministry of Finance. They are at the decision level of the Presidential Administration.
- The number of MABAs is too high, which undermines the effectiveness of the expenditure planning process (MTEF).
- The MTEF process is currently not consistent with the sector strategies and the budget plans submitted by line ministries to Ministry of Finance (MOF) budget department are not used for budget planning.
- A large proportion of public expenditure is ad hoc and not properly integrated into the budget, which reduces the overall effectiveness of expenditure.
- The lack of a properly functioning external audit body (due to a lack of staffing, knowledge of modern concept of audit, etc.) weakens the overall control of public finances and undermines parliament's constitutional role.
- Internal audit is seriously adversely affected by long absence of head of department in MOF.

B. Proposed DCC Initiative

- To develop a high level representative designated at the Presidential Administration level to champion PFM reforms and to resolve strategic issues that require Presidential Administration intervention.
- To optimize the number of republican budget MABAs according to the principles of the Concept Paper supported by donors.
- To make the MTEF process consistent with the sector strategies and have the MTEF used for budget planning by both MOF budget department and line ministries.
- To enhance monitoring of the SOEs. SOEs to pay dividends to the budget and refrain to spend on public goods.
- To enhance operations of the Accounts Chamber and enable it to perform its first audits of budget

organizations. To increase the use of the audit reports produced by the Accounts Chamber in order to improve governance and strengthen parliament's ability to fulfill its public expenditure oversight role.

- To make internal audit operational.

C. Expected impact or outcomes (By end 2015)

- Outcome 1: By 2015 MTEF sectorial strategic framework is effectively implemented
- Outcome 2: By 2015 state budget coverage and transparency is improved
- Outcome 3: By 2015 budget process accountability is improved
- Outcome 4: By 2015 internal audit is effective.

D. Development partners

- DFID, EU, Switzerland, USAID, IMF and World Bank (WB) for public finance management with total commitment of US\$84 million.

Outcomes + Indicators

	Baseline value 2013	Means of verification (2013)	Targeted value 2015	Means of verification (2015)	Support by Development Partners	GOT Partners
<i>Outcome 1: By 2015 MTEF Sectorial Strategic Framework is Effectively Implemented</i>						
1.1 Number of MABAs	58 MABAs		No more than 20 MABAs	<ul style="list-style-type: none"> • GOT decree, and • MOF regulation 	IMF, WB	MOF, EoP
1.2 Program budgeting for MTEF 2015-17	None (PEFA score D+)		Education and social protection sectors use program budgeting	<ul style="list-style-type: none"> • Minutes of MTEF discussion on program budget • MOF explanatory notes for the Parliament 	EU, WB	MOF, MOE, MOLSP
1.3 MTEF administrative coverage	Central		Central and local (education sector)	<ul style="list-style-type: none"> • MOF regulation 	WB	MOF, local governments
1.4 PFM reform ownership	MOF level		MOF and EoP level	Joint EoP MoF decision making platform helping to address effectively the major current PFM reform bottlenecks, namely – public investment budget, MABA, SOEs monitoring, reduction in quasi fiscal activities	WB, EU, IMF, DFID	MOF, PFM secretariat, EoP

Outcomes + Indicators

	Baseline value 2013	Means of verification (2013)	Targeted value 2015	Means of verification (2015)	Support by Development Partners	GOT Partners
<i>Outcome 2: By 2015 State Budget Coverage and Transparency is Improved</i>						
2.1 SOEs dividend policy	Draft sent to GOT		Initial implementation by key SOEs	TBD, SOEs financial statements confirmed by MOF	IMF, WB, EU	MOF, Ministry of Industry and Energy
2.2 SOEs fiscal risk analysis, coverage and audit	Baseline – SOEs fiscal risk analysis is done annually		Target – SOEs fiscal risk analysis to cover all SOEs (including TALCO and BT)	MOF, SOEs	IMF, EU, WB	MOF, BT, TALCO, other main SOEs
2.3 Quasi fiscal activities and arrears, SOEs financial performance	Baseline - Quasi fiscal deficit Baseline – Quasi fiscal arrears Major SOEs financial management and audit		Target – QF deficit Target – QF arrears Target – regular and high quality SOEs audits (published)	MOF, SOEs	IMF, EU, WB	MOF, BT, TALCO, other main SOEs
<i>Outcome 2: By 2015 Budget Process Accountability is Improved</i>						
3.1 Audit report by Accounts Chamber	Not in place (PEFA score D)		First report for 2013	External Audit report sent to the Parliament	SCO, WB	Accounts of Chamber, Parliament

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