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IMPLEMENTATION COMPLETION REPORT  
(TF-21817 IDA-32490)

ON A

CREDIT

IN THE AMOUNT OF SDR 5 MILLION  
(US\$6.7 MILLION EQUIVALENT)

TO

THE REPUBLIC OF TAJIKISTAN

FOR

SECOND INSTITUTION BUILDING TECHNICAL ASSISTANCE CREDIT

APRIL 25, 2006

Poverty Reduction and Economic Management Sector Unit  
Central Asia Country Unit  
Europe and Central Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 12, 2006)

Currency Unit = Somoni  
TJS 1.00 = US\$ 3.2400  
US\$ 1.00 = TJS 0.3086

## FISCAL YEAR

January 1 to December 31

## ABBREVIATIONS AND ACRONYMS

AAA	Analytical Advisory Activities
ASRC	Agriculture and Social Rehabilitation Credit
BFP	Budget Framework Paper
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CSR	Central Share Register
EBRD	European Bank for Reconstruction and Development
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GOT	The Government of Tajikistan
IBTA 2	Second Institutional Building Technical Assistance Credit
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
ICB	International Competitive Bidding
IDA	International Development Association
IFC	International Financial Corporation
IMF	International Monetary Fund
IRIS	Integrated Records Information System
IRR	Internal Rate of Return
IT	Information Technology
KBO	Key Budget Organization
LAN	Local Area Network
MDRI	Multilateral Debt Relief Initiative
MLS	Medium and Large Scale Firms
MOF	Ministry of Finance
MOET	Ministry of Economy and Trade
MTBF	Medium-term Budget Framework
PAD	Project Appraisal Document
PAR	Public Administration Reform
PARMU	Public Administration Reform Monitoring Unit
PBC	Policy-Based Credit
PCD	Project Concept Document
PEIR	Public Expenditure and Institutional Review
PHRD	Japan Policy and Human Resource Development
PIP	Public Investment Program

PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
PTFPAR	Presidential Task Force for Public Administration Reform
PSAG	Private Sector/Government Advisory Group
SDR	Special Drawing Right
SPC	State Privatization Commission
TBS	Tajik Budget System
TOR	Terms of Reference
QAG	Quality Assurance Group
SAC	Structural Adjustment Credit
SSA	State Service Administration

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## TAJIKISTAN

### SECOND INSTITUTION BUILDING TECHNICAL ASSISTANCE CREDIT

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<i>Project ID:</i> P059755	<i>Project Name:</i> Second Institution Building/Technical Assistance Project
<i>Team Leader:</i> Jariya Hoffman	<i>TL Unit:</i> ECSPE
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> April 26, 2006

## 1. Project Data

*Name:* Second Institution Building/Technical Assistance Project *L/C/TF Number:* TF-21817; IDA-32490

*Country/Department:* TAJIKISTAN

*Region:* Europe and Central Asia Region

*Sector/subsector:* Central government administration (89%); Law and justice (7%); Sub-national government administration (4%)

*Theme:* Administrative and civil service reform (P); Public expenditure, financial management and procurement (P); State enterprise/bank restructuring and privatization (P); Legal institutions for a market economy (S); Regulation and competition policy (S)

### KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 01/12/1999	<i>Effective:</i> 07/05/1999	08/30/1999
<i>Appraisal:</i> 01/21/1999	<i>MTR:</i> 12/31/2002	
<i>Approval:</i> 06/17/1999	<i>Closing:</i> 06/30/2004	06/25/2005

*Borrower/Implementing Agency:* REPUBLIC OF TAJIKISTAN/OFFICE OF THE PRESIDENT

*Other Partners:*

STAFF	Current	At Appraisal
<i>Vice President:</i>	Shigeo Katsu	Johannes F. Linn
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## 2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

*Outcome:* U  
*Sustainability:* L  
*Institutional Development Impact:* M  
*Bank Performance:* U  
*Borrower Performance:* U

*QAG (if available)* ICR  
*Quality at Entry:* S U  
*Project at Risk at Any Time:* Yes

*These ratings are based on the 4-point scale which is mandated at this time. If the new 6-point scale had been used, a number of the ratings would have been upgraded to Moderately Unsatisfactory, or Moderately Satisfactory. Specific ratings for project components use the 6-point scale.*

### 3. Assessment of Development Objective and Design, and of Quality at Entry

#### 3.1 Original Objective:

##### *Context*

Following the break up of the former Soviet Union and its independence in 1991, Tajikistan was confronted with all the distortions in the economic and institutional structures inherited from the Soviet system. It also faced six years of devastating civil war which ended with the June 1997 Peace Agreement signed with the United Tajik Opposition. A few months earlier, IDA had started supporting the economic stabilization and the reform program in the priority areas of privatization, agriculture and agro processing, and the financial sector through the Agricultural and Social Rehabilitation Credit (ASRC, approved on September 12, 1996) and the Institutional Building and Technical Assistance Credit (IBTA; approved on May 16, 1996). After the peace agreement was signed, a coalition government was formed, and it was only then that the Government of Tajikistan (GOT) could start focusing on the consolidation of political power and address more fully the reform agenda. Along with the second Country Assistance Strategy (CAS), the first Structural Adjustment Credit (SAC I) was approved in July 1998 in support of: (i) the restoration of macroeconomic stability by providing foreign exchange; (ii) implementation of a transparent privatization program; (iii) financial sector reform to establish a business environment conducive to the private sector; and (iv) mitigating the adverse impact of adjustment on the poor by increasing budget appropriations in the social sector. It was designed to build up on the achievements of prior Bank's programs (ASRC, IBTA, other emergency reconstruction projects and the Pilot Poverty Alleviation Project) as well as the IMF Enhanced Structural Adjustment Facility (ESAF) and Technical Assistance (TA). SAC I had a satisfactory outcome despite the restructuring of its second tranche into two tranches (for a total of three), and the delay in disbursement from December 31, 1999 to December 31, 2000. The IBTA, that was closed at the same time, was also considered to have a satisfactory outcome. Both SAC I and IBTA paved the way to subsequent operations, Second Institution Building Technical Assistance (IBTA II) and Second Structural Adjustment Credit (SAC II). The preparation of IBTA II started at end of 1998 and it was approved eight months later on June 17, 1999. The approval of SAC II, initially scheduled for 1999 in tandem with IBTA II, was delayed until May 2001 (five months after the third tranche conditions of SAC I were met and the credit was fully disbursed). SAC II was closed on June 30, 2004, one year and a half after its initial closing date of December 31, 2002. Thus, IBTA II had a one year and a half overlap with SAC I (June 1999 to December 2000) and a three year overlap with SAC II (May 2001 to June 2004).

##### *Objective.*

The objective of IBTA II was to build and improve the country's institutional capacity to: (a) reform public administration; (b) improve budget management systems; and (c) privatize medium and large enterprises and develop the private sector. Each of these sub-objectives would in turn be met as follows:

- *Reform Public Administration* by: (i) reorganizing core ministries and further consolidating overlapping government agencies and ministry departments; (ii) rationalizing public sector pay and incentives systems; and (iii) strengthening civil service management
- *Improve Budget Management Systems* by: (i) introducing a medium term budget management framework; (ii) improving budget and expenditure management and control systems; and (iii) strengthening inter-governmental finance system
- *Privatize Medium and Large-scale Enterprises and Develop the Private Sector* by: (i) preparing and implementing a comprehensive privatization program to increase the number of auctions and case-by-case transactions for medium and large-scale public enterprises; and (ii) eliminating

unnecessary regulations and steps for the establishment and operation of private businesses.

### *3.2 Revised Objective:*

There were no revisions in the objectives of the project during its implementation.

### *3.3 Original Components:*

The Credit would provide consulting services, training and office equipment to strengthen public sector management capacities to implement the following three main components with their respective sub-components:

Component One: Public Administration Reform (PAR; US\$2.3 million) comprising the four following sub-components:

(i) **Assistance in Reform of Government Structures and Organizations** (US\$1.5 million) which included:

- An overall review of the Government structures and organizations (including Parliament);
- A reorganization of up to five pilot ministries on the basis of guidelines, functional reviews and detailed restructuring proposals;
- Development and implementation of detailed restructuring plans for the pilot ministries; and
- Training, study tours and information technology support.

(ii) **Assistance in Developing a Public Service Pay Strategy** (US\$120,000) to significantly improve the remuneration of public servants over a 5-10 year period and thus facilitate a successful public administration reform. The following outputs were expected:

- Review of payroll and wage bill issues;
- Analysis of alternative wage bill scenarios;
- Development of a Public Sector Pay and Incentives Strategy; and
- Implementation of agreed measures.

(iii) **Assistance in Strengthening Civil Service Management** (US\$720,000) in accordance with the new Law on State Service approved by Parliament in November 1998. This involved the following activities:

- Develop the role and functions of the newly set up Department of State Service (later renamed State Service Administration -SSA);
- Set up a civil service post management system including a register of posts and a data base on employees;
- Develop a civil service personnel management function; and
- Prepare and introduce a Civil Service Code. A study tour was also included.

Component Two: Budget Management System Reform (US\$2.5 million) included the following four sub-components:

(i) **Support for Management of the Budget Cycle** (US\$720,000) which would require:

- Annual updating of the budget calendar and work plan:-coordination and management by the

- Ministry of Finance (MOF) of the technical inputs provided under the project;
- Review and assessment of technical proposals;
- Preparation of supporting legislation, guidelines and manuals;
- Monitoring of the implementation of the budget reform; and
- Coordination with the Public Administration Reform component.

(ii) **Introduction of a Medium Term Budget Framework** (MTBF; US\$720,000) that would allow ministries to plan their development expenditures over a three-year basis and ensure better linkage between sector policies, strategies and public expenditure allocations. The following five activities were considered:

- Assist with the preparation and review of Budget Framework Papers (BFP), and with the necessary coordination and programming;
- Establish a macroeconomic forecasting capacity;
- Update the Public Investment Program and integrate it into the budget and MTBF;
- Develop sector strategies; and
- Develop strategic expenditures frameworks.

(iii) **Strengthening of Budgeting and Expenditures Control Systems** (US\$500,000) would complement developments introduced under previous IMF experience and would include the following outputs:

- A new budget program classification;
- Revised budget guidelines and formats for submissions;
- Improved justification of budget requests;
- Improved ministry-based budgets and budget management systems;
- Expenditures warranting and control systems; and
- Budget management information systems including the database systems and manuals.

(iv ) **Inter-Governmental Finance System** (US\$580,000) would help ensure an effective, efficient and equitable distribution of public expenditures and resources between the republican and local governments. It will also improve the management of budgetary resources within local governments. The consultants were to deliver the following outputs:

- Review local governments budgetary responsibilities;
- Reform the revenue sharing and transfer system;
- Improve local government procedures for budgeting and expenditure management; and
- Organize training and study tours and provide the required information technology support.

Component Three: Privatization of Medium and Large Enterprises and Private Sector Development (US\$1.2 million) Two sub-components were included.

(i) **Privatization of Medium and Large Enterprises** (US\$672,000). This would ensure that the government would complete the privatization of an estimated 550 remaining medium and large enterprises. The outputs of this sub-component included:

- Strengthening of the central share registrar;
- Incorporating enterprises; and
- Preparing enterprises for, and conducting of share auctions and tenders; and carrying out post auction activities.



(ii) **Private Sector Development** (US\$537,000). The consultant were to assist with the following activities:

- Improving the business environment through reviews, interviews and surveys, and the setting up of private sector/government advisory groups (PSAG); and
- Review and improve the legal environment through assessments of the local legal and regulatory systems and identification of the improvements needed and of the training needs for judges and other trustees.

The project also included the setting up of a Project Implementation Unit (PIU) to manage the project with the help of a procurement expert (US\$170,000); other technical assistance to be identified later (US\$120,000); and physical and price contingencies (US\$340,000). The government was expected to contribute an additional US\$700,000 equivalent toward total project costs, that would support *inter alia* the setting up of a Secretariat (the Public Administration Reform Monitoring Unit, PARMU) for the Presidential Task Force for Public Administration Reform (PTFPAR) established by Presidential Decree on February 22, 1999 responsible for heading the reform program.

#### *3.4 Revised Components:*

There were no significant changes in the components during implementation of the project.

#### *3.5 Quality at Entry:*

The Quality at Entry of the operation was rated *satisfactory* by QAG (QEA3). However, the evaluators gave a negative rating to the risk assessment, and noted that, while the risk was acknowledged, the mechanism and strategies for dealing with it were weak. The objectives were considered ambitious, but plausible insofar as the technical assistance operation was only laying out options and providing guidance to Government, while the achievement of these objectives would depend on meeting conditions under SAC II, which was under preparation. The evaluators also noted the weakness of the monitoring indicators and of the formal analysis and economic rationale.

The ICR considers that, with the benefit of hindsight, the quality at entry should be rated *unsatisfactory* or, preferably, *Moderately Unsatisfactory* on a six-point scale. On one hand, the project as designed was consistent with the 1999-2001 CAS, which set an ambitious post conflict agenda of economic reconstruction and growth, and of restoration of good governance. As a follow-up to a successful, albeit much more limited first IBTA, the design drew lessons from that first operation (e.g. hiring large consulting firms to manage the whole process instead of short-term individual consultants). It had extensive terms of reference and met all the standards as well as fiduciary requirements then expected of a technical assistance operation. It thus appeared to have been well designed to early evaluators.

On the other hand, with hindsight it is now clear that the objectives were overly ambitious, as pointed out by reviewers at the Project Concept Document (PCD) stage. In addition, the project lacked a real risk mitigation strategy depending instead heavily on the SAC II which later proved an insufficient buttress, and ownership from many of the key implementing agencies (Ministry of Finance, State Service Administration, line ministries, Parliament) was not sufficiently tested and later on proved to be weak. SAC II eventually was delayed and its conditionality with respect to the public administration reform was watered down, thereby *a posteriori* revealing the lack of commitment and/or consensus and readiness of Government to move in this area. The fact that the project was to be a companion and a prerequisite of SAC II undoubtedly played a key role in the swift endorsement process both in the Bank and in the country.

## 4. Achievement of Objective and Outputs

### 4.1 Outcome/achievement of objective:

The overall outcome rating of IBTA II is *Unsatisfactory* (or *Moderately Unsatisfactory* on a six-point scale). This is the result of the weighted ratings of the three project components: (i) Reform public administration (*Unsatisfactory*); (ii) Improve budget management systems (*Moderately unsatisfactor*); and (iii) Privatize medium and large enterprises and develop the private sector (*Satisfactory*).

*Prima facie*, this overall rating may seem inconsistent with the satisfactory ratings of the two adjustment operations, SAC and SAC II, which overlapped the IBTA II implementation period (1999-2005) and the fact that IBTA II was instrumental in helping SAC II meet some of its conditionalities. The source of the disconnect is the limited substantive overlap between the and the two adjustment credit. In the end, SAC II and IBTA II only shared common components on budget reform and privatization.

The *Unsatisfactory rating* was due in part to an overly ambitious set of objectives and outputs in the above three areas, two of which proved too challenging to be satisfactorily implemented. In addition, there was insufficient commitment and strong resistance to change from the coalition government, which was simultaneously facing many other critical challenges within the country, and badly lacked capacity to undertake reform. Another factor seems to be the change of all government officials who initiated and negotiated the project. During implementation, the Bank had several opportunities to officially revise downward, especially the public administration component, and refocus its objectives and outputs in IBTA II, but these opportunities were not seized upon. Following the consultants' initial work in 2000, the government informed the Bank that the recommendations contained in the reports could not be implemented due to the fact that the country just came out of the civil war. However, the government asked that the consultants proceed with their work on the ground that their recommendations would be used for the formulation of a public administration reform strategy later which could be supported by an adjustment operation. The Bank agreed along with this new approach and as a result public administration reform condition were not included in SAC II.

It is worth noting, however, that despite uneven and insufficient progress of the above three components, the IBTA II has been instrumental in educating senior government officials on institutional and structural reform issues and processes and thus they are more ready to tackle many of the same challenges today, than when the project was launched.

### 4.2 Outputs by components:

#### Component One: Public Administration Reform (US\$2.65 million)

The majority of the objectives related to public administration reform were not achieved and both the outcome and outputs of this component are rated *Unsatisfactory*. The reform was led by PTFPAR established by Presidential Decree on February 22, 1999. The component financed a major consultancy for the three sub-components (actual cost was \$1.74 million as estimated at appraisal); training and study tours (US\$0.06 million); and an IT system creating a civil service register for the third sub-component (US\$0.85 million).

As early as 2000, the Bank and the Government surmised that there was insufficient political consensus to undertake a broad public administration reform program and related conditions were dropped from SAC II. Although the government informed the Bank that the consultants' recommendations would not be

implemented in the immediate future, the component and consultancy already underway was retained in IBTA II in the hopes that the environment for implementation would improve over time. However, combined with mixed quality of outputs from consultants, insufficient coordination by and commitment of PFTPAR, and inadequate Bank supervision, the result was that project resources were spent without any major outputs and there was little and no capacity building. No reorganizations of government structures were undertaken based on the consultant recommendations financed by the project. However, in line with the division of labor agreed between the Bank, Asian Development Bank, and European Bank for Reconstruction and Development (EBRD), some new ministries were created but these were largely unrelated to IBTA II recommendations. No Public Pay Strategy was developed nor approved during the life of the project. The Government did implement a series of across the board pay increases allowed within the IMF programs, but there was no accompanying reform of pay structures. However, this must be judged with caution as wages as percentage of GDP and in absolute terms continue to be the lowest in the former Soviet Union. Given the circumstances, raising wages per se was not improper though tying these increases to wage reform would have been desirable. The first elements of a civil service register are in place but even this remains work in progress (see below).

Since 2004, the political commitment to public administration reform has strengthened, in part due to continuing political consolidation and an awareness that the government is only as effective as its ability to implement the stated reform agenda. Some recent progress, described in detail below, has been made during preparation of various Bank reports – Public Expenditure and Institutional Review, Country Economic Memorandum, and the new Policy-Based Credit (PBC) and an upcoming technical assistance operation.

### **Assistance in Reform of Government Structures and Organizations**

The outcome of this subcomponent is rated *Unsatisfactory*. When the consultants started their work in the fall of 2000, a few reorganizations were already taking place and continued to take place in parallel with the consultants' work. For instance, the Ministries of Labor and of Social Protection were combined without warning and consultation with the consultants. Many "reorganizations" were superficial and did not result in splitting up the policy planning and the economic/production activities, which were considered to be the cornerstone of the administrative reform. In a few cases the reverse happened, e.g., the electricity company Barqi-Tajik was combined with the Ministry of Energy.

The consultancy delivered six functional reviews of mixed quality: the review of parliamentary structures (September 2001) was considered of good quality and substantive as well as the review of the MOF (April 2002). The other functional reviews of key ministries (Agriculture, Communication, Health and Education completed in April 2001) were rather superficial and consisted mostly of general recommendations to split the commercial and the policy planning functions with a listing of the corresponding entities; they also failed to consider the decentralized departments or agencies of these ministries at the local level. The supervision team and some members of the sectoral teams discussed these reports with the government and the consultants, but no serious progress was made due to little interest on the part of the government. No comments from Bank staff are on file and there was little interaction between the consultants and the relevant sectoral Bank teams. Although comments were received from the corresponding entities, none of these studies were actively discussed with those entities and they were not implemented. Although some reorganizations took place, they were sometimes carried out with the assistance of other donors, e.g. Ministry of Communications with EBRD support; Tajik Air and Tajik Rail respectively with EBRD and ADB support as agreed with the Bank. There were no changes within the MOF. The overlap and duplication of functions, e.g. the plethora of educational and training institutions that reside within specialist ministries and agencies rather than within the Ministry of Education, remains prevalent.

Two study tours were also organized under this component in 2000 and 2002, respectively for several high level Government officials to study the public administration system of Australia. The tours were well organized and provided ample opportunities for exchanging views with Australian peers.

The continuing weaknesses in government structures and organizations are thoroughly described in the 2004 PEIR (whose Bank authors were familiar with the IBTA II studies) which has helped to rekindle the Government's interest in the administrative reform – at a time when the political environment is more favourable. A new reform agenda is being prepared by two working groups – one responsible for central government reform and the other for local government – of senior civil servants and local/international consultants under the oversight of a Presidential Working Group on Public Administration, which *de facto* replaced the IBTA II PTFPAR. Local and international consultants of the first working group are being financed by a Japan Policy and Human Resource Development (PHRD) for preparation of the PBC, while USAID is financing consultants for the second working group. The work of the two groups, to date, has been combined and integrated into a Unified Strategy for Public Administration Reform. Government approval of the strategy is a policy condition under the forthcoming PBC. The implementation of the strategy will likely be supported by the upcoming technical assistance project.

#### **Assistance in Developing a Public Service Pay Strategy**

The outcome of this subcomponent is rated *Unsatisfactory*. The consultant delivered two reports, respectively in January and May 2001, which outlined several prerequisites for an effective civil service pay and incentives structure. For example, Tajikistan needs to substantially increase the average salary level of government employees albeit in line with available resources, decompress the pay scale in order to reward skills and build incentives, harmonize salary structures across all government institutions, clarify the definition of "civil servants" and establish a registry of civil servants to improve human resource management. A round table organized with the participation of the consultants in June 2002 was inconclusive. The Government implemented a series of across-the-board salary increases during 2001-2004 of 9, 23, 18 and 28 percent, respectively. Although these were in compliance with IMF guidance at the time, they were not accompanied by any changes in the pay structure.

This issue has also been revisited as part of the preparations for the PBC and a country economic memorandum in 2005. A later consultant, financed by the PHRD grant for preparation of the PBC to prepare a new technical report on public sector wage strategy, has underlined key shortcomings in the previous reports related particularly to (i) the presentation and collection of basic reference data; and (ii) the lack of a fiscal sustainability analysis of the proposed reform, i.e. the budgetary impact of the pay reform and the medium term sustainability of the financing sources. By recent order of the President dated June 21, 2005 a Working Group was set up to "introduce a new pay policy for civil servants," and technical subgroups were set up in a few pilot ministries. The public sector pay strategy has been integrated into the work of the aforementioned subgroups on Administration Reform and into the Unified PAR Strategy. In October 2005, the government adopted the wage system reform (through a Presidential decree) and subsequently a government resolution on wage increase starting with 5 pilot ministries that streamlines the civil wage structure in order to meet prior actions required for the programmatic development policy operation currently ongoing.

#### **Assistance in Strengthening Civil Service Management**

The outcome of this subcomponent is rated *Moderately Unsatisfactory*. This reform was to have been implemented by the State Service Administration established first in 1998 (originally was the Department

of State Service). Several notes and reports were produced by the consultant in accordance with their Terms of Reference (TOR). They included notes on civil service job descriptions, selection criteria and procedures for selecting civil servants (March-July 2001), an *Aide Memoire* on Values and a Code of Conduct and Ethics (August 2001). Unfortunately, the State Service Administration (SSA) was not yet functional leading to a lack of response on the government side. Its Director and senior staff were not nominated until early 2002 and dealt initially with other priorities.

To strengthen civil service management, the development of a civil service register was envisaged. However, the initial output of this sub-component was ill-designed and premature. The consultant carried out their work on the State Service database (end 2001-2002), developed a User Manual (June 2002), and provided an Information Technology Report (September 2002) as their last contribution. The database was mostly conceived as a payroll management tool – a function which was not entrusted to SSA according to the 1998 Civil Service Law – rather than an HR tool as per the core SSA management function. In addition, although the Register of Positions and the Civil Service Register had been legally established in 2002-03, the conceptual framework for the Register had not been designed and so the User Manual was both premature, and as a result unusable.

Similarly, the functionality and specifications of the IT equipment to be procured were more in line with the objective of having SSA lead the general introduction of IT and promotion of e-government in general, than with the design of a civil service register. Although the intention at appraisal was for the project to finance IT equipment to meet the needs of the reorganized ministries and initial work was undertaken, in 2002 the supervision team took the appropriate decision not to go forward with these IT packages since the planned reorganizations were not taking place. Instead, it was decided to use the same credit amount (US\$830,000) to purchase equipment for the dedicated network infrastructure for the civil service. An IT package was contracted in 2004 under a single stage ICB bid which included the LANs, servers and work stations to equip nineteen (19) other ministries and agencies in Dushanbe in addition to SSA. The equipment was installed, two local IT consultants financed under IBTA II were hired by SSA for running the system, and staffs in the agencies were trained about data entry using MS Access database program. It is as yet unclear whether this system will be fully implemented and sustainable. There is a need to procure software for providing easy access to network participants so that they can update information on-line and to allow direct access in a user-friendly way to users of general statistics.

A study tour to visit the civil service in Azerbaijan and various training activities took place, including training of IT personnel on Microsoft in Moscow and a twinning arrangement between the respective Civil Service Departments of Tajikistan and Ukraine. Training sessions for HR personnel from 20 institutions involved in the Civil Service Register network on data entry techniques and design of the civil service Register were organized by the SSA, including a one-week training session in Astana, Kazakhstan in 2004.

The joint IBTA II supervision/PBC preparation team revisited this reform area in 2004-05, and in early 2005 decided to hire additional external consultants (using the PBC PHRD grant) to continue assisting SSA in implementing the civil register system. Completion of the comprehensive register was included as a policy conditionality under the proposed PBC. It will require continued external support as well as local financing for maintaining the system with the necessary personnel. All the entities currently included within the civil service register network will need to continuously and accurately enter personnel data into the system, which will also need to be extended to the full range of local and central institutions covered by SSA.

## Component Two: Budget Management System Reform (US\$2.52 million)

This outcome of this component is rated *Moderately Unsatisfactory* overall. The sub-component on the intergovernmental finance system reform is rated *Unsatisfactory*. The subcomponent, the Medium Term Budget Framework (MTBF) is rated *Moderately Unsatisfactory*. On the other hand, support for management of the budget cycle and strengthening of budgeting and expenditure control systems are rated *Moderately Satisfactory*.

While there has been some definite but uneven progress made on reforming budget management systems, the achievements made after six years fall short of initial expectations, and insufficient capacity building has taken place with respect to the resources spent. Progress was achieved mostly on actions related to SAC II conditionalities, but there was insufficient depth and ownership of the reform overall leading to very limited institutional development and capacity building. This component was designed with the guidance of an economic team including the Finance minister, who were replaced in late 1999. The new team in the government and at the ministry, while supported the project towards its end, initially did not show as much interest as expected and this had a significant impact on progress under this component.

The main achievements include the establishment of a budget management information system – the Tajik Budget System (TBS); the development but not utilization of a fledging MTBF in its entirety, adoption of the 14-sector GFS 1986 classification, preparation of the budget based on program-based budgets at the level of Key Budget Organizations (KBOs) and enhanced ability to monitor budget execution in a more comprehensive manner. Much more was planned, and could have been achieved had there been less resistance within the MOF. However, it should be noted, with hindsight, that expectations were not realistic given the fiscal constraints and the very limited institutional capacity. As in the case of the first component, there remains an important outstanding reform agenda, well-documented in the draft PEIR, to be tackled under the forthcoming PBC, and by a better prepared and more reformed-oriented Ministry.

The component was implemented through a four-year consultant assignment with the related subcomponents. Implementation was marred by a poor relationship between the consultant and MOF. After some initial complaints, the supervision team reviewed project outputs; consultants' work and the head of the consultant team was changed and the Ministry provided better premises. This particular component was also affected by the September 11, 2001 event that disrupted the consultants' visit to Tajikistan. This delayed the implementation of some reforms envisaged under all sub-components. However, the supervision team together with the PIU reached an agreement with the consultant on a new work schedule to compensate for lost time that was originally agreed in the contract. The new schedule resulted in an extension of consultant services provided by the chief of the party and other consultants for an extra three months beyond the agreed contract.

The achievements under sub-components two and three enable the government to control expenditure and run prudent fiscal policies that resulted in to a nearly balanced budget in recent years and improved an expenditure control system. The IMF's assessment of public financial management issued in December 2005 noted improvements as one of the reasons supporting an approval of the Multilateral Debt Relief Initiative (MDRI) to Tajikistan in the amount of US\$99 million.

### **Introduction of a Medium Term Budget Framework.**

The outcome of this subcomponent is rated *Moderately Unsatisfactory*. Despite various consultant inputs and capacity building activities, capacity building has been less than expected owing, primarily, to lack of ownership by the implementing agency. A fledging MBTF was prepared but not all of its elements are

being utilized in budget and expenditure planning. While the situation is now improving, macroeconomic forecasting continues to be fragmented between a process that aggregates production plans reminiscent of central planning, and aggregate forecasts agreed with the IMF. Although improvements in 2005 reduced the extent of disconnect between the budget and PRSP, there is still a need for a strategic budget approach to the overall policy formulation process. The public investment planning process, while improved under the project, deserves much more attention from the government as it remains fragmented and not all elements are integrated into the budget (and MTBF).

The consultant-prepared *Budget Framework Papers (BFP)* successively improved in 2001 (on a sample basis only), in 2002 (draft) and in 2003 (almost complete but without the forward estimates). The 2003 draft paper was distributed at the May 2003 Consultative Group meeting. However, MOF never officially submitted these papers to the Government nor to Parliament for formal approval. The 2004 and 2005 budget circulars were approved as they contained elements of MTBF, especially public investment and social sector areas. Much more could be done during the life of this sub-component. During the project, the MOF continued to identify MTBF with the three-year forward budget prepared on the basis of inflation projections. However, this approach has begun to change for the 2004 and 2005 budgets, particularly for the social sectors. In line with the PRSP, the government significantly increased the share of social expenditure (from 6.6% of GDP in 2004 to 8.8% of GDP in 2005). Budget instructions have incorporated forward looking elements of the MTBF and all budget organizations have been asked to submit their budgets as well as projections for the two subsequent years. However, the instructions while containing better articulated sectoral priorities, do not contain ceilings for sectoral ministries' current spending.

*Integration of Public Investment Program (PIP) and the Budget.* Although budget instructions sent to government agencies have included the domestically funded PIP (a key condition of SAC II), its planning process remains fragmented. A PIP Department was established in the Ministry of Finance in 2002; the externally funded PIP is not fully integrated in the budget and planning for the PIP process and still needs considerable improvement. However, during the life of this sub-component counterpart funds for all foreign funded PIPs has been integrated into the budget and all foreign financed projects are now covered under the PIP. The responsibility for public investment planning financed by donors remains with the Government's Foreign Investment Unit in the Ministry of Economy and Trade (MOET). However, its capacity to develop a reasonable PIP is limited. Moreover, since the externally funded PIP is not fully grounded in sectoral strategies, with the exception of the social sectors, the prioritization issue remains.

*Sector strategies* tentatively prepared by the consultant in 2003-04 on the basis of the PRSP were excluded from the draft budget circular of 2003 but these were added in for 2004 and 2005 circular which resulted in higher social spending as noted already. However, the lack of an overall strategic sectoral expenditure framework is a serious constraint that hampers the development of a full fledged MTBF.

With respect to the *macroeconomic forecasting* capacity, there were six visits of macroeconomic advisers who delivered courses on macroeconomics and forecasting techniques, and training of MOF and MOET staff on the use of econometric software and on forecasting using the macroeconomic models. The courses were not well attended and Ministry officials complained about their theoretical content. Moreover, the training on the use of forecasting models (particularly with respect to GDP growth forecast) was severely constrained by the lack of data and the difficulty of estimating forecast parameters in the context of a fledgling and quickly evolving market economy. After the third visit simpler models were presented to the attendees and these were received with more interest. However, there is still a need for more training in this area and a unified approach by the key ministries.

Progress in macroeconomic forecasting has also been less than expected in part due to institutional

issues. The Law on State Finances assigns the forecasting role to the Ministry of Economy and Trade who also prepares the PIP. This institutional arrangement is not desirable as the macro forecast is based on the aggregation of the production plans of economic enterprises and thus reminiscent of the former central planning approach. Moreover, this forecast is developed too late to be taken into account in the MOF budget instructions which traditionally propose forecasts based on macroeconomic parameters discussed with the IMF and the National Bank. As a result of the split function of setting the resource envelope between MOET and MOF, a macroeconomic framework has limited role and importance in the MTBF. Today, the process to estimate the resource envelope with the macroeconomic forecast remains split between MOET and MOF.

Frustrated by the slow progress on the budget reform, especially in the MTBF area, and the resistance to change within MOF, the consultant and the Bank tried to encourage stronger demand for the budget reform, in part through the creation of a Budget Commission, a benchmark under SAC II. The establishment of a first commission in 2002 was short lived. Subsequently, a decree was promulgated on June 30, 2004 (the closing date of SAC II) establishing a high level Commission chaired by the Prime Minister, with MOF as the Deputy Chair, the Economic Reform and Foreign Investment Department of the Presidential Administration as the Secretary, and twelve line ministers as members. The Commission was convened in late 2004 and three times in 2005, which the Bank attended one as an observer. According to an IMF report in June 2005, the main tasks of the Commission are to prioritize and coordinate the economic and fiscal policies and to ensure that the draft budget is consistent with the macro-economic objectives and indicators and sector priorities. While it is still too early to judge whether this will be a lasting arrangement, the Commission's initial work was an approval of the higher level of spending for social sectors that were reflected in the 2004 and 2005 budgets. However, the Commission has still a limited understanding of the MTBF. The Commission needs to direct its focus to the overall spending policies and not just focus on the social sectors and ensure that a full MTBF is prepared as soon as possible. While these are positive developments, the real impact of the Commission on the overall budget process remains to be demonstrated.

### **Strengthening of Budgeting and Expenditures Control Systems**

The outcome of this component is rated *Moderately Satisfactory*. The budgeting systems in Tajikistan were clearly strengthened and there is no doubt that the 2003-2005 budgets are in much better shape, presentation-wise, than earlier ones under the project. The 14-sector GFS 1986 classification has been adopted from the 2002 budget in collaboration with the IMF and with the help of the consultant, and there has been progress in establishing program-based budgets at the level of Key Budget Organizations (KBOs) and government agencies.

However, the budgets still remain far from the project objectives of having, e.g. budget guidelines and budget format submissions consistent with a Budget Framework Paper - that still does not exist, justification of budget requests based on efficiency-based norms and criteria, or ministry-based budget based on a three year strategic expenditure framework. These were only a few of the specific outputs mentioned in the TOR for this subcomponent.

The consultant also helped develop and implement the Tajik Budget System (TBS)– an automated multi-year budget tracking system at the agency level. TBS allows the budget department to aggregate agency-based program budgets and permits analysis by sector and function at the same time, as it contains the new budget classification and the KBOs. The project has also financed at the cost of US\$97,000, a small Local Area Network connecting the various buildings of the Ministry of Finance and accompanying software and training. The implementation of this LAN has been a very cost effective and efficiency



increasing investment and has been much appreciated by MOF. TBS has also been linked with the Treasury system and has the capacity to down-load the quarterly expenditure estimations, thus integrating the budget and revenue planning with the expenditure monitoring capacity. TBS thus constitutes the first stage of an integrated Budget Management Information System. It is the most satisfactory outcome of this component, and an illustration of what good collaboration between the consultant and counterparts can achieved when there is convergence of interests and joint ownership.

### **Support for Management of the Budget Cycle**

The outcome of this fourth sub-component is also rated as *Moderately Satisfactory* which is closely related to the second sub-component reviewed above. After a slow start, achievements under this sub-component have been reasonably good. In line with the consultants' and PEIR's recommendations the budget calendar was changed starting with 2004, and the budgetary process now starts in February. Both the 2005 and 2006 budgets were prepared using this new calendar that is now institutionalized. The budget circulars for 2004 and 2005 requested ministries to submit their budget requests including the PIP. After the MOF made initial assessment, these requests were later discussed at the Budget Commission. Currently, budget discussions and review by the government are now held earlier and thus give more time to Parliament to evaluate the budget. However, progress in synchronization of macro forecasts with the budget preparation has been less than expected. More progress has been achieved in the IT area to support the management of the budget cycle. The ministry now has software that can capture budget data during preparation and execution. This enabled the ministry to better prepare budget and monitor expenditures.

### **Inter-Governmental Finance System**

The outcome of this subcomponent is rated *Unsatisfactory*. Although the consultant produced agreed outputs, there has been limited impact, mainly due to a lack of ownership both at the technical and political level for this reform. The consultants initially offered their support to a special "Presidential Working Group" set up in 2002, to review and amend the draft law on Public Finance submitted to Parliament, and produced two reports in April 2002 and 2003. Unfortunately, the law on State Finances adopted by Parliament in June 2002 and enacted in December 2002 did not reflect the recommendations of the consultant concerning the assignment of expenditures and revenues. The Working Group indicated that their Terms of Reference were too narrow to entertain the much broader reform advocated by the consultant. Two study tours respectively to Latvia (2002) and to Austria (2003) were organized by the consultant but with disappointing results. The consultant then worked on formula-based targeted transfers to the Ministry of Education and Health as MOF had given initial instructions in 2002 for the use of per capita allocations by these ministries. But here again the impact was very limited as MOF decided on an allocation which was at the same level as in the previous year. Moreover, the poor quality of National Health and education data proved to be a serious constraint. In late 2004, under the auspices of the new PAR initiative, a "local" working group was set up, with the support of the USAID-financed Urban Institute to reexamine the issues of local government and of inter-governmental finance. Their initial report has been issued, which reportedly benefited from the earlier consultant input. The conclusions of this working group are now being integrated into the Unified PAR strategy document..

### **Component Three: Privatization of Medium and Large Enterprises and Private Sector Development (US\$1.31 million)**

The outcome of this component is rated *Satisfactory* overall. As a result of the first SAC and IBTA operations, privatization had accelerated during 1998-99 with small scale privatization almost completed

and the privatization of medium and large scale firms (MLS) making a start. However, special skills and know-how were required to help the State Privatization Commission (SPC) tackle those MLS privatizations, either through auction or through case-by-case privatizations. That was the responsibility given to the consulting firm, which had already been hired under IBTA and had acquired considerable expertise in the field. During the nine years preceding the project (1991-99) only 216 MLS were privatized, while within the project period (2000-05) 629 MLS firms were privatized as compared with an initial PAD estimate of about 550. Although the outcome (numbers of privatized MLS firms) were clearly met and also substantially exceeding the SAC II targets, there were nevertheless issues about the quality and the transparency of the process, and about the pace of case by case privatization. The condition for SAC II second tranche disbursement on the case-by-case privatization strategy was much more difficult to achieve. Consequently, the disbursement was delayed, and meeting the condition required substantial pressure from the Bank and efforts by the IBTA II. The private sector development sub-component was less successful: the diagnostic phase was effectively carried out, but that did not lead to any reform and facilitation of private sector activities. The subcomponent can still be rated *Moderately Satisfactory* since there were really no clear expectations in the objectives and TOR about the impact of the reform.

### **Privatization of Medium and Large Enterprises**

The outcome of this subcomponent is rated *Satisfactory*. The consultant complied well with its TOR. It started by strengthening the Central Share Register (CSR) through provision of corresponding IT equipment and software; and training of staff and operational support. It facilitated the incorporation process of all remaining state-owned enterprises (about 50 out of 77 initially unincorporated, with the others being liquidated), thereby meeting the corresponding SAC II target at the beginning of 2002. The consultant helped the SPC to prepare, advertise and conduct the sales of state enterprises through English auctions, and when unsuccessful, through Dutch auctions after having established the rules for passing from English to Dutch auctions (a SAC II trigger). The total MLS firms privatized during the project period was 629 (78 in 2000; 72 in 2001, 163 in 2002, 111 in 2003, 131 in 2004, and 74 at mid-2005). The consultant prepared and undertook public information and dissemination campaigns, and dealt with post privatization issues. It is nevertheless well acknowledged that the process has not been smooth and has been marred by numerous irregularities. The consultant reported many of these shortcomings, made recommendations to improve the transparency and quality of the process, and assisted the government in addressing the shortcomings in a most appropriate manner. While the privatization process via auctions was moving forward, the case by case privatization was delayed. The preparation of a time bound strategic action plan, which was a second tranche SAC II trigger, was not being met and this constituted one of the four triggers delaying the second tranche disbursement initially scheduled for end of 2002. At the end of the consultant company contract in June 2003, one of the key consultants in the team was hired back individually to help prepare the action plan. This effort proved successful, and the 2004-2007 Strategic Plan for Privatization of Medium and Large enterprises and the Restructuring of National Monopolies and Largest enterprises, covering the privatization of an additional 457 remaining MLS companies, and 30 natural monopolies, was adopted under Presidential Resolution (#486) on November 7, 2003. A key bottleneck for the second tranche of SAC II had thus been removed thanks to IBTA II support.

### **Private Sector Development**

The outcome of this subcomponent is rated *Moderately Satisfactory*. In order to investigate the business environment, the consultant started by conducting four surveys between 2000 and 2002: (i) 450 private, privatized and SOEs were surveyed out of 2000 in three cities to map out the regulatory, bureaucratic and other obstacles to business development; (ii) 130 entrepreneurs were interviewed about the registration process; (iii) 150 enterprises were asked to keep a Book for Registration of Inspections (BRI or Black

Book) to document the incidence and impact of inspections on their business; and (iv) 16 license-issuing state bodies were surveyed about their licensing responsibilities and practices. Summary findings and recommendations were issued and a series of eight articles were also published between 2001 and 2002 in the national media. Furthermore, several cases of impediments were investigated and reported, and two Private Sector/Government Advisory Groups (PSAG) were established in regional centers to openly discuss obstacles to business and identify solutions. This was a good start, but the political will was not there to follow up with concrete measures, and the implementation of these activities stopped.

The sub-component also included activities to improve the legal and regulatory environment for business. This was carried out through: (i) two seminars for judges, parliamentarians and other officials on bankruptcy and liquidation of enterprises; (ii) a review of impediments to using the court system for settlement of disputes; (iii) a survey of 134 businesses about the impact of land rights registration on the conduct of their business; and (iv) a study of the impediments to land use in Tajikistan compared with the international experience. Following the completion of the consultant assignment in 2003, the private sector reform agenda has been carried forward with the assistance of IFC which has carried out additional surveys (IFC-PEP) and has pursued actively the dialogue with Government on the inspections and licensing issues. Lack of implementation capacity has also been a serious constraint and following the preparation of an Investment Climate Assessment (ICA), IDA is currently pursuing the agenda through PBC and other analytical work, particularly concerning the licensing and inspection issues. In summary one can say that, while the substantial expected outputs were delivered in the form of surveys and training, there were no measurable outcome or impact of the consultant assignment on the business environment, and the issues are currently being pursued under the policy and adjustment dialogue.

### Project Management

The Project Implementation Unit played a satisfactory coordination and input management role, but was unable to overcome the lack of commitment of the key project stakeholders needed to ensure good outcomes, rather than simply the delivery of inputs and outputs. PARMU, the Secretariat of the PTFPAR, seemed to have acted more as a screening mechanism and a gate keeper than a facilitator between the PAR consultants and the PTFPAR.

#### *4.3 Net Present Value/Economic rate of return:*

The project was designed to increase the effectiveness and efficiency of the public services by reforming government structures and organizations, including the pay and incentive system. There was a very crude cost effectiveness/cost recovery analysis carried out in the PAD, showing that the present value of incremental government expenditures savings of a permanent 0.4 percent would be adequate to cover the present value of project costs. It was conjectured that a one percent saving over the 1998 budget level would yield a benefit of 1999 US\$13 million and an IRR of 13.3 percent. Given the generally unsuccessful outcome of the first two components and the attribution problem, it would be spurious to attempt to estimate any benefit. The project was also to assist in output recovery and sustained economic growth through policies that promote private ownership and private investment, but there was no attempt to estimate the benefits of the third component, as is customary for an institution building component of this type. As a result of strong economic growth during 2000-05, and the success of the privatization component, there could indeed have been benefits derived from this component, but here again the attribution problem would render any specific estimation intractable and the results spurious.

#### 4.4 Financial rate of return:

NA

#### 4.5 Institutional development impact:

The overall institutional development impact of the project is rated *modest*.

The first component had a *negligible* institutional development impact. It was supposed to help the Presidential Task Force and the SSA implement the public administration reform, but only a small number of very incremental steps were made, and certainly not the major reform expected at the start of IBTA II. PTFPAR soon proved incapable or unwilling to drive such a major reform and, although it continued to meet during the project's period, it was ineffective in taking critical restructuring or reform decisions. The SSA, which was approved by a decree in 1998, only began operating in 2001 and has been without a director for much of its existence. The main project impact has been the development of a civil service register that will allow tracking and managing personnel once the system is properly expanded and maintained.

The institutional development impact of the second component can be rated as *modest*. The MOF reluctantly endorsed the MTBF process, which was ambitious to begin with, but implemented reform measures proposed by consultants for the second and third subcomponents in a reasonable manner though more could have been done. As a result of the project and the SAC II operation, the Government embarked on the MTBF and budget-programming approach and this resulted in improvements in budget management. The most significant output of this second component, TBS, may lead to a full-fledged budget management information system, if properly followed up and supported.

The impact of the third component can be rated as *Substantial* since the capacity of SPC has been strengthened substantially as a result of the project, thus allowing it to pursue successfully the privatization agenda.

Overall in the three project areas, capacity building through the project has been quite limited, and substantial technical assistance will continue to be needed to deepen the reform agenda.

## 5. Major Factors Affecting Implementation and Outcome

### 5.1 Factors outside the control of government or implementing agency:

The most important factor affecting the project implementation has been the difficult post conflict political environment. As the country emerged from a long civil war, the fragile coalition government needed first to consolidate its power among different constituent groups and factions in order to govern effectively. The resistance of these groups and of strong vested interests to key market-oriented and transparency-increasing reforms can explain some of the delayed reforms and weak performance under the project.

As early as 2000, one year after the project was approved, there were strong indications that the government did not have sufficient political consensus nor the capacity to push ahead with the public administration reforms as envisaged under the project. An agreement was made between the President and senior management of the Bank to drop a key public administration reform policy condition from the SAC II project, then under preparation. However, the technical assistance component on public administration remained in the IBTA II in hopes that momentum and consensus for this reform would be forthcoming later

during the life of the project. Such a reform is difficult and time consuming to implement even under the purview of a strong, united and committed government, and such was not the case in Tajikistan during the late 1990s and early 2000s.

The political environment has improved since 2004, and the dialogue on key IBTA II issues has intensified in the context of the PEIR, CEM, and PBC preparation over the last two years. In early 2005 public administration reform has come back to the forefront of the Government agenda, in part because of an awareness that political consolidation is only as effective as the government machinery's capacity to implement the stated policy agenda. On February 4, 2005, a Presidential Decree was issued launching the preparation of a comprehensive Public Administration Reform Strategy. However, by that time little or no funding remained available under IBTA II to support this effort and the Bank team has had to tap other financial sources (e.g. PHRD and AAA) to continue the dialogue in these areas.

### *5.2 Factors generally subject to government control:*

By design, all project activities were supposed to be driven by government entities, i.e. public administration reform by the PTFPAR and SSA, budget reform by MOF, and the privatization and private sector development component by SPC. However, as explained above, by and large the political environment did not allow these entities to take full control of these activities and to implement them smoothly. In particular, the change of the economic team which in effect designed IBTA II was a serious blow to the project as the new team did not fully own it.

PTFPAR was dysfunctional from the start, SSA's establishment was delayed and the agency has been without a head most of the time. There was little appetite in the Ministry of Finance for embracing a broad ranging project component on budget reform that would eventually limit the discretionary powers of the ministry over the budget process. This is best illustrated by the struggle over the establishment of the Budget Commission, first set up in 2002, then quickly disbanded after two meetings, and finally re-established on June 30, 2004, on the closing date of SAC II. The Ministry only adopted proposed changes selectively and reluctantly, partly under the pressure of SAC II conditionalities. SPC's performance was much better, but the quality of the privatization was poor and it took a long time for the Government to endorse the strategy for privatizing medium and large firms.

### *5.3 Factors generally subject to implementing agency control:*

This lack of ownership at the government level (except for SPC) translated into poor relationships at the agency level with the consultant teams. In the context of poor governance and weak ownership of the project, the PIU model, which had worked well in the first IBTA, ended up broadening the gap between the consultants and the government agencies, rather than narrowing it. The PIU and PARMU often acted as a filter or a screen between the consultants and the final clients (for instance, there were no meetings involving PTFPAR and the PAR foreign advisers, with all communications and interactions between them taking place through the PARMU Head or the PIU Head). As mentioned in Section 4.2, the relationships between the PAR foreign consultants and other implementing agencies (line ministries and Parliament) were weak and led to the production of functional reviews of mixed quality, which were in the end not implemented. As a result, implementation of the first component was almost negligible, while the implementation of the second was partial. In the case of the first component's improvements, the implementation tended to be limited to those activities, primarily technological in nature (e.g. the civil service register for SSA), which were not challenging the existing order. Moreover, despite some training and study tours, the capacity to reform which was minimal at the start of the project, did not increase and

still remains a bottleneck for further reform implementation.

The privatization component also impacted several of the line ministries which resisted the separation of state-owned enterprises under their control and delayed the adoption of the privatization strategy for medium and large scale firms. However, the professionalism and quality of the Privatization Adviser hired and rehired under IBTA II was instrumental in pushing through the comprehensive privatization strategy for medium and large enterprises. The strategy was finally approved in November 2003, thus removing a critical bottleneck for disbursing the second tranche of SAC II.

#### *5.4 Costs and financing:*

As of June 25, 2005 the closing date of the credit, almost the full balance of the US\$6.7 million was disbursed, with a small amount of about \$50,000 remaining to be claimed during the four month grace period. However, it is likely that there will be a small balance unspent and to be cancelled because of the favorable exchange rate (SDR to US\$). At the closing date, government's contribution amounted to about US\$250,000 or 34% of the appraisal estimate of US\$700,000. Total project costs thus amounted to US\$6.92 million or 93% of the appraisal estimate of US\$7.4 million.

## **6. Sustainability**

### *6.1 Rationale for sustainability rating:*

The project's impact, though limited, is rated as likely sustainable. It should be noted, however, that it has been difficult to track any specific outcomes in terms of stronger institutions and government capacity from the work undertaken by the two consulting teams in public administration and budget reform, since they completed their assignments two years ago. Key reform measures achieved under the privatization and budget reform components are irreversible and likely to continue with the Bank's and other donors' support. Both the civil service register and the TBS will need to be expanded and perfected to become effective and the GOT will need additional resources – both financial and human – to maintain these systems. There has been a recent, renewed focus by the authorities on public administration and civil service reform which is being supported under the upcoming Bank policy and TA operations, and the IMF program. However, it is too soon to tell whether this has sufficient traction to achieve the needed changes.

### *6.2 Transition arrangement to regular operations:*

The project could have ended with the departure of the three consulting teams in late 2003 early 2004, and the project impact would have been quite negative. Fortunately, transitional or forward looking arrangements were put in place with the small amount of remaining funds from the project or from other sources to pursue selected project objectives, whilst placing them in a different framework or perspective. Many agenda items under the PAR and budget reform components were taken up in the PEIR review using the reports delivered under IBTA II. The public service pay and incentives issue has also been the subject of a special report within the CEM under preparation and is being followed up under the PBC. The implementation of the civil service register is being continued under a PHRD grant and its operationalization has become a condition of the forthcoming PBC. This grant is supporting the activities of the recently formed Government Working Group for PAR and its two working groups.

## **7. Bank and Borrower Performance**

### **Bank**

#### *7.1 Lending:*

Bank performance in lending is rated *Unsatisfactory* (or *Moderately Unsatisfactory* on a six-point scale). Although consistent with the 1999-2001 CAS and a follow-up to the successful IBTA I, IBTA II was substantially more ambitious. Given the still fragile political economy and very limited capacity of the Borrower, the project carried a much higher level of risk which was not adequately recognized and mitigated by the preparation and appraisal teams (the overall project risk rating was "*Modest*"). The assessment of borrower ownership and commitment was overly optimistic – indeed, few, if any, of the ten indicators of ownership stated in the PAD have materialized. Concerns regarding the ambitiousness of the project, the typical challenges of public administration reform in developing countries and weaknesses in the proposed monitoring framework raised in the January 1999 PCD review meeting do not appear to have been taken into account in the final project design. The project preparation was accelerated. It was declared retroactively-appraised on the basis of a pre-appraisal review meeting and mission; however, no substantive risk or ownership issues were raised in the course of this meeting. A recent audit of IRIS found that several preparation documents including those related to effectiveness and legal procedures are missing from the files.

One notable design flaw was the use of large multi-year technical assistance contracts for public sector reform. More recent experience has shown that these tend not to be flexible enough to accommodate opportunistic, pragmatic and incremental approach to reform which has been found preferable to the "big bang." In addition, these types of contracts often strain the limited implementation capacity of the borrower and, because the high cost and the salary differentials between the expatriate consultants and the civil servants, create strong frictions sometimes leading to rent-seeking behaviors. As a result it may be preferable to program smaller, short-duration consultancies consisting of short-term, focused high quality TA inputs that can be adjusted as needs evolve.

A second design flaw was that the operation appears to have been conceived in the high echelons of government without sufficient buy-in from line management and technical staff, as well as a thorough understanding of the political economy challenges still facing Tajikistan as it continued on a path of democratic consolidation following civil strife.

## *7.2 Supervision:*

Bank performance in supervision is rated *Moderately Unsatisfactory* on a six-point scale, notwithstanding (i) relatively smooth managerial and fiduciary execution throughout the project life – there were no major procurement issues and disbursements remained generally on track; (ii) synergies with SAC II which were instrumental in the completion of that operation's second tranche conditions in budget reform and privatization, (iii) later intensified supervision in the form of extended supervision missions and oversight following the decentralization of the country unit, including more frequent portfolio reviews and an external review of SAC II and IBTA II; and (iv) reprogramming of resources during the last years of implementation toward activities – civil service register, public administration reform, and pay and incentive issues – in which some traction had then been achieved in terms of borrower commitment.

The major reason for the rating is that the Bank did not take appropriate remedial action to reprogram the interventions being financed by the various components and realign them with more limited objectives despite early signs that the project was at a high risk of not achieving its development objectives, particularly with respect to the first component that was ambitious. When it became apparent that ownership and the requisite support from the Borrower in the public administration component, and to a more limited extent the budget reform component was waning, the possibility of restructuring should have been formally evaluated within the Bank and discussed with the Borrower. Moreover, with the decision to



delink the PAR component from SAC II, the risk of going ahead with a costly consultancy in a less than receptive environment should have been formally assessed both within the Bank and with the Borrower.

Instead, as a result of the agreement between the Bank's senior management and the government, the project was allowed to continue disbursing on interventions and activities under the first component that ultimately had very limited impact, and would require intense (and costly) supervision to achieve very limited outcomes. There is no evidence that a mid-term review was held, at which these issues could have been formally discussed. Implementation reporting, as evidenced by gaps in the IRIS files, was spotty and supervision ratings were overly optimistic throughout most of the project. However, it must be recognized that the decision of the Bank's senior management tied the hands of the supervision teams but nevertheless the teams took appropriate decisions when the situation allowed them to do so. For example, the supervision team decided not to go forward with the procurement of IT packages for line ministries as the planned reorganizations were not taking place and funds were later used to purchase equipment in the same amount (US\$830,000) to buy equipment for the dedicated network infrastructure for the civil service.

A second supervision issue relates to the technical value added of the Bank. There is little evidence of systematically planned reviews of the project-finance technical assistance by Bank specialists (whether staff or consultants) as part of supervision. For borrowers with limited capacity, such as Tajikistan during this period, this oversight by the Bank is particularly crucial. Reviews of the consultant reports did take place later in connection with the preparation of the CEM, PEIR and PBC, but those reviews were *post mortem*, too late to influence the consultants' work.

### *7.3 Overall Bank performance:*

The Bank's performance is overall rated *Unsatisfactory* (or *Moderately Unsatisfactory* on a six-point scale) as both preparation and supervision had substantial shortcomings that could have been corrected if the Bank's management had acted decisively early on when problems manifested themselves. The preparation delivered a project that turned out to be over ambitious, relatively inflexible in its design and risky without a credible mitigation strategy. Then opportunities to correct these design flaws during the relatively long implementation and supervision period were routinely foregone. This is most obvious in the case of the first component which should have been restructured but instead was allowed to run its course. Overall, even though the project did achieve positive results under the second and third components, the efficient use of project's resources is a question. However, this must be judged against the Bank's role in low capacity environments like Tajikistan. To the extent that scarce IDA funds could have been used in some other activities and projects achievements were considerably less than expected despite the significant supervision effort, the Bank's performance must be rated unsatisfactory.

### *Borrower*

#### *7.4 Preparation:*

The Government's performance at the preparation stage was *Moderately Satisfactory* on a six-point scale. This reflects the fact that, although the inputs were not extensive during preparation, the authorities did deliver what was requested, and collaboration with the Bank team and consultants appear to have been good. With the benefit of hindsight, the Borrower's lack of commitment for the first component should have been exposed and the component should have been dropped or downsized early on. There is also a question about the depth of MOF's involvement in the preparation stage, and whether an earlier and deeper involvement would have enhanced the chances of success of the second component. However, it appears that the change of management at the MOF played a significant role in this regard and it is not clear what could be done ex-post.



### *7.5 Government implementation performance:*

The Government's overall performance during implementation is rated *Moderately Unsatisfactory* on a six-point scale. In particular, it is rated unsatisfactory for the PAR and moderately unsatisfactory for the budget reform components and satisfactory for the privatization component. The PTFPAR proved unable to steer and implement the expected administration reform, and there were significant delays in the establishment of the State Service Department. There was little real exchange with, and feedback given to the consultant team preparing the PAR reports. The relationship between the budget reform consultants team and MOF counterparts was also unsatisfactory in the initial period, with complaints about the quality of the Chief of Party and the poor reporting on the part of the consultants, and about the office accommodation and the delayed payment of invoices on the part of the Government. However, while these problems were later solved with the involvement of the supervision team, the Ministry's interest in all four sub-components could not be brought to the same level. SPC's involvement with the privatization component was overall satisfactory but its role did not include policy formulation and at times this caused delays.

### *7.6 Implementing Agency:*

The PIU nevertheless handled all the fiduciary aspects of the project well, which contributed to the steady, although not necessarily effective utilization of resources under the project. In terms of supporting the reform program, however, the PIU was less effective in bridging the often wide gap between the consultant and Bank teams pushing for more progress, and the authorities who were reluctant to move more quickly or had waning commitment. Moreover, the PIU often functioned as a screen or gatekeeper between the two consultant teams and the government agencies, adding to the consultants' frustrations when their outputs were not being given sufficient consideration.

### *7.7 Overall Borrower performance:*

The Borrower's performance is rated overall rated *Moderately Unsatisfactory*.

## **8. Lessons Learned**

***Implementing broad ranging institutional reforms, such as a civil service reform, through a simple technical assistance/capacity building instrument in politically-fragile environments such as post conflict situations, is very risky.*** Even when combined with a policy instrument, commitment for reform needs to be seriously tested with the key implementation partners before launching these types of projects. Political economy or stakeholder analyses can often help to better understand the dynamic of political changes, and whether the drivers that create the pressure to change and the incentives structures are in place.

***When commitment exists, the combination of a policy and a capacity building instrument can yield important synergy (e.g. privatization component), provided there is a good synchronization of the two instruments.*** Synchronization is more difficult to achieve when a multi-year technical assistance/institution building project is expected to straddle two or more shorter policy-based cycles. Although it is preferable to have the capacity building project in place before the policy-based project, this carries some risk as the policy-based project may be delayed or cancelled, leaving the TA without implementation leverage. There is also the risk that the capacity building project is only seen by the Borrower as a prerequisite for the follow up adjustment operation, which can badly augur for the project success in implementing broader

institutional development.

***It may be appropriate to separate task management of synchronized policy-based and capacity building operations in order to keep the appropriate focus in the respective operations, both in terms of timing and depth.*** A well thought-out strategy for achieving the capacity building objectives needs to be devised taking carefully into account the country and project specifics: a boiler plate approach is likely to fail and risks need to be *genuinely* mitigated.

***Despite their small size and lack of visibility, capacity building projects are staff intensive, and often require expensive specialist inputs, if they are to be effective and successful.*** Consultant reports need to be reviewed by specialist staff or consultants. Relying solely on the Borrower/implementing agencies' review reduces the Bank's value added as a technical, rather than solely, financial partner. Complex multi component IB/TA projects should not be single-handedly supervised over a long period by a single Task team leader no matter how qualified and experienced s/he may be. A fully costed supervision strategy should be agreed at the time of appraisal/negotiations.

***Large multi-year technical assistance contracts for public sector reform tend to be inflexible in their design, strain the limited implementation capacity of the borrower and are usually neither suitable nor compatible with an opportunistic, pragmatic and incremental approach to reform which has been found preferable to the "big bang" approach.*** Moreover they have become politically unacceptable in most countries if they are not grant-funded, because their high cost and the salary differentials between the expatriate consultants and the civil servants are strong disincentives and sometimes leading to rent-seeking behaviors. As a result it may be preferable to accompany a policy-based operation with a small, short-duration consultancies consisting of focused, just-in-time studies, and limited short term high quality TA inputs.

***Institution-building operations are notably difficult to monitor and evaluate. Thus a thorough annual and afortioria midterm review involving independent reviewers are crucial.*** Performance indicators are not easily quantifiable, and often become, as in this case, general, vague or overly input or output-based rather than outcome- or impact-based (e.g .Study X completed, Y study tours undertaken, Z civil servants trained...). This renders the performance tracking of the project difficult and/or ambiguous, and explains why many such projects can remain below the managers "radar screen" for an extended period.

***Documentation and record keeping of key decisions taken during the implementation period is critical.*** Specifically, those related to or following performance reviews and having a bearing on the restructuring and/or changes in project activities, scope or objectives need to be documented and filed in the Bank's internal recording system.

## **9. Partner Comments**

*(a) Borrower/implementing agency:*

A completion report below was submitted by the PIU manager on October 19, 2005. The exchange rate is based on the government quotation.

**REPORT**  
**Second Institutional Building Technical Assistance Project (IBTA-2)**

**Project:**Second Institutional Building Technical Assistance Project (IBTA-2) ·059755  
**Costs:**USD7.4 million including: IDA Technical Assistance Credit (3249-TJ) – SDR 5 mln.  
(equivalent to USD6.7 mln.) Counterpart funding (Tajik Government’s contribution – USD0.7 mln.)

**Situation Analysis at the Time of the Project Outset**

The country’s economy, methods and forms of its administration, governance framework, economic management practices, relations among entities (industrial relations), and summarizing it all, the so called socialist industrial system was successfully functioning under the Soviet Union when a single policy and ideology, single economic space and socialist regime were all in place. After a collapse of the Soviet Union, gaining of the independence and Tajikistan’s accession into the global economy as an independent state, the country has launched economic reform and pursued the policy aimed at creating necessary conditions for transition to the market economy. The country started to smoothly move from the planned to the market economic system.

However, the difficulties we are constantly facing as we move forward the economic reform are caused by our attempts to push for economic changes using the old public administration institutions, with the capacity and methods inherited from the Soviet era which proved to be totally ineffective under the market-based economy. This factor created major difficulties and problems for further development of the country.

In this connection, during the course of implementing the economic reform program, the Tajik Government came to realize that no sound success can be achieved in the future unless institutional (structural) reform is implemented in due manner. Thus, in 1999 according to the Memorandum between the Government of Tajikistan (GoT) and the World Bank, the decision was taken to launch the Second Institutional Building Technical Assistance Project (IBTA-2). Presidential Decree No. ---158 dated May 29, 2000 and Government’s Resolution No. 82 dated March 3, 2000 provided for the establishment of the Working Group on Public Administration System Reform which included membership of the heads of relevant economic ministries and the Project Implementation Unit for IBTA-2.

**Project Objective and Structure**

The institutional reform objective under the project included institutional capacity building in the country to enable effective management of the country’s economic system under the new market conditions, and ultimately creation of the new sound and effective public administration system. Therefore, the GoT had decided to implement institutional reform in three areas:

- Public administration system reform;
- Budget process management reform;
- Privatization and private sector development.

All three objectives were interrelated and interdependent, and each component had to ensure complementarily to other ones.

## **Project Cost**

The total project amount is USD7.4 mln., including the credit provided on concessional terms by the International Development Association for this project under the Development Credit Agreement 3249-TJ dated June 21, 1999 between the Government of the Republic of Tajikistan and International Development Association (IDA) for an amount of SDR 5 mln.(equivalent to USD6.7 mln.) and the GoT's counterpart fund contribution in the amount of USD0.7 mln.

## **Project Activities and Impact**

Consultative companies were selected in line with the World Bank guidelines to implement reforms in the above three areas. As a result, the Government of Tajikistan signed agreements with SMEC Consultative Company (Australia) for provision of consultative services in reforming the public administration system; with the Barents Group Company (US) for provision of consultative services in the reforming of budget process management and with CARANA Corporation (US) for provision of consultative services in the field of privatization and private sector development.

In the course of the project, certain achievements were registered in all the three reform areas and the specific steps implemented were as follows:

- Review the public administration system;
- Design and develop a strategy for reforming ministries through their restructuring;
- Define the role and tasks of public administration entities both at the central and local levels;
- Establish a sound and effective civil service system;
- Develop a strategy for civil service wage reform;
- Consolidate the system of control over budget revenues and expenditures, introduce a new budget classification system and medium-term budget framework, and improve the methods of replenishing and spending of the state and local budget funds;
- Design and implement the privatization of state-owned enterprises;
- Improve the legal framework for post-privatization support and private sector development;
- Create favorable conditions for effective private sector operation.

### ***1. Improving the public administration system***

The following activities were implemented in this area:

- Reforming the public administration bodies at the central and local levels;
- Enhancing the civil service management;
- Developing the civil service wage reform strategy.

Under this component, the project carried out functional reviews of a number of pilot ministries and agencies. The results of the functional reviews of the pilot ministries and agencies have revealed poor coordination of joint ministerial activities, weaknesses in the process of designing and implementing of the state policy in their respective sectors as well as lack of modern management tools and methods, data collection and analysis and its relevant application. The public administration bodies did not apply any governance methods and tools which would be in line with the conditions of the market economy.

Strategic review of the Parliament and its organizational structure was also undertaken. The reports produced contain recommendations on the 27 areas with the purpose of improving the work of the Parliament. Strategic review of the Parliament's structure and its organization represents an integral part of the overall review of the structure and organization of the Tajik Government, as specified by the IBTA-2 project.

Within the period of the project, the Presidential Working Group and IBTA-2 team, based on the functional reviews held and the global best practice experience, have developed and submitted to the President and GoT certain proposals relating to restructuring of the executive authorities, including the Executive Administration of the President of Tajikistan, the Ministry of Economy and External Economic Relations, the Ministry of Social Protection, the Ministry of Labor and Employment, the Ministry of Agriculture, the Ministry of Communications, the Ministry of Transport and Roads, the Ministry of Education and the Ministry of Health. Proposals were also made to establish the State Financial Control Department under the President of Tajikistan, the Civil Service Agency under the President of Tajikistan, the Ministry of Economy and Trade, the Ministry of Energy, the Ministry of Transport, the Ministry of Labor and Social Protection, the State Statistical Committee, the State Land Reclamation Committee, the State Antimonopoly and Enterprise Support Agency under the Government of Tajikistan.

The specific features of the reviews undertaken include separation of policy-making, regulation and control functions from output production, works and services provision functions; regulation of state-owned enterprises under the jurisdiction of certain ministries through bilateral agreements between the enterprise and the ministries concerned; budgetary funding of the public sector organizations; reducing the total number of independently functioning public administration bodies and state companies exercising the state functions; focusing the activities of ministries at the development of programs, standards and proposals to improve the environment for the market economy.

The first stage of reforming and improving the sectoral governance was launched in the Ministry of Energy and the Ministry of Transport. Unlike other existing public administration entities, these agencies were reoriented to focus more on the monitoring and analysis of the current situation in their respective sectors, development of short-, medium- and long-term development trends, and on the basis of the above, to prepare the state development programs, standards and guidelines, and issue licenses to carry out activities in their respective sectors. The energy and transport state-owned companies, organizations and institutions which used to be under the jurisdiction of the above ministries, with introduction of the new structure, started to function as economically independent entities pursuant to the conditions set forth in bilateral agreements with respective ministries. The agreements specify the legal status of the enterprise, degree of its operational and financial independence, volume of output to be produced for the state needs, the property status of the enterprise, etc.

Similar changes were recommended and at the extent possible introduced for the Ministry of Economy and Trade, the Ministry of Finance, the Ministry of State Duties and Revenues, the Ministry of Labor and Social Protection, the Ministry of Agriculture, the Ministry of Communications, the Ministry of Education, the State Statistical Committee, the State Land Reclamation Committee and the State Antimonopoly and Enterprise Support Agency.

Analysis of the structure, functions and responsibilities in the construction sector was also carried out along with analysis of the supervision bodies in energy, industry and construction sectors. Specific proposals were made to implement radical reforms in these sectors. Similar analysis was done for culture, television and radio. Based on the recommendations of the reports by international consultative

firms, proposals were made on restructuring of the Tajik Air Company.

In 2001, the Civil Service Agency has been established under the President of Tajikistan. Currently, this governance institute is engaged in development and improvement of legal framework in public administration area and the capacity in this area is being enhanced.

To promote the reform process, the civil service database had been created which includes the information on positions in civil service, organizational structure, on civil servants and payroll calculations. The Agency's staff have been trained in operating the database. The public sector wage reform strategy also provides recommendations on the use of civil service databases of all ministries and agencies.

The model of the Civil Service database was prepared and it was used as a basis for the preparation of the actual Civil Service database in Tajikistan.

Under the framework of the project, the information technology system was developed allowing to analyze the information technology needs of reformed ministries and provide them assistance in the development of information technologies. On the basis of these developments, the project team and the Civil Service Agency under the President of Tajikistan had created a single computer network connecting 20 ministries which currently serves as a basis for developing the country's civil service register.

The draft civil service wage reform strategy was also developed. This strategy was discussed several times at the round tables involving the broad range of experts, representatives of the Presidential Executive Office, concerned ministries and agencies and international consultants. Given the wage structure reform being an integral part of the economic and structural reform process, it can be viewed only in the context of these reform and should be consistent and implemented within a single context.

Major objectives of the civil service wage reform strategy include:

- Attract qualified specialists with relevant management skills for effective development and management of the market economy;
- Create the fair wage and bonus payment system adequate to the employees' capacity allowing to reduce the need of accepting informal payments;
- Use international wage system standards enabling to attract and keep qualified civil servants, provide incentives for good diligence and efficient execution of service duties and motivate responsible attitude by the civil servants.

Currently the strategy is being introduced and the GoT undertakes necessary steps to fulfill the recommendations.

Within the period of the project implementation, three study tours were organized (in November-December, 2000 and in May, 2002). Participants to the tours included the senior members of the Executive Administration of the President of Tajikistan and Government's ministries and agencies. The purpose of these tours was for Tajik civil servants to review the international experience in public administration area, functions and responsibilities of the public administration entities in the developed countries.

## **2. *The Budget Process Management Reform***

Concerning the budget system reform, the IBTA-2 project carried out the review and prepared appropriate recommendations in the following areas:

- Support to the budget cycle management;
- Development of the medium-term budget framework;
- Enhancing the budgeting process and control over public expenditures;
- Reform of the inter-budgetary financial systems.

The following recommendations and documents have been developed and submitted to the Ministry of Finance of the Republic of Tajikistan:

- Draft of the new Budget System Law that included all necessary provisions for effective mid-term expenditure planning. The Law also specified mechanisms ensuring consistency between the policy, planning and budgeting process as well as mechanisms for effective distribution of budget funds. It also provided for setting of the Budget Committee as a central entity in the formulation and implementation of the Government's budget policy;
- Drafts of medium-term budget frameworks (MTBFs) for 2001-2003, 2002-2004 and 2003-2005. Apart from setting forth the strategy for budget policy for the mid-term perspective, the MTBF included sectoral strategies ensuring the coherence between the policy and expenditures;
- Recommendations in terms of integration of the Public Investment Program (PIP) into the 2002-2004 budget to ensure comprehensiveness of the state budget and efficient use of the external aid funds (the PIP integration into the state budget will promote the control over public investments and improve their effectiveness);
- Methodology for developing of the PRSP financial plan and its integration into the state budget, representing one of the crucial components of the PRSP preparation process. The need to develop the PRSP financial plan given existing budget constraints, as specified in the World Bank's comments to the draft PRSP;
- Draft new budget calendar and budget preparation process to enhance the effectiveness of budget preparation process. It was recommended to set budget limits before the budget preparation process and establish the planning reserve fund for reallocation of budget funds;
- Recommendations to improve the control over budget expenditures. There are certain problems adversely affecting the control over budget expenditures, including lack of sound and clear procedures for release of budget funds as well as lack of cash flow management function within the Ministry of Finance;
- Recommendations relating to the control tools over the budget arrears and liabilities in the sectors of education, health and social protection. The existing unregistered budget arrears and budget liabilities represent a major problem which will negatively affect the efficient functioning of the public sector in the future;
- Recommendations to reform the system of inter-budgetary relations with the main purpose of establishing the open, transparent and predictable system of relations between budgets on various levels. Having such a system in place would improve incentives of the local authorities to increase the number sources for their own revenues and develop their regions;
- Templates for programmatic budgeting (the electronic version of the budget reporting and the relevant budget database), which are currently used by the Ministry of Agriculture, Ministry of Education, Ministry of Health, and Ministry of Communications (according to the GoT

decision, starting from the 2002 fiscal year these ministries prepare their budgets in electronic format, as programmatic budgeting is oriented at final outcomes). Introducing the programmatic budgeting is a critical direction of the budget reform, which contributes to increasing transparency and efficacy of the budgetary funds use. To this end, all ministries and agencies are recommended to start preparing draft budgets based on programs, which is a more progressive way of presenting budgets;

- A proposal on establishing the Budget Commission, which will take strategic decisions on allocation of funds given information submitted and national priorities. Without appropriate requests for information and the system evaluating the programmatic budgeting implementation, introducing the programmatic budgeting would be ineffective;
- Proposals on revising the current functional classification used by the Ministry of Finance that does not ensure transparency and grouping of budget expenditures by specific feature and, therefore, which is inconvenient for using. In this regard, IBTA-2 presented draft new functional budget classification and a new structure of the Republican Budget based on budget-spending entity programs. An advantage of the new budget structure is more transparency and providing the required information on directions as to the budgetary funds use;
- Draft Annual Budget Circular explaining the major goals and priorities of the budget policies;
- Budget instructions and forms on bettering the programmatic budgeting process for the current year were improved and presented;
- Training workshops on budget issues for the Ministry of Finance staff, both at the republican and local level, as well as training courses in Eastern Europe to study the best practices with regard to budget reforms applied in developed countries were organized. International consultants conducted training seminars on macroeconomic forecasting for the Ministry of Finance staff. A three day workshop on macroeconomic issues was organized for officials from the Ministry of Finance, National Bank, and Ministry of Economy and Trade.

### ***3. Privatization and the Private Sector Development***

Pursuant to the ToRs with respect to privatization, IBTA-2 undertook the following:

- The organizational structure, staffing, internal rules, and information management at the Specialized Registrar's Department (SRD) within the Ministry of Finance were strengthened;
- The monitoring system ensuring primary and subsequent equity registration, the stock movement, legal and operational mechanisms for implementing state registration and observing the requirements were developed;
- The relevant documentation and forms were designed, a number of booklets and other materials were published;
- One two-week seminar was held to train the SRD staff in equity state registration procedures, the supervision system and documentation required for equity transfers;
- Six one-day workshops were organized on the procedures stipulating transformation of state-owned enterprises into open end joint stock companies for the managerial staff and joint stock company staff responsible for maintaining registers;
- Two computers, the relevant software, as well as computer accessories were procured;
- A review on the documentation furnishing procedures was undertaken at the Ministry of Justice, local notary offices, and Ministry of Finance to provide recommendations on the accelerated corporatization process;
- With direct involvement of the project, corporatization of medium and large enterprises subject to privatization in 1999-2000 was completed;



- A number of actions pertaining to the dispute settlement between state-owned enterprises, physical and legal entities, and the administration with regard to assets of enterprises, as well as enterprise registration and other issues involving registration and corporatization were implemented;
- Standardized accounting forms to be used in the corporatization process were prepared, which are in current use;
- The SAC 2 condition on corporatizing state-owned enterprises was fulfilled;
- Consultations on legal aspects as to the enterprises privatized in a disputable way were provided;
- The appropriate policy and clear criteria on retaining a small number of stock by the state were developed;
- Types of equity were determined (ordinary or preferred stock), recommendations on the inclusion of partially privatized enterprises into the list of enterprises to be privatized were prepared; a decision on the stock percentage to be sold from each enterprise was made;
- An instruction on standardized enterprise information package for interested buyers was developed;
- A joint-stock company documentation package that may be purchased by interested buyers before bidding was developed.

In addition, IBTA-2 was directly involved in tendering and auctioning, placing information in mass media and disseminating information packages, supervising the bidding preparation and facilitating consultations on stock auctions and tenders. To the extent possible, IBTA-2 assisted in promoting publicity campaigns on privatization of medium and large enterprises through mass media, in developing the advertising materials and publishing success stories on enterprises privatized, as well as providing consultations on equity sales disputes.

In fact, the small privatization process was completed within the project implementation period. Supported by the project, the Strategy for Medium and Large Enterprise Privatization and the Natural Monopoly Restructuring was developed and approved. To successfully privatize medium and large enterprises, the new regulations and instructions on tendering and auctioning were prepared and approved.

According to the action plan pertaining to the privatization strategy, currently medium and large enterprises are being successfully privatized in the country.

With regard to post-privatization support and the private sector development:

- A review of conditions for the development of entrepreneurial activities in three large cities, including the factors preventing from efficient operations of existing enterprises and establishing new enterprises, such as licensing, regulation or taxation was conducted;
- The factors hampering the further development of entrepreneurial activities were identified through interviews with entrepreneurs, entrepreneurs' associations and public administration officials;
- A detailed report on obstacles hindering entrepreneurial activities, as well the recommendations on removing those were submitted to the GoT and World Bank;
- A series of workshops in various regions was held to discuss the conclusions of the review undertaken, to reach consensus and identify the ways for the further reform implementation;
- The working groups comprising of consultants to help settle the private sector problems and

- identify the solution decisions were established;
- An assessment of the existing legal and regulatory framework for implementing entrepreneurial activities was partially conducted. This assessment is aimed at defining whether the legal and institutional framework meeting the requirements, facilitating the dispute settlement and agreement implementation, as well as defining the regulatory acts requiring revision are in place;
- The relevant legal acts, procedures and regulations on how to use these documents for settling the problems identified were determined based on experience of other countries;
- A training program for judges and economic court attorneys, as well as other relevant staff of bodies involved in bankruptcy procedure was defined. Four one-week training courses were conducted in Dushanbe, Khujand, Khatlon and Khorog.

### **Recommendations**

In the light of the above mentioned, for comprehensive and effective implementation of institutional changes in the public administration system, budget management system, as well as privatization and the private sector development public administration bodies responsible for the implementation of these actions should facilitate the implementation of the recommendations developed under IBTA-2, notably:

#### ***On Improving the Public Sector:***

- To develop a single reform strategy, which will present a future public governance structure in a comprehensive, systemic and sequential manner (but not through piloting), and to envisage an implementing action package;
- To clearly determine the overall structure of the Presidential Executive Office and GoT, number, role and tasks of ministries and state committees, and based on that to restructure public bodies defining the management forms and methods and their mutual relations with state-owned enterprises;
- To restrict the public administration functions in pursuing the state policies in specific sectors without interfering in the economic entity activities;
- To consider and approve the Civil Service classification, a management authority with appropriate powers and, consequently, the CS pay strategy.

#### ***On Improving the Budget Management System:***

- To radically change the formation and spending principles of budgetary funds in line with international practices, with the mandatory establishment of a full-fledge structure managing the budget process at the President's Executive Office;
- The Ministry of Finance should take timely and prompt decisions on all proposals and recommendations developed under IBTA-2 in the course of joint activities.

#### ***On Privatization and Private Sector Development:***

- To accelerate privatization of medium and large enterprises;
- To eliminate subjective obstacles affecting the timely and quality privatization process;
- To create conditions for establishing full-fledge corporate governance institutions;
- To improve the market regulation methods, especially with respect to post-privatization support and the private sector development.

## Conclusions

It should be noted that IBTA 2 timely implemented the institutional transformation targets set; however, public administration bodies did not fully take into account and fulfill the IBTA 2 recommendations and suggestions on reforming and improving the public administration system, budget system, privatization and support to the private sector.

The experience of other states in the process of the institutional reforms shows that the national development system should be comprehensively improved, notably, the reform of the public administration and budget system, privatization and the private sector development should take place.

In particular, the link between the reforms of the budget system and public administration system is specified by the fact that the budget system is a logistical basis for the national development and public governance system, which defines the financial framework based on which such a system of the national development and public governance may function. Therefore, without proper and effective reforming the budget system it would be impossible to reach positive results on the public administration system improvement on the whole. Also, without privatization and the private sector development, as well as transfer of some inappropriate for the public body functions to the private sector, it would not be possible to painlessly implement the public administration and budget reforms.

The current public administration system is not able to fully ensure the management efficacy and quality market regulation in implementing state functions. Having recognized this, the GoT assumes that without the establishment of an effective and efficient public administration system and favorable conditions for economic activities it would not be possible to achieve sufficient outcomes in ensuring sustainable economic growth and development and, ultimately, poverty reduction.

In this connection, the Governmental Implementation Plan for the second stage on the 2004 poverty reduction strategy approved by the President of Tajikistan envisages the following:

- To reconsider the structure and number of executive public administration bodies;
- To develop a single strategy for the public administration system reform based on recommendations and proposals developed under the IBTA-2 and by the ADB;
- To develop and adopt the CS pay strategy.

These issues were also covered in the annual address of the President of Tajikistan to the Parliament and were incorporated in the GoT action plan.

To create an effective, efficient and logical public governance system, Presidential Decree No.1559 of September 28, 2004 established a Working Group consisting of high-ranking officials from the President's Executive Office, Parliament, Constitutional Court and GoT. The major task for the current Working Group is the development of a single position for the comprehensive approach to reforming the public administration system in Tajikistan based on the public governance theory, international practices and the recommendations and proposals developed under IBTA-2. The Working Group has developed such a strategy and soon it will be submitted to the President of Tajikistan for approval.

The public administration reform strategy development is the final stage of IBTA-2 activities. This strategy includes all the project aspects/directions as it is a logical continuation of IBTA-2 goals and

objectives with regard to institutional building, and it has covered all the project recommendations on improving the public administration system.

***Using Funds by Source and by Item***

Under the Credit Agreement between IDA and GoT, a loan of USD6,700,000 (SDR 5 mln.) was allocated for the IBTA-2 implementation. Along with the abovementioned IDA loan amount, under this Agreement GoT committed itself to contribute to the project an amount equivalent to USD700,000. In order to prepare three ToRs for the three IBTA-2 components, the Swiss Government grant equaling to USD150,000 was attracted, out of which only USD95,000 were used, and grant was officially closed on November 28, 2001.

Under this Credit Agreement, the loan resources were divided into the following categories:

**Disbursement of IDA Credit No. 3249-TJ  
(in Thousands of US\$)**

Category of Expenses	Amount	Financing, in %
<b>A. Works</b>	<b>0</b>	
<b>B. Goods</b>	<b>860</b>	
<b>Public administration reform, including:</b>	<b>1740</b>	
Reform of the Government structure	(1000)	
Development of the pay strategy	(120)	
Strengthening the Civil Service Agency	(620)	
<b>Budget management system, including:</b>	<b>2420</b>	
Budget cycle management	(620)	
Medium-term budgeting	(720)	
Supervision over public expenditures	(500)	
Intergovernmental financing	(580)	
<b>Privatization and the private sector development, of which:</b>	<b>1080</b>	
Privatization of medium and large enterprises	(572)	
Development of the private sector	(508)	

<b>Project implementation, of which:</b>	<b>260</b>	
Procurement specialist	(140)	
Other technical assistance	(120)	
<b>D. Undisbursed funds</b>	<b>340</b>	
<b>Total project amount</b>	<b>6700</b>	

**Project Financing from Counterpart Funds  
(in Thousands of US\$)**

No.	Category of Expenses	1999-2000	2001	2002	2003	2004	2005	Total
1	Goods	50	48	20	40	42		<b>200</b>
2	Technical assistance	310	52	60	40	38		<b>500</b>
3	<b>Total</b>	<b>360</b>	<b>100</b>	<b>80</b>	<b>80</b>	<b>80</b>		<b>700</b>

IBTA-2 was expected to be implemented in four years (from June 21, 1999 to June 30, 2003). However, due to technical delays occurred (conducting tenders for the selection and recruitment of consulting companies, etc.) the actual project implementation was started in April 2000 and extended till June 25, 2005.

The following international companies were contracted to provide consulting services as below:

- Under the public administration reform component - SMEC International Company for USD1,740 mln;
- Under the budget system reform component – Barents Group, currently Bearing Point Company for USD2.420 mln;
- Under the privatization and private sector development component - Carana Corporation for USD1.080 mln.

As estimated, the following expenses were also envisaged:

- For procurement of goods – USD 860 thousand;
- For the project implementation - USD 260 thousand;
- Undisbursed funds – USD 340 thousand.

On the whole, as of October 1, 2005 for the IBTA-2 implementation the following amounts were spent:

- From IDA borrowed funds – USD6,727.09 thousand;

- From counterpart funds - USD 260.41 thousand.

In the table below the IDA funds and counterpart funds spent are given by category:

**Using Funds of IDA Credit 3249TJ  
(in Thousands of USD)**

Category of Expenses	Projected	Actual	Variation
<b>B. Goods</b>	<b>860</b>	<b>880</b>	<b>-20</b>
<b>C. Technical Assistance</b>	<b>5500</b>	<b>5396.54</b>	<b>+96</b>
<b>Public Administration Reform, of which:</b>	<b>1740</b>	<b>1740</b>	
Reform of the Government Structure	1000	1000	
Development of the Pay Strategy	120	120	
Strengthening the State Service Agency (SSA)	620	620	
<b>Budget Management System, including:</b>	<b>2420</b>	<b>2420</b>	
Budget Cycle Management	620	620	
Medium-term Budgeting	720	720	
Supervision over Public Expenditures	500	500	
Intergovernmental Financing	580	580	
<b>Privatization and the Private Sector Development, of which:</b>	<b>1080</b>	<b>1080</b>	
Privatization of Medium and Large Enterprises	572	572	
Development of the Private Sector	508	508	
<b>Project implementation, of which:</b>	<b>260</b>	<b>164</b>	<b>+96</b>
Procurement Specialist	140	30	+110
Other Technical Assistance	120	134.0	-14.0
<b>Total (B+C)</b>	<b>6360</b>	<b>6284.0</b>	<b>+76</b>
<b>D. Undisbursed Funds</b>	<b>340</b>		

<b>Total Estimate (B+C+D)</b>	<b>6700</b>	<b>6284.0</b>	<b>+416.0</b>
<b>E. Saved funds (76 +340)</b>	<b>416.0</b>		
<b>F. Exchange spread</b>	<b>87.19</b>		
<b>Total (E+F)</b>	<b>503.19</b>		
<b>G. Incremental costs, including</b>	<b>503.19</b>	<b>443.09</b>	<b>+60.1</b>
Privatization and the Private Sector Development	100	96	+4
Support to the State Property Committee Capacity	138	135.3	+2.7
Support to the SSA Capacity	180	128.79	+51.21
Establishment of the Local Network at the Ministry of Finance	80	83	-3
Undisbursed Funds	5.19		+5.19
<b>Total for the Project</b>	<b>6787.19</b>	<b>6727.09</b>	<b>+60.1</b>

Upon approval of the reports submitted, all the three consulting companies were remunerated under the TA category from IDA credit resources.

The following expenses were made:

- Under Goods Category – USD 880 thousand.
- Under the Project Implementation Category – USD 164 thousand, of which:
- For the remuneration to the international procurement consultant – USD 30,0 thousand;
- For other TA – USD 134 thousand.

Funds from the Undisbursed Funds Category and saved funds were additionally spent for:

- The remuneration to the international accelerated privatization consultant - USD 96 thousand;
- Support to the State Property Committee capacity – USD 135.3 thousand;
- Creating the local network at the Ministry of Finance – USD 83 thousand;
- Support to the CSA capacity – USD 128.79 thousand.

Moreover, as a result of the exchange spread USD 87,190 thousand was saved.

The balance of the credit resources as of October 1, 2005, including the exchange spread, was USD 60,100 thousand.

**Using Funds from Counterpart Funds**  
(in thousands of USD)

<b>No.</b>	<b>Name of Goods</b>	<b>Projected</b>	<b>Actual</b>	<b>Variation</b>
1	Goods	200	57.75	142.25
2	Technical Assistance	500	202.66	297.34
3	<b>Total</b>	<b>700</b>	<b>260.41</b>	<b>439.59</b>

Using funds from counterpart funds are divided into two components. Since the project commencement, the following has been spent for the two components:

For Goods Category - USD 57,750 thousand;

For TA Category- USD 202,660 thousand;

Total counterpart funds - USD 260,410 thousand.



### **SMEC Reports Submitted Under the IBTA-2 First Component**

1. Inception Report on the Public Administration Reform, prepared in July 2000, submitted by Edwin Hankin with the Group on the Public Administration Reform.
2. Report on the Strategic Overview of Parliament Structure and Organization, submitted in February 2001, prepared by Kirill Nurjanov.
3. Report on the Pay System Reform in Tajikistan, submitted in March 2001, prepared by Andrew Hatson.
4. Report on Strengthening the Civil Service Management System, submitted in March 2001, prepared by Dr. Rex Kinder.
5. Report on the Pay System Reform in Tajikistan, submitted in April 2001, prepared by Andrew Hatson.
6. Report of the Functional Communications Sector Review, submitted in April 2001, prepared by SMEC.
7. Report on the Education Functional Review, submitted in April 2001, prepared by SMEC.
8. Report on Strengthening the CSA capacity, submitted in April 2001, prepared by Dr. Rex Kinder.
9. Report on the Functional Agriculture Review, submitted in April 2001, prepared by SMEC.
10. Report on the Functional Health Sector Review, submitted in April 2001, prepared by SMEC.
11. Report on the IBTA2 Aide Memoire and Recommended Actions, submitted in May 2001, prepared by Dr. Rex Kinder.
12. Report on Draft Aide Memoire 2; Selection Procedures, submitted in June 2001, prepared by Dr. Rex Kinder.
13. Report on Aide Memoire 3: Values, the Behavior and Ethics Code, submitted in July 2001, prepared by Dr. Rex Kinder.
14. Report on the Database and Database User's Manual, submitted in November 2001, prepared by J. Perer.
15. Interim Report, submitted in December 2001, prepared by Edwin Hankin.
16. Report on the Functional Review of Tajikistan Fiscal Sector, submitted in April 2002, prepared by SMEC.
17. Report on the CS Database and Database User's Manual, submitted in May 2002, prepared by J. Perer.
18. A Model of the Civil Servant Handbook, submitted in June 2002, prepared by Dr. Rex Kinder.
19. Final Report by the Civil Service and Public Administration Reform Consultant, submitted in July 2002.
20. Report on Information Technologies, submitted in September 2002.
21. Final Report, submitted in March 2003, prepared by Edwin Hankin.
22. Overview of Public Bodies and Their Organization at the Regional Level: Problems and Perspectives, submitted in April 2003.
23. Overview of Public Bodies and Their Organization at the Regional Level: Gorno-Badakhshan Autonomous Region, Pilot Area, submitted in April 2003.
24. Additional Report on the Overview of Public Bodies and Their Organization at the Regional Level: Problems and Perspectives, submitted in June 2003.

**Barents Group Reports**  
**Submitted Under the IBTA-2 Second Component**

1. Quarterly Report for the first quarter of 2000-2001, Lawrence K. Daum (Team Leader).
2. The First Quarterly Report on the Budget Improvement Project, Lawrence K. Daum.
3. The Second Quarterly Report on the Budget Improvement Project, Lawrence K. Daum (Team Leader).
4. Quarterly Report for the first quarter of 2000-2001, Lawrence K. Daum.
5. The Third Quarterly Report on the Budget Improvement Project, Lawrence K. Daum.
6. The Fourth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
7. The Fifth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
8. The Sixth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
9. The Seventh Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
10. The Eighth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
11. The Ninth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
12. The Tenth Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
13. Report on the Development of Commitments for Expenditures, Sources of Revenues and Intergovernmental Transfers of Local Administration Bodies, prepared by Dr. Glenn Wright.
14. The Eleventh Quarterly Report on the Budget Improvement Project, Gordon Yurich (Team Leader).
15. The Second Report on the Development of Commitments for Expenditures, Sources of Revenues, and Intergovernmental Transfers of Tajikistan Local Administration Bodies, prepared by Dr. Glenn Wright.
16. Final Report, Gordon Yurich (Team Leader), January 2004.
17. Final Report, Gordon Yurich (Team Leader), March 2004.

### **Carana Corporation Reports Submitted Under the IBTA-2 Third Component**

1. The Inception Report on the IBTA 2 Third Component: Privatization and the Private Sector Development, prepared by Carol Finnegan and submitted on July 28, 2000.
2. Privatization and the Private Sector Development (Report No. 2). This report and subsequent reports are presented by Yulian Simijiiski.
3. Privatization and the Private Sector Development (Report No. 3).
4. Privatization and the Private Sector Development (Report No. 4).
5. Privatization and the Private Sector Development (Report No. 5)
6. Privatization and the Private Sector Development (Report No. 6)
7. Privatization and the Private Sector Development (Final Report).

*(b) Cofinanciers:*

*(c) Other partners (NGOs/private sector):*

### **10. Additional Information**

## Annex 1. Key Performance Indicators/Log Frame Matrix

### Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR <sup>1</sup>	Actual/Latest Estimate
<p>Fiscal deficit ( Sector related CAS goal)</p> <p>Strengthened government policy, program management and improved budget</p> <p>Reduced financial dependence of the enterprise sector</p>	<p>3.1 % in 1999; 3.3 % of GDP by 2001, no forecast made for later years.</p>	<p>2.7 % in 2004 . This CAS related goal has improved but it is not possible to relate any improvement in the fiscal deficit to the project outcomes.</p> <p>There has also been progress in those general areas, particularly over the last two years, but it is not possible to track precisely what has been,if any, the project contribution.</p> <p>There is evidence of reduced dependence, but no indicator is available to track it, and the project contribution cannot be isolated from all other actions.</p>

### Output Indicators:

Indicator/Matrix	Projected in last PSR <sup>1</sup>	Actual/Latest Estimate
<p>Number of ministries reorganized</p> <p>Number of duplicate government agencies and ministry departments consolidated</p> <p>Improved transparency and effectiveness of government expenditures</p> <p>Number of annual budgets reflecting the MTBF</p>	<p>Up to five ministries were envisaged to be reorganized as a result of the project at appraisal</p> <p>3 drafts of MTBF were prepared but only one budget (2003) reflected the MTBF</p>	<p>Many reorganizations have indeed taken place within the ministries over the last six years, but none followed the recommendations of IBTA II. A few were superficial and did not result in the splitting up the policy planning and of the economic/production activities, which was considered to be the cornerstone of the administrative reform. In a few cases the reverse happened , eg when Barq- i-Tajik ( the electricity company ) was combined with the Ministry of Energy. Several reorganizations took place with the assistance of other donors ( eg Ministry of Communications with EBRD's support; Tajik Air and Tajik Rail with respectively EBRD's and ADB's support ).</p> <p>Although some consolidation has taken place as a result of the various reorganizations, there has been no monitoring of this indicator under the project. Yet, there is ample evidence that the overlap and duplication of functions is still prevalent ( eg. the plethora of educational and training institutions that reside within specialist ministries and agencies, rather than within the Ministry of Education) . This is thoroughly described in the PEIR -whose authors were familiar with these studies.</p> <p>Transparency and accountability remains limited since the Parliament continues to approve the budget on the basis of broad allocations to sectors or functions rather than to institutions. As a result, MINFIN continues to exercise excessive control over the allocation process. No indicator has been used to monitor this output, nor would it be possible to isolate IBTA II impact from the SAC or other inputs.</p> <p>The consultant prepared Budget Framework Papers successively improved in 2001 ( on a</p>

		sample basis only ) , in 2002 ( draft ) and in 2003 ( almost complete but without the forward estimates ) that were forwarded to the Ministry, and the 2003 draft paper was distributed at the May 2003 CG meeting. However the Ministry never submitted officially these papers to the Government or to Parliament for formal approval and , as a result, the budget process is still not based on MBTF.
Decrease in number of deviations from budget allocation	Deviations were 20.3% in 2001 and 5.9 in 2002	No tracking was carried out, but Republican Budget deviations were estimated at 17.8 % in 2002 and 25.0% in 2003, which are high by international standards, and illustrate the shortcomings of the current budget process
Number of regions in which the system of categorical grants has been implemented		
Number of auctions and case by case privatization of medium and large enterprises completed	No target was specified at appraisal for auctions and case by case privatization; The PAD refers to about 550 medium and large scale enterprises expected to be privatized	629 MLS enterprises were privatized during the project period (2000-mid 2005). 230 auctions were held from 1998 to mid 2003 putting up 3041 enterprises for sale .
Number of regulations and steps necessary to establish private business eliminated	No target set at appraisal	No monitoring was done. Although surveys and training were carried out as expected by the consultant, there is no measurable outcome.

<sup>1</sup> End of project

No projections were made in the PSRs

## Annex 2. Project Costs and Financing

### Project Cost by Component (in US\$ million equivalent)

Component	Appraisal Estimate US\$ million	Actual/Latest Estimate US\$ million	Percentage of Appraisal
1.Public Administration Reform	2.30	2.65	1.15
2.Budget Management Systems Reform	2.50	2.52	1
3.Privatization and Private Sector Development	1.20	1.31	1.1
4.Project Implementation Unit, Other TA and Price contingencies	1.40	0.44	0.3
<b>Total Baseline Cost</b>	7.40	6.92	
<b>Total Project Costs</b>	7.40	6.92	
<b>Total Financing Required</b>	7.40	6.92	

### Project Costs by Procurement Arrangements (Appraisal Estimate) (US\$ million equivalent)

Expenditure Category	ICB	Procurement Method <sup>1</sup>		N.B.F.	Total Cost
		NCB	Other <sup>2</sup>		
<b>1. Works</b>	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
<b>2. Goods</b>	0.60 (0.60)	0.26 (0.26)	0.00 (0.00)	0.00 (0.00)	0.86 (0.86)
<b>3. Services</b>	0.00	0.00	4.88	0.00	4.88
<b>Technical Assistance</b>	(0.00)	(0.00)	(4.88)	(0.00)	(4.88)
<b>4. Training</b>	0.00 (0.00)	0.00 (0.00)	0.96 (0.96)	0.00 (0.00)	0.96 (0.96)
<b>5. Operating Costs</b>	0.00 (0.00)	0.00 (0.00)	0.70 (0.00)	0.00 (0.00)	0.70 (0.00)
<b>Total</b>	0.60 (0.60)	0.26 (0.26)	6.54 (5.84)	0.00 (0.00)	7.40 (6.70)

### Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US\$ million equivalent)

Expenditure Category	ICB	Procurement Method <sup>1</sup>		N.B.F.	Total Cost
		NCB	Other <sup>2</sup>		
<b>1. Works</b>	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
<b>2. Goods</b>	0.85 (0.85)	0.00 (0.00)	0.20 (0.20)	0.00 (0.00)	1.05 (1.05)
<b>3. Services</b>	0.00	0.00	5.39	0.00	5.39
<b>Technical Assistance</b>	(0.00)	(0.00)	(5.39)	(0.00)	(5.39)
<b>4. Training</b>	0.00 (0.00)	0.00 (0.00)	0.11 (0.11)	0.00 (0.00)	0.11 (0.11)
<b>5. Operating Costs</b>	0.00	0.00	0.12	0.24	0.36

	(0.00)	(0.00)	(0.12)	(0.00)	(0.12)
<b>Total</b>	0.85	0.00	5.82	0.24	6.91
	(0.85)	(0.00)	(5.82)	(0.00)	(6.67)

<sup>1/</sup> Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

<sup>2/</sup> Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

#### Project Financing by Component (in US\$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	IDA	Govt.	CoF.	IDA	Govt.	CoF.	IDA	Govt.	CoF.
<b>1.Public Administration Reform</b>	2.30	0.00	0.00	2.65	0.00	0.00	115.2	0.0	0.0
<b>2.Budget Management Systems Reform</b>	2.50	0.00	0.00	2.52	0.00	0.00	100.8	0.0	0.0
<b>3.Privatization and Private Sector Development</b>	1.20	0.00	0.00	1.31	0.00	0.00	109.2	0.0	0.0
<b>4.Project Implementation Unit, Other TA and Price contingencies</b>	0.96	0.70	0.00	0.19	0.24	0.00	19.8	34.3	0.0

### Annex 3. Economic Costs and Benefits

**Annex 4: Cost Effectiveness Analysis Summary**  
**TAJKISTAN:**  
**Second Institution Building Technical Assistance (IBTA2) Credit**  
 (Indicate currency, units, and base year)

	<b>Present Value of Flows</b>
	<b>Economic/Financial Benefits</b>
<b>Benefits</b>	
Incremental expenditure saving of a permanent, one time 1 percentage point reduction (relative to 1998 levels) in budget starting in 2002.	US\$5.5 million (1999 constant dollars) over 29 years @ 10 % in discount rate
<b>Costs</b>	
Includes transaction costs for restructuring and privatization costs, retrenchment costs regulatory agency establishment costs, operating costs, Government's contribution and 5% contingency fund	US\$5.5 million (1999 constant) at 10% discount rate
<b>Net Benefits</b>	US\$7.5 million.
<b>IRR</b>	<b>13.3%</b>

#### Summary of Benefits and Costs:

The proposed Project will provide a number of economic benefits. It will increase the effectiveness and efficiency of public services by reforming Government structures and organizations, including the pay and incentive system. It will also assist in output recovery and sustained economic growth through policy actions that promote private ownership and private investment. This will come from: (i) reforming the basic structure of Government, including reducing the number of organizations reporting directly to the Government and consolidating sectoral functions and line ministry programs; (ii) phasing out of inappropriate and redundant functions that could be provided more effectively by the private sector; (iii) reorganizing government ministries by consolidating departments and strengthening policy and programming capacities; (iv) implementing a sustainable public sector pay strategy linked to reductions in the public service payroll; (v) improving public expenditures and linkage between sector policies, strategies and public expenditure allocations; and (vi) accelerating the privatization program and development of a legal framework conducive to private sector promotion.

The data is not adequate to allow a precise project cost-benefit analysis. Accordingly, the quantitative analysis presented in this section is very simple and represents a tentative cost recovery exercise. The analysis focuses on ensuring that small projected savings in government expenditures, resulting from implementation of reform measures under the project, will be sufficient to cover the project cost. In this case, the present value of incremental expenditure savings of a permanent one time 0.40 percent is adequate to cover the present value of project costs. The analysis shows that budget expenditure savings of 2 percent are sufficient to cover project costs more than five times over.

Main Assumptions The analysis does not take into consideration many benefits that are difficult to measure. It assumes that Government expenditures will grow at an annual rate of 5% percent during the analysis period, and in the absence of the project, there will be no changes in the growth of government



expenditures.

## Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
	Month/Year	Count	Specialty	Implementation Progress
<b>Identification/Preparation</b> 10/25/98	2	TASK MANAGER PUBLIC SECTOR MGNT CONS.		
<b>Appraisal/Negotiation</b> 1/25/1999	4	TASK MANAGER PUBLIC SECTOR MGMT PRIVATE SECTOR SPECIALISTS CONS.		
<b>Supervision</b>				
7/21/1999	1	TASK LEADER (1)	S	S
10/29/1999	1	TASK LEADER (1)	S	S
07/28/2000	1	TASK MANAGER (1)	S	S
12/23/2000	1	TASK MANAGER (1)	S	S
04/10/2001	1	TASK MANAGER (1)	S	S
07/29/2001	1	TASK MANAGER (1)	S	S
07/15/2002	1	TASK MANAGER (1)	S	S
05/15/2003	1	TEAM LEADER (1)	S	S
11/15/2003	2	TASK MANAGER (1); CONSULTANT (1)	S	S
10/10/2004	2	TASK TEAM LEADER (1); PUBLIC SECTOR MGMT (1)	S	U
<b>ICR</b>				
07/01/05	2	TASK TEAM LEADER OPERATIONS ADVISER		

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	N.A	N.A
Appraisal/Negotiation	N.A	72.8
Supervision	89	478.6
ICR		
Total		

## Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input type="checkbox"/> <i>Macro policies</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Sector Policies</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Physical</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Financial</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Institutional Development</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Environmental</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA

### Social

<input type="checkbox"/> <i>Poverty Reduction</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Gender</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Private sector development</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Public sector management</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA

## Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

### 6.1 Bank performance

#### Rating

- |   |                             |                            |                                       |                             |
|---|-----------------------------|----------------------------|---------------------------------------|-----------------------------|
| <input checked="" type="checkbox"/> Lending     | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Supervision | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Overall     | <input type="checkbox"/> HS | <input type="checkbox"/> S | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |

### 6.2 Borrower performance

#### Rating

- |   |                             |                                       |                                       |                             |
|---|-----------------------------|---------------------------------------|---------------------------------------|-----------------------------|
| <input checked="" type="checkbox"/> Preparation                           | <input type="checkbox"/> HS | <input checked="" type="checkbox"/> S | <input type="checkbox"/> U            | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Government implementation performance | <input type="checkbox"/> HS | <input type="checkbox"/> S            | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Implementation agency performance     | <input type="checkbox"/> HS | <input type="checkbox"/> S            | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |
| <input checked="" type="checkbox"/> Overall                               | <input type="checkbox"/> HS | <input type="checkbox"/> S            | <input checked="" type="checkbox"/> U | <input type="checkbox"/> HU |

## **Annex 7. List of Supporting Documents**

1. Project Appraisal Document for the Second Institution Building Technical Assistance Credit of May 10, 1999. Report no 19074-TJ
2. Aide-Memoire, Back to Office Reports, Project Status Reports from 1998 to 2005 for IBTA II and SAC II
3. Quality at entry assessment of IBTA II ( QEA 3 of 1999 )
4. CAS report
5. Implementation Completion Report of SAC II of December 22, 2004. Report No 30997
6. DFID Final Report : Evaluation of Tajikistan's Structural Assistance Credit and Institution Building Technical Assistance CNTR 04 5261 March 2005
7. SMEC State Service and Public Sector Reform Adviser . Component 1 : Public Administration Reform. Final Report of July 2002.
8. SMEC Aide Memoire IBTA II Recommended Actions by Rex Kinder, State Service Consultant , May 2001.
9. Public Administration Reform in the Republic of Tajikistan. Technicla Subgroup under the Presidential Working Group for Development of " Single Strategy Document on Public Administration Reform" . Draft Option 7 of July 2005.
10. Tajikistan: Public Expenditure and Institutional Review. Draft of June 2004
11. Bearing Point. Budget Reform Project. Final Report by Gordon Yurich, Chief of Party, January 2004.
12. Carana Corporation: Privatization and Private Sector Development Component of IBTA II, Final Report of June 2003.
13. Tajikistan CEM June 2005 Civil and Public Service Wage Draft Note.

