



Eurasian Development Bank

The EurAsEC Anti-crisis Fund Manager

MID-TERM REPORT

On the Implementation of Financial Credit to the Republic of Tajikistan From the resources of the Anti-Crisis Fund of the Eurasian Economic Community

Summary

The Agreement on the provision of a financial credit (FC) from the resources of the Anti-Crisis Fund of the Eurasian Economic Community (ACF) between the Eurasian Development Bank (EDB) and the Republic of Tajikistan (RT) in the amount of US\$ 70 million was signed on 24 July 2010, and became effective on 18 August 2010. The objective of this FC is to support the State budget of 2010 and to maintain levels of social spending (on education, health care and social protection) at pre-crisis level. In the course of the FC preparation, the medium-term program of cooperation between Tajik Government and EDB (the ACF Manager) was agreed. The program includes measures to improve public finance management, to strengthen the budget revenues and to create conditions for targeted use of budget funds, including through the strengthened supervision by the civil society. The Ministry of Finance of Tajikistan used US\$ 61.5 million in frame of the 2010 budget, and reserved the rest for budget deficit financing in 2011.

According to preliminary data, in 2010 Tajikistan's GDP grew by 6.5% (compared to 3.4% in 2009), which had a beneficial impact on the level of the domestic revenue collection. At the same time, because of problems related to the transit of Tajik imports through the Uzbek border, the losses of fiscal revenues from foreign trade operations amounted to about US\$ 35 million. In addition, the country's budget did not receive on time about US\$ 20 million in grant funds that were originally planned from ADB. In this situation, the timely disbursement of the ACF credit compensated for the revenue shortfall and covered most of the planned expenditures without increasing the budget deficit, the level of which, according to preliminary data for that year amounted to 1% of GDP (excluding foreign credits extended under the Public Investment Program - PIP).

The Government of Tajikistan met the key condition established under the Credit Agreement with regards to maintaining social sectors' financing at the agreed levels. Preliminary results of the 2010 State budget execution show that actual expenditures on health care amounted to 6.8% of the total budget expenditures, excluding PIP (the monitoring indicator was set at 6.1%), on education, to 20.9% (17.1%) and on social protection, to 17.7% (16.8%).¹

At the same time, the ACF Manager considers it necessary to point out a number of problems in both the PFM system, and within the above-mentioned sectors, which reduce efficiency of credit resources use. In particular, the analysis of quarterly budget reports allows concluding that financial discipline throughout the year was weak. Well until the end of the year, funding of all social sectors lagged significantly behind the schedule, and this gap was reduced only in December, which suggests "emergency" disbursement at the end of the year. No doubt, significant deviations from the schedule and unpredictability in the levels of funding affect adversely the quality of services in the sectors as well as the effectiveness of utilization of budget resources. Taking this into account, the Manager urges the Government of Tajikistan to

¹ Meanwhile, the approved budgets for health care and education have been missed by 3.4 and 4.2%, respectively. Given that expenditures on these sectors (in % of GDP) in the Republic of Tajikistan are among the lowest in the region and the CIS, any shortfall compared to the planned financing targets worsens further the problem of their underfinancing.

accelerate the implementation of PFM reforms aimed at improving the strategic planning quality and the cash management efficiency (including through the creation of Single Treasury Account).

Besides, the effectiveness of sectors' performance depends not only on the amount of budget resources, but also on the efficient allocation of these resources within the sectors. In health care, the issue is to redistribute financial flows from the tertiary and secondary levels (hospitals and specialized centers), which are the most expensive, to the primary level (health centers and public health), which are the most efficient in terms of costs and public coverage. In the education sector of Tajikistan, public finance reforms concern the transition to per capita funding, which primarily means the equalization of funding provided to rural and urban students. In 2010 certain progress has been achieved in the implementation of these reforms, launched by the Government of Tajikistan a few years ago, however it is too early to consider the impact of these reforms on the quality of services. The Manager intends to closely monitor the progress of these reforms and if necessary, to support their implementation in the framework of subsequent ACF credits.

In all other reforms supported by this financial credit, certain progress was registered as well, and there exist all reasons to believe that all monitoring indicators for the current FC will be met. Meanwhile, the slow pace of reforms, as well as short period of their implementation do not allow to draw conclusions about qualitative shifts that have occurred either in the system of public administration or in public finance management. More detailed description of the content of and progress in reforms is given in Appendix 1.

Appendix 1.

MATRIX OF REFORMS SUPPORTED BY THE FIRST ACF FINANCIAL CREDIT

Current situation	Medium-term targets	Effectiveness conditions for the Loan Agreement	Implementation status and comments	Reforms performance indicators	Implementation status and comments
Low levels of financing and low efficiency of the use of available resources in social sectors, which erodes human development and, consequently, becomes a significant obstacle to further development of the country.	Raise levels of sector financing. Carry out reforms aimed at improving the efficiency of sector management.	<p>Approved budget for the health sector is at least 6.1% of total state budget expenditures in 2010 (excluding PIP budget).</p> <p>Approved budget for the education sector is at least 17.1% of total state budget expenditures in 2010 (excluding PIP budget).</p> <p>Approved budget for the social protection sector is at least 16.8% of total state budget expenditures in 2010 (excluding PIP budget).</p>	MET. In the approved budget for 2010, the shares of expenditure in social sectors are at agreed levels.	<p>Actual implementation of the health sector budget in 2010 reaches 6.1% of total expenditures (excluding PIP funds);</p> <p>Actual implementation of the education sector budget in 2010 reaches 17.1% of total expenditures (excluding PIP funds);</p> <p>Actual implementation of the social protection sector budget in 2010 reaches 16.8% of total expenditures (excluding PIP funds)</p>	<p>According to preliminary implementation results of State budget for 2010, the shares of social sector expenditures exceeded the set targets. Final assessment of this indicator shall be conducted upon the preparation of the final report on the implementation of 2010 Budget. It should be noted that the budget for social sectors during 2010 was carried out very unevenly, and that significant expenditures were made mainly at the end of the year, which weakens the quality of services provided. The In education and health sectors the actual execution was below the approved budgets by 4.2% and 3.4% respectively.</p> <p>The Manager recommends the Borrower to consider improving the quality of forecasting and of cash management, in order to ensure the implementation of the approved budgets.</p>
Low revenue base of the budget and imperfect tax administration	Increase budget revenues through better tax administration and the reduction of tax exemptions.	<p>Changes to the tax laws concerning the indisputable collection of tax debts.</p> <p>Publication of a full list of tax</p>	MET. By RT Law # 493 as of March 26, 2009 "On Amendments to the Tax Code," Articles 92 and 94 of the Tax Code of the RT concerning indisputable collection of tax debts were amended.	Tax legislation is improved in order to strengthen tax discipline	Formally, the indicator has been met. However, the need for the strengthening of tax discipline should be viewed in a broader context of reforms to improve efficiency of tax administration and the management of public enterprises, which are the main tax evaders. It is expected that these issues will be addressed by the recently adopted Program for the Development of Tax Administration for 2011-2015.

Current situation	Medium-term targets	Effectiveness conditions for the Loan Agreement	Implementation status and comments	Reforms performance indicators	Implementation status and comments
		exemptions.	MET. The Tax Committee website published the Tax Code with a list of existing tax exceptions.		
Institutions that supervise the effectiveness of public resource use are not sufficiently developed, in both the executive and legislative branches of government. As a result, state agencies do not possess the capacity and the monitoring mechanisms for proper use of these resources. Parliament also plays an insufficient role in overseeing the implementation of the budget due to the current institutional and legislative framework	Preparation of legislative framework and creating the capacity for implementing the functions of internal and external audit in the civil service	The Parliament adopts the Laws "On Internal Audit in the Public Sector" and "On Financial Management and Internal Control in the Public Sector"	MET. Law № 631 "On Internal Audit in the Public Sector» and Law № 626 "On Financial Management and Internal Control in the Public Sector» passed by the RT Parliament and signed by the President on July 21, 2010	Legislative basis has been created for implementing internal and external audit in the public sector. In particular, the RT Parliament would have passed the laws "On Internal Audit in the Public Sector" and "On Financial Management and Internal Control in the Public Sector", and the Government would have approved the draft law "On External Audit"	With regards to laws on internal audit and internal control the indicator has been formally achieved. Meanwhile, appropriate implementation of these functions into the work of government agencies requires additional efforts to train specialists, to create demand for these services from public administrators, including as a result of strengthening external control over the efficient use of budgetary resources (by external auditor). Currently, the Law on External Audit is being drafted, and the powers of the Agency for Financial Control and Anticorruption include the functions of internal and external audit and control. At the very least, this situation complicates the introduction of internal audit functions in the government bodies and leads to the duplication of work.
The population has low access to budget information. The public does not have the opportunity to participate in budget preparation and in overseeing its implementation	Increasing the transparency of the budget as a factor in strengthening public sector accountability to the public and more efficient use of budget resources	Publication on the MOF's official website, at least, of the Law on State Budget for 2010 and the Treasury report on budget performance in January-March of 2010	MET. The Ministry of Finance's website posted both documents	Public access to budget information has been improved through regular publication of budget information in the press and on the MOF's website, including the approved budget and implementation reports on a quarterly basis	Despite the publication of the budget execution reports on MOF's website on a quarterly basis, one must admit that the reports are published with delay and are incomplete. Improving the timeliness of preparation and the quality of reports requires serious reforms of the treasury system, including the creation of the Single Treasury Account (STA), as well as automating budget execution at the

Current situation	Medium-term targets	Effectiveness conditions for the Loan Agreement	Implementation status and comments	Reforms performance indicators	Implementation status and comments
					regional level
Low salaries of civil servants is one of the obstacles to attract and retain skilled public servants	Increasing salaries of public servants is a major factor for improving the quality and motivation to work in the civil service	The government passed a decree approving the plan of action which, inter alia, defines the year 2010 as the beginning of the implementation of a new tariff system for civil service wages on a pilot basis	MET. Paragraph 39 of Government Resolution № 203 dated May 3, 2010 sets 2010 as the start year for the transition to the new tariff system for civil service wages	The Government passed a resolution to approve the new tariff system for civil service wages and the application of this scale in the pilot government agencies. The new tariff system is applied in pilot ministries.	On September 6, 2010 the President passed Decree # 923, which introduces a new tariff system for state agencies on a pilot basis. The new tariff system consolidates numerous bonuses into basic wage, raises its average level, establishes clearer correlation between a salary level and an amount of work performed, and unifies wage structure in all government agencies, which facilitates the control over the wage bill and the accuracy of its calculation. Wages in pilot agencies were increased by 35-65% for different categories of civil servants. However, to improve the quality of public services, a number of other reforms needs to be launched simultaneously, aimed at transition to modern methods of human resources management and performance evaluation of civil servants.