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PUBLIC FINANCE MANAGEMENT STRATEGY
OF THE REPUBLIC OF TAJIKISTAN
FOR 2009-2018

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List of Abbreviations

ASFCCC	Agency for State Financial Control and Combating Corruption
SB AIP	(department of) State Budget Aggregate Indicative Planning
BO	Budget Organization
CC	Customs Agency under the Government of the Republic of Tajikistan
CS	Civil Service
CCIP	Centralized Capital Investment Programme
CoA	Chart of Accounts
EBF	Extra Budgetary Funds
FMIS	Financial Management Information System
GFS	Government Finance Statistics
GoT	Government of the Republic of Tajikistan
ICAD	Internal Control and Audit Department
IDF	International Development Fund
IPSAS	International Public Sector Accounting Standard
IT	Information Technology
KBO	Key Budget Organization
MASI	(department of) Macroeconomic Analysis and Summary Information of the Ministry of Economic Development and Trade of the Republic of Tajikistan
MAS	(unit of) Macroeconomic Analysis and Statistics of the Ministry of Finance of the Republic of Tajikistan
MDSB	Main Department of the State Budget of the Ministry of Finance of the Republic of Tajikistan
MDCT	Main Department of the Central Treasury of the Ministry of Finance of the Republic of Tajikistan
MoF	Ministry of Finance of the Republic of Tajikistan
MoEDT	Ministry of Economic Development and Trade of the Republic of Tajikistan
MoLSP	Ministry of Labour and Social Protection of Population of the Republic of Tajikistan
MTEF	Medium-Term Expenditure Framework
NDS	National Development Strategy
PARS	Public Administration Reform Strategy
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMMP	Public Finance Management Modernization Project
PPER	Programmatic Public Expenditure Review
PIP	Public Investment Program
PRS	Poverty Reduction Strategy
PSRP	Public Sector Reform Project
SCIMSP	State Committee on Investments and Management of State Property of the Republic of Tajikistan
SOE	State Owned Enterprise
TC	Tax Committee under the Government of the Republic of Tajikistan
TSA	Treasury Single Account

1 Introduction

Background

The Government of the Republic of Tajikistan is engaged in a complex reform agenda. In this reform agenda, Public Finance Management (PFM) is given special attention.

PFM has been given a prominent place in the three main strategic documents of the Republic of Tajikistan that are guiding the country's reforms:

- National Development Strategy for the period of up to 2015;
- Public Administration Reform Strategy for 2006 - 2015;
- Poverty Reduction Strategy Paper for 2007 - 2009.

The National Development Strategy (NDS) sets the following national priority in relation to PFM reforms: *“Reform of public administration with a view to creating a national development system in the country, the principal features of which are transparency, accountability and focus on combating corruption.”*

The Public Administration Reform Strategy (PARS) states that the *“Public Finance Management system has to become more effective and transparent”* and that *“Tajikistan is at an early stage of budget reform”*.

The Poverty Reduction Strategy (PRS) adds more detail. The PRS identifies key problems, and includes reforms in the areas of state administration, macroeconomic policy, the investment climate and regional cooperation. Improving the budget process and tax reforms are given priority, focusing on improving the connection between the PRS and the budget through the Public Investment Programme (PIP) and the Centralized Capital Investment Programme (CCIP).

The aim of this PFM strategy is to make the agenda for PFM reform in more detail. The PFM strategy that is outlined in this document sets a multi-annual reform agenda in the PFM domain. Adoption of the PFM Strategy will allow to:

- focus reform efforts taking into account sequence and priority of reforms;
- harmonize and interlink various PFM reforms;
- improve effectiveness of reforms' implementation;
- improve coordination of donor support and guide their assistance to the main priorities.

2 Review of Current PFM Situation

2.1 Defining the PFM system

The PFM system is a system of organisations, legal regulations, procedures and processes for management of state financial assets and liabilities, and for monitoring the financial performance of state enterprises.

The budget cycle is the core process in the PFM system. It is divided into six main stages: (1) Strategic Planning, (2) Budget preparation, (3) Budget Execution, (4) Accounting and Reporting, (5) External Audit, (6) Policy Review.

Maintenance of the three main functions of the PFM system: (i) observance of the aggregate fiscal discipline; (ii) provision of allocative efficiency; and (iii) maintenance of operational effectiveness, will respectively allow achieving:

- control over revenues, expenditure and debt and a sustainable balance between them;
- distribution of resources taking into account the policy priorities of the Government of the Republic of Tajikistan (GoT);
- efficient and effective delivery of public services.

2.2 Diagnosis of current PFM performance

Fiscal discipline

The use of conservative budget estimates and limitation of demands on the budget are the main principles in the context of limited resources and economic exposure of the country.

The current Treasury system is not equipped with the prerequisite tools to effectively manage the budget execution and reporting processes. Treasury Single Account (TSA) has been introduced only partially, in other words local budgets operate through individual bank accounts in commercial banks, and special extra budgetary funds of budget organizations run through separate accounts. Thus, instead of the TSA, a large number of treasury accounts operate in the country, increasing operational costs for budget execution. Moreover, there is no sole centralized data base on public servants, and no single automated payroll system for public servants. Besides, payroll accounting function is decentralized, what weakens the function of central financial control and creates conditions for manipulations with salaries at localities.

Tax revenue is still rather low, in part due to tax exemptions as well as to weaknesses in tax administration (and resulting high tax arrears). Also, there are substantial quasi-fiscal activities by state owned enterprises (SOEs), and a risk of resumption of the practice of issuing state guarantees for debts incurred by SOEs. Monitoring of fiscal risks arising from SOEs is weak. The deficit and debt situation will require careful monitoring in order to ensure that the debt burden does not again become unsustainable. Finally, the current lack of a multi-year expenditure framework poses risks; particularly regarding the insufficient estimation of recurrent costs associated with large investments that are being undertaken or planned.

Accounting system in Tajikistan is fragmented and focused on achieving a whole number of reforms: improving cash based accounting to control budget spending, improving expenditure

accounting for budgeting and decision making, use of accrual based accounting methodology to evaluate budget execution in budget organizations. Neither of the above mentioned reforms is effective due to the following issues: chart of accounts differs from the budget classification, what makes the basic budget control ineffective; chart of accounts is not detailed enough for deep analyses of revenues and expenses to ensure effective decision making; accrual based accounting in budget organizations does not comply with international standards.

Strategic allocation of resources.

Open and policy-based competition for resources is not yet well developed in the PFM system. The fragmentation of the government at the central level and the evolving system of intergovernmental relations pose challenges for the policy based allocation of resources. Transparency and public discussion of spending priorities in the legislature, civil society, and the media are still in their infancy. There is also an urgent need in enhancing the leadership of the Government of the Republic of Tajikistan in conducting policy debates on management and allocation of aid resources. Tajikistan has started to introduce a Medium Term Expenditure Framework (MTEF). The full implementation of an MTEF will be a long term effort, in particular with regard to developing information on the cost of programs and realistically costed sector strategies.

The main asset of the current system is the orderliness of the budget planning and execution processes, which is an important prerequisite for implementation of state policy through a competent allocation of budget resources. Together with this, in the last three years, spending increased on average by more than 8 per cent during budget implementation. The uneven allocation of additional resources has resulted in substantial shifts in the sectoral allocation of funds. Although this practice allows for flexibility during budget execution it makes allocative decisions taken during the budget planning phase less binding. Better forecasting of revenues and expenditures should remedy this situation.

Operational efficiency

Operational efficiency is important given that public services have to be delivered with limited state resources. Some measure of predictability in resource flows to core activities has been achieved. The internal control and reporting environment is in line with current technical capacities, including still limited automation of the Treasury system: cash management software doesn't cover all units of the Central Treasury and is not integrated into the electronic payment system, consolidation unit uses another software for preparation of consolidated reports on the state budget; initial partial automation of local treasuries is planned to be conducted in 2009 – as of these days local treasuries submit their data on paper.

To increase effectiveness of operational efficiency it is necessary, firstly, to move procurement reforms from the stage of legal reform to the stage of their full implementation, and, secondly, to enhance institutions for internal and external audit, create mechanisms for their interaction, as well as change the direction of work of these bodies in terms of their focus on systemic issues and on the effectiveness with which public funds are used rather than on regularity in individual transactions.

2.3 Institutional setting

The basic legal document on PFM is the “Law on Public Finances of the Republic of Tajikistan” (#77, December 2, 2002, with the latest amendments introduced in June 2008). The law defines

three main components of the state budget: the republican budget, the budgets of state target funds and local budgets.

Further important laws with regard to public financial management include: the Law of the Republic of Tajikistan “On Treasury” (#396, June 18, 2008), the Law of the Republic of Tajikistan “On the National Bank of Tajikistan” (#383, December 14, 1996 with the latest amendments introduced in July 2007), the Law of the Republic of Tajikistan “On the State Financial Control in the Republic of Tajikistan” (#66, December 2, 2002 with the latest amendments introduced in July 2007), the Law of the Republic of Tajikistan “On State and State Guaranteed Borrowing and Debt” (# 886, December 11, 1999), the Law of the Republic of Tajikistan “On Local Bodies of State Power” (#28, May 17, 2004) and the Law of the Republic of Tajikistan “On Self-Management Bodies in Urban and Rural Settlements” (#1094, December 1, 1994). A new Tax Code and a new Customs Code came into force in early 2005 (#61 and #62, December 3, 2004 with the latest amendments introduced in June 2008), the Law of the Republic of Tajikistan “On Public Procurement of Goods, Works and Services” was adopted in 2006 (#168, March 3, 2006).

The main responsibility for PFM rests with the Ministry of Finance of the Republic of Tajikistan (MoF).

The MoF holds responsibility in the domains of development and implementation of fiscal policy, what includes strategic planning, budget preparation and execution, internal audit and accounting and reporting.

The MoF interacts directly with a large number of Budget Organizations (BO) as well as with the 17 main sub-national governments and their budgeting processes (3 oblasts, the city of Dushanbe and 13 cities and rayons of republican subordination). The role of line ministries in formulation of budgets for relevant sectors has been relatively limited. Financial departments of line ministries primarily deal with the financing of the central apparatuses of ministries only.

Other PFM duties are entrusted to:

- The Executive Office of the President of the Republic of Tajikistan, which is also responsible for the implementation of the Public Administration Reform Strategy (PARS);
- Agency of State Financial Control and Combating Corruption of the Republic of Tajikistan (ASFCCC);
- Ministry of Economic Development and Trade of the Republic of Tajikistan (MoEDT), which holds responsibilities in the domain of economic forecasting, investments, PIP and monitoring of PRS-2;
- State Committee on Investment and Management of State Property of the Republic of Tajikistan (SCIMSP);
- State Statistics Committee of the Republic of Tajikistan (SSC);
- Agency for Public Procurement of Goods, Works, Services and Organisation of Exchange Activities;
- Tax Committee under the Government of the Republic of Tajikistan (TC);
- Customs Service under the Government of the Republic of Tajikistan (CS).

3 Overall objective, principles and priorities

3.1 Overall PFM reform objective

The development objective of the Strategy is to reform the PFM system within the period from 2009 to 2018 for (a) improve aggregate fiscal discipline (to maintain sustainable government finance); (b) allocative efficiency (resources are more effectively allocated over the relevant policy priorities); and (c) operational efficiency (quality public services are delivered at lower costs).

The development objective is translated into a qualitative and a quantitative target.

The qualitative target

The Government of the Republic of Tajikistan holds the following vision of the qualitative objective of the PFM system in 2018.

By 2018 it is envisaged that the budget will be stable and comprehensive covering all key components of public finance. A proper Treasury Single Account (TSA) will function: resources of the republican and local budgets, including resources of special funds of BOs, will operate through the TSA. Valuation of fiscal risks of large SOEs will be conducted on a regular basis. Deviation between the budget formulated beginning fiscal year and the budget execution report for that year will be little, what will be achieved by more accurate macroeconomic and fiscal forecasts of revenues and expenditures. There will be active academic involvement in macroeconomic forecasting. The Government of the Republic of Tajikistan and the Parliament of the Republic of Tajikistan will play an essential role in budget composition. The Parliament of the Republic of Tajikistan will be actively involved in discussing budget documents including draft budget statements, in-year amendments to the budget and Annual Statements.

By 2018, the Government of the Republic of Tajikistan will have a full MTEF in place. National strategies will be translated into sector strategies with clearly defined and costed objectives, and with monitoring frameworks in place. Reliable aggregate and sector ceilings will be set. Line ministries will present budgets in which all programmes are costed on an output basis. The annual budget and the medium term expenditure framework will be integrated. Initial pilots with programme and performance budgeting will have been conducted.

By 2018, the management of budget organisations will be responsible for the proper execution of their budgets and the results which will be achieved with their budgets. Budget organisations will have certain autonomy allowing them to reallocate funds over budget lines. The increased responsibility of budget organisations will be balanced by an effective system of internal control. Internal audit will continue to provide recommendations on improving management processes of budget organisations.

By 2018, the Government of the Republic of Tajikistan will have an operational Finance Management Information System (FMIS), which will cover the Treasury functions across the whole country, including functions on planning and control of commitments etc. Data exchange and submission will be automated and will include, in addition to the core Treasury functions, additional modules for managing payroll and the administration of revenues.

By 2018, the accounting framework of budget organizations has come near in complying with IPSAS Accrual accounting standards. The preparation of the Annual Financial Statement will be timely and allow for audit by an independent External Audit Office which will report its audit findings to the Parliament of the Republic of Tajikistan. Annual Statements and reports from the External Audit Office will be actively discussed in the Parliament of the Republic of Tajikistan. All budget documents will be electronically available to the public and discussed in the media.

The quantitative target

The PFM system of Tajikistan was subject to a Public Expenditure and Financial Accountability (PEFA) assessment in 2007. While this methodology is primarily a diagnostic instrument and involves judgements in determining the scores, it will be useful as one way of gauging the progress of PFM reform. The PEFA methodology has 28 indicators which directly relate to the PFM system and use a scoring in which an ‘A’ identifies a high quality and ‘D’ reflects the need for further improvement of this PFM function. In 2007, Tajikistan scored ‘A’ in 2 areas, ‘B’ in 4 areas, ‘C’ in 11 areas, and ‘D’ in 13 areas. One area was not scored. The quantitative target for 2018 is to improve the PEFA score more than 50 percent. This implies tripling the number of indicators that score ‘A’ and ‘B’, and halving the number of indicators that score ‘C’ and ‘D’. Section 5 of the Strategy presents a detailed description of the expected changes.

3.2 Principles for prioritisation

Implementation of tasks targeted to reform the PFM system will be planned taking into account the priority of tasks and relevant activities. To prioritise and sequence tasks and activities there will be applied the following four principles:

1. in first place, there will be implemented tasks and activities which will help ensuring proper functioning of the basic elements of the PFM system;
2. in second place, for the capacity led reform, tasks and activities will be concentrating on capacity building;
3. in third place, reforms will be implemented based on an incremental principle following which any further initiatives will be build upon the results achieved; and
4. in forth place, reform tasks and activities will be logically sequenced.

1. Ensure proper functioning of the basic elements by focusing on “weak elements”

The strategy focuses on the fundamentals of the PFM system. The PFM system should process financial information which is stable, credible and comprehensive. This is a basic requirement before any PFM system can function and achieve the country’s development objectives. For example, the credibility of the annual budget should be improved first, before a multi-year budgeting framework can be established. Furthermore, basic budget preparation and execution processes should be in place and function transparently.

2. Capacity led reforms concentrating on capacity building

The issue of major importance for implementation of large number of reforms is the availability of quantitative and qualitative capacity in the public sector. As reported in the main diagnostic studies the significant number of weaknesses in PFM is connected with capacity constraints. In these circumstances capacity becomes the determining factor of what can be reformed and when.

All PFM reform activities will primarily focus on capacity improvements, rather than focussing too much on the content of the reform exclusively. If capacity is insufficient, reforms become superficial (legislation is implemented without enforcement, procedures are described without

compliance, etc). Therefore, all reforms should identify what kind of knowledge and which skills are required and how these knowledge and skills shall be obtained and maintained in the context of the reform activity, including changes in structure and number of staff of financial units.

3. Incremental reforms building upon existing initiatives

Too often PFM reforms are copied from best practices, not fully taking into account the country specific circumstances and capacity constraints. Given the capacity deficit and a very challenging reform agenda in Tajikistan, reforms should be conducted in an incremental way and in response to a particular situation. Rather than progressing with large leaps, the priority setting and the resulting reform activities shall focus on a ‘step-by –step’ approach. Furthermore, PFM reforms have more chance for success if they will be built on existing achievements and initiatives.

4. Logical sequence of the reform tasks and activities

Developing a logical sequence for PFM reforms is a complex task. All PFM activities are interconnected and highly dependent on one another. Failure of any one of them can have negative effects on the other and may undermine the effectiveness of the whole budgetary system.

An international ‘blue print’ for sequencing of reforms is not available. There are certain guiding principles for reforming PFM systems. Ten key principles of a budgetary reform are presented below:

1. foster an environment that supports and demands performance before introduction of performance or outcome budgeting;
2. control inputs before seeking to control outputs;
3. account for cash and conduct activities on national capacity building in accrual based accounting before accounting for accruals;
4. establish external control before introducing internal controls;
5. establish internal control before introducing managerial accountability;
6. operate a reliable accounting system before installing an integrated financial management system;
7. budget for work to be done before budgeting for results to be achieved;
8. enforce formal contract in the market sector, before introducing performance contracts in the public sector;
9. have effective financial auditing before moving to performance auditing;
10. adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.

3.3 Setting the PFM reform tasks in priority order and sequencing their implementation

Based on the long term PFM vision laid down in section 3.1, the current PFM situation, the theoretical guiding principles and consultation with government bodies and donors, this Strategy identifies the following seven tasks and sequences their implementation:

Short term tasks:

- Task 1: Reinforce stability, credibility, comprehensiveness and transparency of the budget

Medium term tasks:

- Task 2: Set clear roles and responsibilities at central government level
- Task 3: Build national PFM capacity

- Task 4: Improve checks and balances
- Task 5: Improve policy based budgeting process

Long term tasks:

- Task 6: Automate all business processes of the PFM system and introduce proper TSA
- Task 7: Develop fiscal decentralisation

The prioritisation of tasks in terms of short, medium and long term does not necessarily reflect the order of reform activities. To implement medium and long term tasks it will be necessary to undertake preparatory actions in the short term. The table below provides an indicative overview of the seven priority tasks in time.

Indicative planning of activities among the defined seven tasks (2009-2018)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Budget stability, credibility, transparency and comprehensiveness										
2. Roles and responsibilities										
3. National PFM capacity										
4. Checks and balances										
5. Policy based budgeting										
6. Automation of PFM system, properly functioning TSA										
7. Development of fiscal decentralisation										

The dark grey areas indicate intensive reform activities and the different shades of light grey areas indicate less intensive preparatory and/or follow up activities.

Short term priority reforms

Task 1 is a short term priority. The priority focuses on improving the stability, credibility, transparency and comprehensiveness of the budget. It includes issues as macro- economic and fiscal forecasting, debt policy, change of accounting methodology, revenue administration, the integration of investment budgets, establishing of a system for monitoring fiscal risks arising from SOEs etc. Furthermore, it aims to settle some preconditions that are required for further successful development of policy based budgeting and automation of the PFM system. In term of accounting in budget sector (a) there will be developed a chart of accounts unified with the budget classification for proper control over budget; (b) chart of accounts will be detailed enough to create data base on expenditures to improve budget planning and execution processes and ensure effective decision making; and (c) elements of accrual based accounting will be introduced incrementally to improve performance indicators of budget organizations. Implementation of activities under this task will need to be coordinated with a Strategy on improving tax administration, which is being developed now by the Tax Committee under the GoT. Objective of the Strategy on improving tax administration is to increase predictability of tax proceeds and other state duties, allowing to considerably improve budget predictability as whole.

Medium and long term task with short term preparatory activities

The table above shows the points in time when the main reform activities of seven priority tasks are planned. This does not mean that sequencing of activities has to exactly follow this timescale, as for implementation of the medium and long term tasks there will be conducted preparatory activities on the short term.

The first medium term priority (Task 2) is to set clear roles and responsibilities at central level. Currently, the Ministry of Finance of the Republic of Tajikistan is the main actor in the budget process. To increase accountability of line ministries, decentralisation of a number of responsibilities to line ministries must be pursued. This will be a long term process that must be harmonized with organisational changes at the ministries undertaken by the Government of the Republic of Tajikistan within the Public Administration Reform Strategy (PARS). Task 2 also underlines the need to strengthen the role of political guidance during the process of budget preparation.

Improving the national institutions for capacity development is a medium term priority (task 3). Lack of capacity for PFM reform is already a serious threat to achieve progress, while considering the ambitiousness of the PFM Strategy this risk increases. To address this concern the PFM Strategy foresees conduction of a number of capacity building activities in the short term. Further steps towards reforming PFM will be undertaken only after the national capacity development institutions will be reinforced. Together with this it is necessary to take into account that successful implementation of task 3 of the PFM Strategy mainly depends on implementation of task 3 of the PARS: “Formation of modern professional civil service”, what includes (a) improving quality of civil servants vocational training at all levels of public administration, (b) improving civil service pay system, (c) modernization of human resource management system and (d) increasing motivation, elimination of corruption.

Any PFM system incorporates checks to balance the budgetary powers of the executive authorities (task 4). After there will be ensured proper functioning of the basic elements of the PFM system, the Government of the Republic of Tajikistan will ensure establishment of an adequate system of checks and balances. In the process of creation of this system there will be addressed issues on formation of systems of internal and external audit and the powers of the Parliament of the Republic of Tajikistan. On external audit issues, all measures and initiatives will be harmonized with the Strategy and Action Plan on Creation of a New Independent External Audit in the Republic of Tajikistan approved on October 30, 2008.

Preparatory activities for the implementation of a Medium Term Expenditure Framework (MTEF) have already started (task 5: “Policy based budgeting”). These MTEF pilots in the social sectors gave clear indications for rolling out a fully fledged MTEF. Implementation of the fully fledged MTEF can be achieved in the medium term. Implementation of MTEF envisages integration of the recurrent and capital budgets (i.e. PIP and CCIP), allowing to monitor impact of capital expenditures on future recurrent expenses and on effectiveness of relevant sectors.

Task 6 is aimed to automate the routine processes in the PFM-system, in other words to create a Financial Management Information System (FMIS), in order to increase reliability of the information and efficiency of the system. Automation can focus on various PFM processes. Most important components are the automation of the budget execution processes and introduction of proper TSA to make all revenues and expenditures of the republican and local budgets to go through

a single treasury system. This, first of all, will require creation of an automated information system for managing Treasury operations (TMIS). The implementation of TMIS can start only after the budget classification, accounting standards and the unified Chart of Accounts (CoA) will be defined as they constitute the base of the TMIS. TMIS also implies automation of cash management system and electronic payment system for all types of expenditures. To properly control expenditures, line ministries shall create commitment planning and control system. This will ensure that expenditures wouldn't exceed the ceilings approved by the Parliament on certain targets, and that expenditures will be used within the insured limits. In FMIS, payments for goods and services purchased and approved by sectoral ministries and departments will be implemented through the centralised payment system of the MDCT TSA. Other FMIS functions, such as budget preparation and payroll management can be automated at a later stage. On the whole, introduction of FMIS implies proper execution of the key functions of a budget cycle, clear delineation of responsibilities and proper interaction among all PFM reform participants. Technical specifications of FMIS will take into account future reforms, such as implementation of programme based budgeting and other.

The important issue of intergovernmental relations is considered in a long term perspective (task 7). This issue is also closely connected with the implementation of the Public Administration Reform Strategy, which envisages clear delineation of functions and responsibilities among government layers. Only in case of availability of clear distribution of functions and responsibilities as a result of the implementation of PARS, reforms in the domain of PFM can be initiated.

3.4 Overview of the PFM-reform agenda

The following table provides an overview of the PFM reform tasks.

Overview of strategic reform tasks in the order of priority

Tasks	
Task 1: Reinforce budget stability, credibility, comprehensiveness and transparency	
1.1	Improve the quality of macroeconomic and fiscal forecasting substantially before 2012
1.2	By 2012, substantially improve quality of budget expenditure planning (improved planning of extra budgetary funds and of supplementary budget)
1.3	Ensure that in 2009-2012 government borrowing comply with the approved Public Debt Management Strategy
1.4	Starting 2011, valuate fiscal risks by 2011, mainly focussing on State-Owned Enterprises (SOEs)
1.5	In 2009 develop, approve and start implementing a Plan on approaching the national accounting standards of the public sector to accrual based IPSAS for 2009-2018
1.6	Within the period of 2009 – 2012 develop and implement Unified Chart of Accounts (CoA)
1.7	Ensure that starting from 2010 the budget is formulated based on an administrative classification and starting from 2012 Annual Budget Reports are prepared based on CoA unified with Budget Classification
1.8	Ensure presentation of one Investment Plan starting from the budget 2011
1.9	By 2012, (a) improve the efficiency and effectiveness of revenue collection; (b)develop and integrate an automated tax management system with an automated finance management system
1.10	By 2011, ensure full compliance of public procurement practices with the Law of the

Tasks	
	Republic of Tajikistan “On Public Procurement of Goods, Works and Services”
1.11	By 2012 develop commitment control system
Task 2: Set clear roles and responsibilities at central government level	
2.1	By 2011, clearly define the (future) PFM functions of line ministries
2.2	Conduct institutional reorganisation of the Ministry of Finance of the Republic of Tajikistan so that the organization structure of the MoF clearly reflects its main functions in the PFM-system by 2011
2.3	By 2012, strengthen the role of the country’ political guidance in the process of budget formulation
Task 3: Build national PFM capacity	
3.1	By 2012, create an effective system of advanced training and re-training of personnel employed in drafting of accounting methodology in the budget system
3.2	From 2010 onwards, ensure effective coordination of donor support/ projects aimed at PFM capacity-building
Task 4: Improve checks and balances	
4.1	By 2012, establish an independent external audit body executing functions of a supreme audit institution of the Republic of Tajikistan. By 2014, the Parliament of the Republic of Tajikistan reviews Budget Execution Reports based on the findings of the supreme audit institution
4.2	By 2018, improve parliamentary inspection of public finance and services by ensuring active participation of the Parliament of the Republic of Tajikistan in debates on budget documents (activities under this task shall also include measures on building capacity of Apparatuses of Upper and Lower Chambers to conduct legal reviews, provide organizational and analytical support and collect information to support activity of members of the Parliament of the Republic of Tajikistan)
4.3	Ensure access of the general public to major budgetary documents and policies via the official website of the Ministry of Finance of the Republic of Tajikistan by 2013
4.4	By 2014, ensure that internal audit departments in ministries and departments operate in accordance with international standards of internal audit
Task 5: Introduce policy based budgeting	
5.1	Ensure that the MTEF principle ‘top-down’ plays a large role in the preparation of the budget of the social sectors for the fiscal year 2010
5.2	Ensure that the MTEF principle ‘down-top’ plays a large role in the preparation of the budget of the social sectors for the fiscal year 2011
5.3	Starting from the fiscal year 2016, the budget is based on the MTEF process across all sectors
5.4	Make preparations for initiating programme and/or performance based budgeting in the long term
Task 6: Automate the Governments’ PFM system and implement proper TSA	
6.1	By 2012, establish technical capacity to support countrywide IT infrastructure for PFM automation
6.2	By 2018, create proper TSA, in other words one Treasury account for the republican budget and local budgets, including special funds of BOs
6.3	By 2013, create opportunities for the Ministry of Finance of the Republic of Tajikistan to consolidate the state budget automatically

Tasks	
6.4	By 2012, modernise the existing IT infrastructure of the Treasury to implement all basic functions of cash management and commitment control: cash management forecasting model, commitment control, creation of function in MDCT on accounts payable and electronic signature, creation of suppliers' data base
6.5	By 2015, ensure that budget execution is being monitored and reported on with the use of a new Treasure Management Information System
6.6	By 2018, connect all Line Ministries to the TMIS system
6.7	By 2018, automate payroll management in all Main Administrators of Budget Funds
Task 7: Develop fiscal decentralisation	
7.1	In the medium term, ensure allocation of budget resources among different levels of government based on a stable, objective and transparent methodology
7.2	In the long term, ensure that local governments are financed in alignment with their functional responsibilities

Detailed description of activities within the defined tasks of the PFM reform will be respectively presented in Action Plans for the PFM Strategy with a three year horizon. Three year Action Plans will be annually updated and approved by the Coordination Council on PFM Issues.

4 Preconditions

There are three important preconditions for successful implementation of the PFM reform strategy in Tajikistan: political willingness to reform, macroeconomic stability, and harmonization of the PFM reform with the Public Sector reforms.

4.1 Political willingness to reform

PFM reforms are reflected in all strategic documents of the GoT. However, implementation of reform activities can face resistance of any reform participant to conduct PFM reforms and as a result cause difficulties. For this, the Government of the Republic of Tajikistan undertakes the responsibility to ensure political support for conduction of the PFM reforms.

4.2 Macroeconomic stability

To broaden and deepen PFM reforms the macroeconomic stability must be in place. In the last 5 years annual growth of the Tajikistan economy has comprised 8.5 per cents average. High growth rate has been also reached in industry, agrarian sector, and construction. Services sector develops with a leading speed. Revenue collection rate of the Tajikistan budget, which comprised 14 per cents to GDP in 2000, exceeded 19 per cent in 2007. By applying a strict fiscal policy there was provided budget equilibrium within a very short period of time what has allowed to solve the issue of a past-due expenditure debt and prevent generation of a new one, as well as ensure fulfilment of external commitments of the country. Nevertheless, the Tajikistan economy remains really vulnerable especially to external risks, taking into account the specific gravity of import of hydrocarbon raw materials, foodstuff, and also dependence on volumes of remittances.

Macroeconomic stability is a good basis for broadening and intensifying of the PFM reform agenda which will ensure stability and reliability of budget formulation and execution processes, strengthening viability of second generation reforms such as introducing of MTEF.

4.3 Harmonization of the PFM reform with the Public Sector reforms

International experience illustrates that the ultimate success of PFM reforms is dependent upon making progress with the corresponding public sector reform. In this connection it is necessary to closely connect PFM reform with the relevant aspects of the public sector reform. To have real changes in the PFM system, these reforms need to progress in parallel, and in some cases public sector reforms shall precede PFM reform activities. For example, attraction and retention of competent staff in the civil service can be addressed within the PFM reform for a concrete government body for a certain period of time, but in order to ensure a systematic approach these issues shall be addressed within the Public Administration Reform Strategy and shall lead within the latter one accordingly.

For successful implementation of reforms under this PFM Strategy it is necessary to: (a) improve quality of civil service training at all governing levels; (b) improve civil servants pay system; (c) modernize human resource management system; (d) clearly delineate functional responsibilities among levels of government, having assigned them adequate authorities, property and financial resources; etc. At this stage the Public Administration Reform Strategy, approved in 2006, envisages solving these issues within task 3: *Form modern professional civil service*, and task 5: *Develop administrative and territorial management*, respectively. To achieve the defined tasks the PARS foresees conduction of a number of activities, part of which is being implemented at present stage.

5 PFM Strategy Implementation Framework: structure and method

5.1 Implementation framework: management and monitoring

PFM Council

The Government of the Republic of Tajikistan has established a PFM council under chairmanship of the Minister of Finance of the Republic of Tajikistan. The PFM Council consists of all key stakeholders for PFM reforms (Decree of the President of the Republic of Tajikistan #542 of September 16, 2008). The Council has a clear mandate: (a) ensure timely development and facilitate adoption of the PFM Strategy and the detailed Action Plan for implementation of the Strategy; (b) ensure timely implementation of measures within the PFM Strategy Action Plan; (c) harmonize PFM reform with the ongoing sector reforms; (d) monitor implementation of the PFM Strategy.

Progress monitoring: Action Plan

The strategic framework of monitoring will be operationalised in Action Plans with a three year horizon. Three-year Action Plans will be annually updated and approved by the PFM Council. Action Plans shall contain clear tasks, activities and timeframe for their implementation. Action Plans will constitute the basis to monitor implementation progress of the Strategy. The PFM Council chaired by the Minister of Finance of the Republic of Tajikistan is the structure responsible for conduction of monitoring. PFM Council meetings, where progress reports will be listened to, are planned to be conducted every six months.

Outcome monitoring: PEFA

To monitor whether the reforms are implemented successfully, the PEFA methodology will be used. Quantitative targets of the PFM Strategy, defined based on the PEFA indicators, are presented below. Monitoring of achievement of quantitative targets will be conducted every four years with the use of a renewed PEFA assessment. First monitoring will be conducted in 2011 (in four years after the assessment of 2007), and then respectively in 2015, 2019.

5.2 Implementation methodology

Research has shown that separate elements of PFM reform, due to their technical complexity and wide diversity in nature, are often led by different departments/ agencies, which pay insufficient attention to the co-ordination and sequencing of reform activities. Later such situations lead to a fragmented and partial approach to PFM reforms. In this connection the GoT plans to implement the PFM reform agenda by applying a 'Platform Approach'. The 'Platform Approach' is the 'best practice' example of a process which enables any country to conduct complex PFM reforms. This approach has been specifically designed to fit the country context, and facilitate qualitative co-ordination of programmatic donor support.

This PFM Strategy aims to implement a package of activities designed to achieve increasing levels ('platforms') of PFM competence. Shift to a next reform platform will be based on prerequisites proving that certain level of technical competence and human resources capacity, required to enable further progress in reforms, has been achieved. Such approach will allow sticking to the strategic course of the reform agenda, when every next platform will represent certain result, rather than simple focus on implementation of individual short term measures and activities. In this context the PFM Strategy aims to achieve core management control within the period from 2009 to 2018, what can be named as the first platform of the PFM Reform of the Republic of Tajikistan.

Targets for Outcome Monitoring

Objective	PEFA Indicator	2009 Benchmark	2013 Target	2018 Target
Task 1: Reinforce budget stability, credibility, comprehensiveness and transparency				
1.1 Improve the quality of macroeconomic and fiscal forecasting substantially before 2012	PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+	B+
1.2 By 2012, substantially improve quality of budget expenditure planning (improved planning of extra budgetary funds and of supplementary budget)	PI-1 Aggregate expenditure outturn	B	B+	A
	PI-2 Composition of expenditure out-turn	C	C+	B
1.3 Ensure that in 2009-2012 government borrowing comply with the approved Public Debt Management Strategy	PI-17. Recording and management of cash balances, debt and guarantees	C	B	B
1.4 Starting 2011, valuate fiscal risks by 2011, mainly focussing on State-Owned Enterprises (SOEs)	PI-9. Oversight of aggregate fiscal risk from other public sector entities	C	C+	A
1.5 In 2009 develop, approve and start implementing a Plan on approaching the national accounting standards of the public sector to accrual based IPSAS for 2009-2018	PI-6. Comprehensiveness of information included in budget documentation	A	A	A
	PI-7. Extent of unreported government operations	C+	B+	A
	PI-8. Transparency of inter-governmental fiscal relations	B	B	B+
	PI-9. Oversight of aggregate fiscal risk from other public sector entities	C	C+	A
	PI-10. Public access to fiscal information	D	D+	C
1.6 Within the period of 2009 – 2012 develop and implement Unified Chart of Accounts (CoA)	PI-22. Timeliness and regularity of accounts reconciliation	B	B	B+
	PI-23. Availability of information on resources received by service delivery units	C	C+	B
	PI-24. Quality and timeliness of in-year budget reports	C	B	B+
	PI-25. Quality and timeliness of financial statements	D	C	B
1.7 Ensure that starting from 2010 the budget is formulated	PI-5. Classification of the budget	D	B	A

based on an administrative classification and starting from 2012 Annual Budget Reports are prepared based on CoA unified with Budget Classification	PI-6. Comprehensiveness of information included in budget documentation	A	A	A
1.8 Ensure presentation of one Investment Plan starting from the budget 2011	PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D+	C+
1.9 By 2012, (a) improve the efficiency and effectiveness of revenue collection; (b)develop and integrate an automated tax management system with an automated finance management system	PI-13. Transparency of taxpayer obligations and liabilities	C	B	B+
	PI 14. Effectiveness of measures for taxpayer registration and tax assessment	D+	C	B
	PI 15. Effectiveness in collection of tax payments	N.A.	C	B
	PI-16. Predictability in the availability of funds for commitment of expenditures (dimensions ii and iii)	D+	D+	C
1.10 By 2011, ensure full compliance of public procurement practices with the Law of the Republic of Tajikistan “On Public Procurement of Goods, Works and Services”	PI-19. Competition, value for money and controls in procurement	C	B	B
1.11 By 2012, develop commitment control system	PI-4. Stock and monitoring of expenditure payment arrears	C+	C+	B
Task 2: Set clear roles and responsibilities at central government level				
2.1 By 2011, clearly define the (future) PFM functions of line ministries	PI-11. Orderliness and participation in the annual budget process	B	B	B+
2.2 Conduct institutional reorganisation of the Ministry of Finance of the Republic of Tajikistan so that the organization structure of the MoF clearly reflects its main functions in the PFM-system by 2011	No PEFA-indicator			
2.3 By 2012, strengthen the role of the country’ political guidance in the process of budget formulation	PI-11. Orderliness and participation in the annual budget process	B	B	B+
Task 3: Build national PFM capacity				
3.1 By 2012, create an effective system of advanced training and re-training of personnel employed in drafting of accounting	PI-22. Timeliness and regularity of accounts reconciliation	B	B	B+

methodology in the budget system	PI-23. Availability of information on resources received by service delivery units	C	C+	B
	PI-24. Quality and timeliness of in-year budget reports	C	B	B+
	PI-25. Quality and timeliness of financial statements	D	C	B
3.2 From 2010 onwards, ensure effective coordination of donor support/ projects aimed at PFM capacity-building	D1. Predictability of direct budget support	D+	D+	D+
	D2. Financial information provided by donors for budget and reporting on project and program aid	D+	C	B
	D3. Proportion of aid that is managed by use of national procedures	D	D	C
Task 4: Improve checks and balances				
4.1 By 2012, establish an independent external audit body executing functions of a supreme audit institution of the Republic of Tajikistan. By 2014, the Parliament of the Republic of Tajikistan reviews Budget Execution Reports based on the findings of the supreme audit institution	PI-26. Scope, nature and follow-up of external audit	D	C	C+
	PI-27. Legislative scrutiny of the annual budget law	C	C	B
	PI-28. Legislative scrutiny of the external audit reports	D	D	C
4.2 By 2018, improve parliamentary inspection of public finance and services by ensuring active participation of the Parliament of the Republic of Tajikistan in debates on budget documents (activities under this task shall also include measures on building capacity of Apparatuses of Upper and Lower Chambers to conduct legal reviews, provide organizational and analytical support and collect information to support activity of members of the Parliament of the Republic of Tajikistan)	PI-27. Legislative scrutiny of the annual budget law	C	C	B
	PI-28. Legislative scrutiny of the external audit reports	D	D	C
4.3 Ensure access of the general public to major budgetary documents and policies via the official website of the Ministry of Finance of the Republic of Tajikistan by 2013	PI-10. Public access to key information	D	D+	B
4.4 By 2014, ensure that internal audit departments in ministries and departments operate in accordance with	PI-20 Effectiveness of internal control for non-salary expenditure	C	B	B+

international standards of internal audit	PI-21. Effectiveness of internal audit	D	D+	B
Task 5: Introduce policy based budgeting				
5.1 Ensure that the MTEF principle ‘top-down’ plays a large role in the preparation of the budget of the social sectors for the fiscal year 2010	PI-1. Aggregate expenditure outturn	B	B+	A
	PI-2. Composition of expenditure out-turn	C	C+	B
	PI-3. Aggregate revenue out-turn	C	C+	B
5.2 Ensure that the MTEF principle ‘down-top’ plays a large role in the preparation of the budget of the social sectors for the fiscal year 2011	PI-12. Multi-year perspective in fiscal planning expenditure policy and budgeting	D	D+	C+
5.3 Starting from the fiscal year 2016, the budget is based on the MTEF process across all sectors	PI-16. Predictability in the availability of funds for commitment of expenditures (dimensions ii and iii)	D+	D+	C
5.4 Make preparations for initiating programme and/or performance based budgeting in the long term				
Task 6: Automate the Governments’ PFM system and introduce proper TSA				
6.1 By 2012, establish technical capacity to support countrywide IT infrastructure for PFM automation	No PEFA-indicator			
6.2 By 2018, create proper TSA, in other words one Treasury account for the republican budget and local budgets, including special funds of BOs	PI-22. Timeliness and regularity of accounts reconciliation	B	B	B+
	PI-23. Availability of information on resources received by service delivery units	C	C+	B
	PI-24. Quality and timeliness of in-year budget reports	C	B	B+
	PI-25. Quality and timeliness of financial statements	D	C	B
6.3 By 2013, create opportunities for the Ministry of Finance of the Republic of Tajikistan to consolidate the state budget automatically	PI-17 Recording and management of cash balances, debt and guarantees	C	B	B
	PI-24. Quality and timeliness of in-year budget reports	C	B	B+
	PI-25. Quality and timeliness of financial statements	D	C	B
6.4 By 2012, modernise the existing IT infrastructure of the Treasury to implement all basic functions of cash management and commitment control: cash management forecasting model,	PI-17 Recording and management of cash balances, debt and guarantees	C	B	B
	PI-20 Effectiveness of internal control for non-salary	C	B	B+

commitment control, creation of function in MDCT on accounts payable and electronic signature, creation of suppliers' data base	expenditure PI-23. Availability of information on resources received by service delivery units	C	C+	B
6.5 By 2015, ensure that budget execution is being monitored and reported on with the use of a new Treasure Management Information System	PI-24. Quality and timeliness of in-year budget reports	C	B	B+
6.6 By 2018, connect all Line Ministries to the TMIS system	PI-25. Quality and timeliness of financial statements	D	C	B
6.7 By 2018, automate payroll management in all Main Administrators of Budget Funds	PI-18 Effectiveness of payroll controls	D	D	B
Task 7: Develop fiscal decentralization				
7.1 In the medium term, the budget allocation among different levels of government is based on a stable, objective and transparent methodology.	PI-8. Transparency of intergovernmental fiscal operations	B	B	B+
7.2 In the long term, local government is financed in alignment with its functional responsibilities				