

ATTACHMENT 4



THE WORLD BANK

ANNEX 1

TAJIKISTAN:

**INCREASING INSTITUTIONAL DEVELOPMENT AND PROJECT
SUSTAINABILITY**

VIA

IMPROVING PROJECT IMPLEMENTATION SET-UP

Tajikistan Country Office
Quality Unit, Europe and Central Asia

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Abbreviations and Acronyms

ADB	Asian Development Bank
FIIU	Foreign Investment Implementation Unit
GEF	Global Environment Fund
IDA	International Development Association
IDB	Islamic Development Bank
IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFI	International Financial Institution
MOF	Ministry of Finance
NSIFT	National Social Investment Fund of Tajikistan
OCPS	Operations Policy and Country Services
PDPG	Programmatic Development Policy Grant
PIP	Public Investment Program
PIUs	Project Implementation Units
SWAp	Sector-wide Approach

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“The Paris Declaration on Aid Effectiveness¹ adopted at the High-Level Forum in March 2005 reaffirmed the donor community’s commitment to align their programs to national development strategies, institutions and procedures. It identifies a reduction in the number of parallel project implementation units (PIUs) as one of the key actions the aid community could take to promote greater capacity development within our borrowers, and thus increase aid effectiveness.”

From the foreword of Mr. James W. Adams, WB Vice President, (Operations Policy and Country Services) to the Guidance Note for Project Management.

I. Introduction²

A. Background

Tajikistan is a fragile transition country facing the challenges of second generation reforms. Soon after independence in 1991, Tajikistan was confronted with severe challenges. The economy had to grapple with the loss of large fiscal transfers, sharp deterioration in the terms of trade, severe natural disasters for three consecutive years and eruption of civil war which paralyzed the economy. Between 1991 and 1999, the GDP contracted by about 60 percent. Despite strong growth of about 9 percent per annum in the past five years and impressive poverty reduction from 82 percent in 1999 to 58 percent of the population in 2004³, the country is still fragile – it is the poorest CIS country with US\$350 GDP per capita in 2005. It is well understood that Tajikistan needs to both broaden and deepen structural reforms to sustain a positive development path.

Public administration is the priority reform area as indicated in the country’s vision statement, the National Development Strategy (NDS), which covers the period until 2015, and the mid-term second Poverty Reduction Strategy (PRS2.) for 2007-2009. In March 2006, the President endorsed the Public Administration Reform Strategy (PARS), aimed at reforming the set-up of the executive in order to increase its efficiency, and effectiveness, and improve the quality of its services and access of the people to these services at both the central and local levels. Among the various measures indicated in the PARS time-bound action plan are actions aimed at streamlining the functions of the line ministries and improving their capacity. Both NDS and PRS2, which are currently being finalized by the Government with donor support, have public administration reform as the key cross-cutting issue, given its strategic importance. Based on the Country Partnership Strategy for 2006-2009, IDA is providing financial support to PARS implementation through the Public Sector Reform Project and the Programmatic Development Policy credits.

¹ Signed, among others, by the World Bank and the Republic of Tajikistan.

² The paper was prepared by Aziz Khaidarov, Country Officer for Tajikistan. Zafer Ecevit, ECSPS consultant, contributed to the analysis. Valuable advice and guidance were provided by Sally Zeijlon, Regional Operations Advisor for ECA, and Cevdet Denizer, Country Manager for Tajikistan.

³ Based on the WB Household Energy Survey of 2004.

Country systems are being reformed⁴. Tajikistan has got a new public procurement law providing the basis of transparent, economic and fair decentralized procurement system. Currently the Public Procurement Agency is preparing for full implementation of the law, with supported through an IDF grant. The Institutional Development Plan of the State Financial Control Committee is being finalized now, and will provide for a road map for improving the public external audit function, capacity and accountability. This is expected to be finalized in November 2006. An internal control strategy for public finance is also being finalized by the Ministry of Finance, and is expected to be adopted by the end of this year. In the end March 2007, with the support of the Public Sector Reform Project, a comprehensive public financial management development strategy is expected to be developed, and its implementation would supported by various donors, including IDA.

Donor-financed public investments constitute a significant share of GDP. While total investments in 2004 and 2005 accounted for 13.5 and 11.5 percent of GDP respectively, externally financed public investments reflected in the donor-funded Public Investment Program (PIP) were in the range of 3.1 to 3.4 percent of GDP. IDA and ADB⁵ together financed 55 and 66 percent of the PIP in 2004 (≈US\$83 million) and 2005 (≈US\$95.4 million), respectively. The rest of the PIP was covered by the financing provided by the Islamic Development Bank⁶, Kuwait and OPEC Funds, EC, DFID, SDC/Seco, SIDA and a number of other bilateral donors.

The joint WB-ADB 2005 Country Portfolio Performance Review (CPPR) identified project implementation arrangements as a factor affecting project sustainability and institutional development impact. The WB’s Independent Evaluation Group (IEG) review of the completed IDA-funded public investment projects in Tajikistan shows that only 30 percent had substantial institutional development impact, and only 60 percent were likely to be sustainable (Table 1). These facts raised an objective concern both in the Government of Tajikistan and the Bank on the real “value added” of the projects. The joint 2005 CPPR Action Plan proposed to conduct a review of the existing implementation mechanisms and provide practical recommendations on their improvement.

<i>Institutional Development</i>	<i>Substantial</i>	<i>Modest</i>	<i>Negligible</i>
Number of Projects	3	6	1
<i>Sustainability</i>	<i>Likely</i>	<i>Unlikely</i>	

⁴ Country systems are defined as in the Paris Declaration: “Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.”

⁵ In total since 1998 ADB has provided US\$ 261 million, out of which US\$106 million have been disbursed. The current portfolio comprises 11 projects, for which committed funding totals US\$138 million, out of which US\$44 million have been disbursed. ADB is supporting projects in infrastructure (energy, roads, and irrigation), the social sector (education and health), customs and micro-finance.

⁶ In total since 1997 IDB has committed US\$108 million, out of which about US\$42 million has been disbursed. The current portfolio comprises 11 projects to the total amount of US\$65 million out of which US\$3.2 million has been disbursed. IDB is focused mainly on infrastructure investments.

Number of Projects	6	4	
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Table 1. WB IEG Project Ratings on Sustainability and Institutional Development

Tajikistan has received substantial multi-donor funding for education sector development. Apart from the IDA-funded US\$20 million Education Modernization Project and other various donor-supported initiatives, Tajikistan received US\$9.2 million in grant funding out of the global FTI catalytic fund for implementation of the National Education Sector Development Strategy for 2006 and is eligible to receive the same amount in 2007. The FTI program also envisages fiduciary capacity building in the education sector. The Bank has carried out a fiduciary capacity assessment of the education sector, and a two-stage approach is proposed, where the first phase will focus on Ministry of Education in 2006-2007, and the second stage will be devoted to the education sector in general in 2007-2008. Each stage is estimated to cost about US\$420,000.

B. Focus and Objective

This analysis is *focused* on the existing framework for implementing the IDA-financed public investment projects in Tajikistan. The review of the framework covered the relevant legislation, government institutional framework, national and sector policies and reform plans, current practices of project implementation, the CPS and project reports, and line-ministry and PIU capacity. Meetings with representatives of the Executive Office of the President, all PIUs, some key line-ministry staff and WB task teams were held to obtain firsthand information.

The paper's *objective* is to provide practical country-tailored short- and medium-term recommendations that could become the basis for a program of actions to improve the institutional development impact and sustainability of donor-funded public investments. It is important that such a program should not compromise fast delivery, transparency and the economy of project implementation via strict adherence to acceptable fiduciary systems, timely disbursement and results on the ground.

The finding of the analysis, recommendations and proposed actions are intended to be discussed at the 2006 CPPR, and be possibly reflected in the joint CPPR action plan. Apart from the long-term gains, implementation of the proposed recommendations will also help Tajikistan realize the provisions of the Paris Declaration.

II. Project Implementation Mechanism

A. Project Implementation Units

Emergence of PIU in the mid-1990s was a function of many objective factors, which, however, have changed over time. The macroeconomic and political instability in the country, collapse of public sector real wages and concomitant exodus of experienced civil servants severely curtailed the capacity of the line ministries and other key Government

agencies. To assure prompt and efficient project implementation as well as compliance with the fiduciary safeguards of the IFIs, the WB and other IFIs supported the initial establishment of Project Implementation Units (PIUs) outside the normal structure of the line ministries, with independent budgets and authority to implement the Government’s donor-funded projects. However, with the country’s becoming stable to the extent that it is able to carry out public administration reform, and the increasing volumes of external aid coming in to support public investment projects, it is timely to review the approach to managing donor-funded public investment projects.

PIUs get the job done. The PIUs were by and large successful in delivering the goods and services promised by the projects, and avoided significant delays in implementation (see Table 2). This finding is supported by IEG reports indicating the the Borrower’s project implementation performance was satisfactory in seven out of ten of the closed projects. Utilization of the financing has been also fast enough as disbursement ratios for the last three fiscal years show: 15.7 percent in FY04, and more than 36 and 29 percent in FY05 and FY06 respectively, higher than the average disbursement ratios in ECA and Central Asia over the same period. There are no problem projects among the 16⁷ currently in the IDA portfolio.

Table 2. WB IEG Project Ratings on Outcome and Performance
(10 Closed Operations)

Ratings	HS	S	MS	U	HU
Outcome	-	5	4	1	-
Bank Performance	1	7	-	2	-
Borrower Performance	-	7	-	2	1

All WB-funded projects are implemented by dedicated structures. Out of the fifteen WB-supported investment projects currently under implementation, nine are implemented by “stand alone” or enclave PIUs, three by semi-integrated PIUs, two by fully integrated PIUs, and one by a semi-autonomous agency⁸. Fully integrated PIUs are in the revenue earning entities (see Table 3).

PIUs inherit projects. Two PIUs (health, education) are implementing their second, scaled-up projects. These PIUs have been involved in the design and preparation of the new projects. One PIU is implementing three projects in agriculture and irrigation. With the exception of one, all “enclave/stand alone” PIUs are physically located in their respective line ministries.

There can be numerous PIUs in one sector. None of the implementation units responsible for WB-supported projects serve projects funded by other donors. Anecdotal evidence shows that in some sectors, for example, education, as many as three or four

⁷ 15 investment and 1 policy lending operation.

⁸ See Annex 1 for the definition of the PIU typologies.

donors (WB, ADB, IDB, and OPEC Fund) finance projects implemented by separate PIUs.

Active Projects ⁹	PIU Typology ¹⁰				Cost (million US\$)			Implementing Agency
	Stand- Alone	Semi- Integ.	Fully- Integ.	Semi- Auto. Agencies	Total Proj. Cost ¹¹ (a)	PIU Cost ¹² (b)	(b)/ (a) %	
1. Municipal Infrastructure Dev.	X				16.50	0.8	5	Tajik Commune Service
2. Community and Basic Health	X				17.20	0.64	3.7	Ministry of Health
3. Ferghana Valley Water Res.Man.	X				14.20	0.65	4.6	Ministry of Water Resources and Irrigation
4. Energy Loss Reduction			X		30.00	---	---	Ministry of Energy/Tajik Gas/Barki Tajik
5. Land Registration and Cadastre	X				10.60	0.77	7	State Land Committee
6. Community Ag. And Watershed Man.	X ¹³				15.29	2.75	18	Farm Privatization Support Center
7. Education Modernization and FTI	X				33.4	1.44	4.3	Ministry of Education
8. Pamir Private Power			X		26.40	---	---	Pamir Private Power Company
9. Dushanbe Water Supply	X				19.43	0.72	4	Dushanbe VodoCanal
10. Poverty Alleviation 2				X	18.28	1.85	10	National Social Inv. Fund of Tajikistan
11. Lake Sarez Risk Mitigation		X			4.29	0.11	2.6	Ministry of Emergency and Civil Defense
12. Rural Infrastructure Rehab.	X				24.00	2.89	12	Ministry of Water Resources and Irrigation
13. Public Sector Reform		X			5.00	0.41	8	Exec. Office of the President
14. Strengthening National Statistics		X			5.10	0.25	5	State Statistics Committee
15. Avian Flue Risk	X				5.00	0.3	6	Farm Privatization Support Center
TOTAL	7	3	2	1	244.4	13.8	5.6	

Table 3. Active World Bank Projects – PIU Typology and Costs

⁹ Excludes three IDF and one small GEF TF.

¹⁰ Source for typology: OPCS, Strengthening Institutional Capacity during Project Implementation, 2005. See Annex 2 for definitions of typologies.

¹¹ Source: Project Appraisal Documents.

¹² Source: Project Appraisal Documents and, where available, information from relevant PIUs.

¹³ This project, Rural Infrastructure Rehabilitation Project and the Avian Flue Project are implemented by one PIU.

There is a similar situation in the health sector, where IDA and ADB support projects also implemented by two separate PIUs.

PIUs are legally autonomous and disconnected from line ministries. All PIUs are established as independent public institutions by a Government Resolution and have Project Steering Committees that meet regularly to facilitate project coordination and monitor implementation progress. PIUs enjoy a high degree of independence in their operational work, in allocating their budgets and in managing human resources. The degree of coordination and cooperation between the PIUs and their respective line ministries, including with respect to the exchange of information on project implementation, is weak in general, but varies from poor in agriculture to good in health.

PIUs consist of both fiduciary and technical staff. A typical PIU is staffed by a Director (appointed by a Government Resolution), a Deputy Director or Project Manager, Administrator, Chief Accountant or Financial Management Specialist, Cashier, Procurement Specialist(s), Monitoring and Evaluation Specialist, Information Technology Specialist, translator(s), relevant specialists depending on the substance of the project¹⁴, and support staff. Selection of staff follows WB procedures.

There is a determined salary scale for PIU staff. All staff working full-time on the PIU payroll receive their salary based on the ceilings determined by the Resolution of the Government¹⁵. The mechanism and methodology of establishing PIU salary levels needs to be clarified and possibly improved in order to ensure competitiveness and the ability to attract qualified staff. Staff turnover rates are generally low despite some staff drain to other donor agencies which are not subject to the Government's PIU staff salary ceilings¹⁶.

Staff continuity between PIUs and line-ministries is weak. There is no secondment of staff from the line ministry to the PIUs. Line ministry staff have to resign from the civil service to take posts with the PIUs. On average, less than 20 percent of the PIU staff have line ministry origins.

On average PIU costs¹⁷ are about six percent of the total project costs. In absolute numbers, a rough estimation of PIU cost in the portfolio of IDA-funded public investment projects is about US\$14 million. The highest costs are associated with rural development projects, which to some extent can be explained by the community approaches and the necessity of having significant local presence. In contrast, the low cost of PIUs in the repeater or scale-up projects, can be seen in the education and health projects. An example of the economies of scale

¹⁴ Such as, for instance, specialists on textbooks, student knowledge assessment, teacher training, curriculum development and alike in the education project.

¹⁵ Resolution of the Government from March 31st, 2003, no. 119.

¹⁶ PIU Director gross salary is maximum US\$530 per month. Staff at specialist level earn US\$200. For comparison: deputy minister's salary could be about US\$50-60, while specialist at a ministry would earn about US\$30-40 per month.

¹⁷ Although the full cost is not always explicitly recorded, it was possible to estimate PIU costs [based on the available project documentation] as the incremental operating cost associated with the functioning of PIU (and in some cases, additional PIUs at the local level), i.e. PIU staff salaries, expenditures on communication, utilities, printing, office rent, maintenance and supplies, office security, transportation and field trips, etc.

resulting from using an existing PIU is in the education sector, where the PIU is being used for a second education project, and has also been assigned the implementation responsibility for the FTI. In the health and education PIUs, the staff salaries are estimated to be up to 70 percent of the total implementation budget.

Establishment of “enclave” PIUs in a fragile county such as Tajikistan has two long-term “distortion” dimensions: institutional and functional. *Institutional distortion* is caused by the fact that in a country with emerging public administration and civil service systems additional government structures are created; these have exceptional functions, status, and staff recruitment and remuneration practices. *Functional distortion* is created by the fact that instead of building the capacity of line ministries and other government agencies to execute the function of managing capital investments in their sectors, this task is given to specially created public institutions of a temporary nature.

B. Line Ministries

In general project implementation capacity is weak in line ministries. The ministries are in no position to manage the function of implementing PIP projects efficiently and effectively due to the outflow of experienced managers and staff, outmoded human resource and information management systems, and weak financial management, procurement and monitoring and evaluation systems. Therefore, for most government executed projects, project implementation has relied on enclave PIUs. However, in some instances, depending on the nature of the project, there have been other arrangements. Examples of this include: the Aga Khan Development Network (an NGO) and the Pamir Private Power Company, in the case of the Pamir Private Power Project; the National Social Investment Fund, for the Second Poverty Alleviation Project; the state-owned enterprises Tajik Gas and Barki Tajik in case of the Energy Loss Reduction Project, and some better positioned government structures (Executive Office of the President).

There is a disconnect between the project, sector and national dimensions of donor-funded public investments. The current prevailing vision of the donor-funded public investment is at the project input-output level, i.e. the speed and magnitude of disbursements, number and quality of units of physical infrastructure completed, number of people trained, etc. The development impact does not receive due attention. PIUs are rightly interested in delivering the project, while the implementing agencies (ministries and government agencies) in most of the cases, apart from their weak implementation capacity, lack comprehensive sector development strategies with clear sector objectives, which could contribute to the attainment of the national mid-term development objectives set in the PRSP. The logical framework linking project inputs, outputs and objectives with sector targets and national goals has yet to be established and tracked.

Line-ministries are overly focused on routine work and approach donor-funded public investments on an ad hoc basis. The situation in Tajikistan suggests that ministries and agencies spend most of their time and efforts on bureaucracy and process. Although these are understood to be necessary, it is important that they should not fully occupy Government agencies: designing and implementing sector reforms and investments should not be residual

activities. Due to the lack of comprehensive sector strategies, the management and oversight of the reform process supported by donor-funded public investments occurs on an *ad hoc* basis without proper orientation on results.

The overall government structure needs optimization. Rights, responsibilities and functions of the line-ministries are not clearly defined, and they bear some remnant features of the planned economy. There is an overlap and insufficient clarity between the functions of the ministries and the President's Office. PIUs created by the Government as independent public institutions add confusion to the already somewhat confusing Government framework.

Implementation of PARS is intended to streamline the functions of government agencies. Currently under the Public Sector Reform Project, horizontal review of the central government is being carried out which will result in elimination of unnecessary and overlapping functions of ministries, agencies and the President's Office. Subsequently, it is also intended to support functional reviews and implementation of their recommendations at the ministry/agency level to build ministry capacity under the given fiscal constraints.

Civil Service Reform is progressing. The necessary civil service regulatory and institutional framework has been created by adopting and updating the Law on Civil Service and establishing and strengthening the Civil Service Department under the President's Office. Civil service wage reform has been initiated, resulting in consolidation of payments, better decompression and some increase of salaries. Various donors, including the Bank through the Public Sector Reform Project and the Programmatic Development Policy Financing, are supporting the civil service reform.

In light of the public administration and civil service reform, Government is genuinely interested in building the project implementation capacity of ministries and agencies. It is broadly accepted within the Government that PIUs are to be seen as an interim measure; now the situation is ripe for transferring the function of project implementation to restructured/modernized line-ministries. The practice also shows that a critical mass of capacity has been developed in the country, sufficient to accommodate the shift in responsibilities for the implementation of public investment programs.

III. The Way Forward

In this section we propose both short and mid-term nature measures, keeping in mind the need to minimize the economic cost and elapsed time for project implementation in the shift to any new implementation arrangement. Economic costs can rise due to the slowing down of project implementation and disbursements. The longer the project life, (i) the larger are the costs incurred by the borrower/recipient on the commitment fee, (ii) the less favorable is the assessment of the portfolio performance, which in its turn affects the IDA allocation, and (iii) the larger are the expenditures of the Government and the Bank for supervision of the project.

A. Short Term Measures

Significant improvements in project implementation will take time. The above analysis shows that there is no fast working recipe for meaningful improvements in institutional development and project sustainability. Even with the best efforts of the Government and the donors, only some of the line ministries will be able to assume partially or fully the function of implementing their sectoral donor-funded investment projects by 2009. Nevertheless, until then, there are a number of steps the Government and the WB can take to improve institutional development, project sustainability and especially reduce the cost of PIP implementation.

For donor-funded Government executed investments it is recommended to have one PIU per sectoral implementing agency. For implementation of future projects, it is recommended to use existing PIUs, gradually reducing their number in the sector. For example, with relevant strengthening, the PIU for the Ferghana Valley Water Resources Management Project could be used for all other future donor-funded projects in the irrigation and water resource management sector. In this respect, it is worthwhile to mention the encouraging Uzbekistan experience with the PIU implementing health projects financed by the WB and ADB. This PIU has a joint unit for procurement and financial management, but two separate units for “technical” aspects of the project. The PIU is managed by one Director. The Bank staff estimate cost savings at about one third of total implementation cost. Thus, using one PIU would enable the Government to benefit from the economies of scale, and also significantly improve coordination of and accountability for sector investment.

At the multisectoral level, it is also recommended to follow a “one PIU per reform direction” approach. There are several cross-cutting reform directions in Tajikistan, which require and obtain significant donor financing. These reform areas are public administration reform, private sector development, public expenditure and financial management reform, cotton sector development, and land reform. It is obvious that given the multisectoral nature of these issues, many ministries and agencies are supposed to be involved in project implementation. In such cases, a duly authorized and well coordinated PIU, subordinated to the inter-ministerial working group in charge of implementing a reform program could be given the responsibility for coordinating and organizing the implementation of related project(s) financed by various donors. Exactly this approach is planned for the implementation of the Cotton Sector Modernization Project to be financed by WB and ADB, where the Government plans to establish a PIU on the basis of the already functioning project coordination team, which would be subordinated to the Independent Commission on Resolution of the Debt of the Cotton-Growing Farms.

For organizing the implementation of sectoral and multisectoral projects, it is recommended to follow the examples of the Strengthening National Statistical System Project and Public Sector Reform Project, respectively. In both options there are no enclave PIUs established in the form of public institutions, and all responsibility is given to the relevant sector/government agency, which is technically supported by a team of the local consultants. If possible, in the multisectoral projects it is recommended to outsource fiduciary issues to a capable agency or institution, leaving substantive project issues to the team of technical experts. A detailed description of implementation set-ups of the two above-mentioned projects is given in Annex 2.

Apart from the above measures, there are a number of practical actions to enhance line-ministry involvement in project implementation:

- WB missions should encourage the involvement of line-ministry staff in project supervision and PIU field visits;
- The process for PIU staff recruitment could give greater weight to sector experience in the selection criteria;
- Critical PIU technical staff should be physically located at the line-ministry to encourage closer working relations with the relevant ministry staff and structures;
- PIU training programs should be planned with the line-ministry and open to line-ministry staff;
- WB and Government managers at all levels should keep project implementation arrangements and measures to improve institutional development and project sustainability in their “check lists” when reviewing initial project designs, appraisal reports, and project implementation reports. QAG reviews could also include the review of these issues in their “special emphasis” lists.
- Implementation approaches used in earlier projects should be reviewed and analyzed to find what worked, what did not work, and why.
- Finally, the Government and the Bank should ensure thorough evaluation of all possible project implementation approaches for newly proposed projects, particularly considering their complexity since implementation capacity varies among Government agencies. Innovative approaches should be encouraged.

B. Medium Term Measures

Medium term measures are for the time horizon of 4-5 years. It is important to embed them in the framework of the public administration and civil service reform, improving country systems in general, and available sector-wide donor support initiatives in particular.

It is recommended to pilot integration of the project implementation management function in the education sector. Given the availability and continuity of funding in the education sector, as well as the Ministry’s commitment and growing capacity, it is recommended, after completion of the first stage of the fiduciary capacity building, to pilot transfer implementation of at least one donor-funded education project to the relevant structures of the Ministry of Education. Quarterly progress reviews should be done to pro-actively resolve emerging issues. Lessons learnt should be presented during the annual 2007 CPPR. The goal would be to have the 2009 education operation be a SWAp, fully implemented by the Ministry.

Within the vertical review of line-ministry and government agencies and subsequent restructuring it is recommended to pay particular attention to building their capacity for managing donor-funded public investments. After completing the horizontal functional review of the central government agencies, it is envisaged carry out vertical reviews of all ministries to optimize their functions. Strengthening ministry project implementation capacity and introducing the program approach to reform management seem to be issues of priority. Nevertheless, this is likely to happen at earliest in 2009.

Comprehensive results-based and PRSP-oriented sector strategies should be developed.

Firstly, this will allow filling in the “sector gap” in terms of establishing a proper link between domestically and externally financed public investments and sector targets, i.e. logically connecting project inputs, outputs and objectives with sector targets and national goals. Secondly, this will streamline the work processes of the ministries and agencies by switching the focus of their work from process to results.

The civil service salary system needs further improvement to ensure competitiveness. Within the public administration reform and taking into account fiscal constraints, it is important to optimize both the number of civil servants and their salary level. The current civil service system seems to be overstaffed and inefficiently used, leading to suboptimal utilization of available scarce resources allocated for civil service salaries. Low salaries are the plague draining qualified staff out of the ministries and discouraging new people from coming. Given the growing donor assistance to Tajikistan and the high demand for professionals with donor-funded project implementation experience (managerial, fiduciary, M&E), it is recommended to develop special incentive schemes to attract such people to the civil service (as proposed for IT staff). This could be done within a year’s time.

Improving country public procurement and financial management systems to an acceptable level will inevitably result in full integration of implementation of donor-funded projects.

It is recommended to pay particular attention to developing relevant strategies and action plans for aligning country fiduciary systems with internationally recognized standards to make them acceptable to donors. Particular attention is to be paid to sufficient capacity building of the line-ministries and agencies to enable a swift and minimum-cost shift to the use of country systems in implementation of Bank- and other donor-funded public investment projects. Acceptable country systems will also significantly facilitate introduction of the sector-wide approach in investment operations and larger reliance on development policy instruments.

Annex 1

PIU Typology¹⁸

- **“Stand-alone” or “enclave” PIUs** are generally considered most detrimental to long-term institutional development. They are typically created outside the structure of an implementing ministry/agency. They often recreate (or even duplicate) functions and capabilities of the ministry that oversee the sector, and are responsible for all implementation in a “turnkey” fashion, handing over the completed project to the administration for operation.
- **Semi-integrated PIUs** partially use existing structures augmenting them with some capacity. For instance, a PIU may be headed by one of the directors responsible for the project area, while long-term technical assistance and/or specialists address some functions and capabilities. Alternatively, a ministry may retain responsibility for managing content (e.g., planning, finance, administration) while outsourcing the fiduciary management of Bank-financed project (procurement, financial management and reporting).
- **“Super” PIUs**, a variant of the stand-alone or semi-integrated type, handle multiple projects in a sector (financed by different donors), multiple sectors financed by a single donor, or related projects in a region. The key difference from the first two types is that these PIUs consolidate the management functions of several donors’ and countries’ projects. While such PIUs do not integrate all PIU functions into the government structures, they do reduce the number of PIUs.
- **Semi-autonomous agencies** are structures outside regular government structures (either newly created or already existing) that serve as project implementing agencies for programs (newly created social funds or independent “authorities”). These agencies assume all PIU functions, thus obviating any need to create an additional project implementation unit.
- **Fully integrated PIUs** promote institutional development, as the project implementing agency/ministry takes full responsibility and implement a project using its own structure and staff. In some cases, the ministry may reassign staff to carry out project activities by releasing them from other ministry functions. Fully integrated PIUs may be supported by limited technical assistance for specific areas that require additional skills or expertise.

¹⁸ Source: OCPS Guidance Note for Project Management, October 2005.

IMPLEMENTATION ARRANGEMENTS¹⁹

A. Strengthening National Statistics System Project

Taking into account of the fact that the project is aimed at improving the statistical system of the country it will be required to ensure appropriate level of commitment and support of various government agencies and ministries. In order to ensure this a Project Steering Committee (PSC) will be established by the Government. The PSC will include the Presidential State Advisor on Economic Policy (chairman), the Chairman of GKS, Deputy Ministers from Ministry of Finance and Ministry of Justice who are familiar with the project and the Head of ACU. The PSC will meet twice a year to perform the following key functions:

- Ensure efficient interdepartmental (inter-ministerial) interaction and resolve interdepartmental (inter-ministerial) issues;
- Endorse project implementation plans;
- Exercise monitoring and evaluation of project progress on a bi-annual basis;
- On annual basis report to the Government on project implementation status and, if necessary propose improvements.

GKS will be the main executing agency of the project and will be responsible for its overall management and implementation. To effectively carry out the implementation and daily project administrative work, there will be a Project Coordination Team (PCT) of up to 5 persons. A project coordinator who is an expert in project management, a financial management specialist, a procurement specialist and an assistant (probably a driver, too) will be hired by the GKS. Specifically, this unit will coordinate day-to-day project activities, manage reporting and auditing activities and ensure compliance with the procurement, disbursement and financial management policies and procedures. PCT will report to the chairman of GKS or other delegated person and will fulfill the following key functions:

- a. Interact with the Bank and other donors;
- b. Interact with relevant government bodies at central and local levels on project implementation issues;
- c. Interact with relevant GKS departments both at the central and local levels on project and MISP implementation issues;
- d. Manage a program of monitoring and evaluation for the project;
- e. Prepare draft progress reports for review and finalization by the GKS and further submission to the Project Steering Committee;
- f. Ensure communication and publication of the project results, in particular at the GKS web-site.

¹⁹ Source: Project Appraisal Documents.

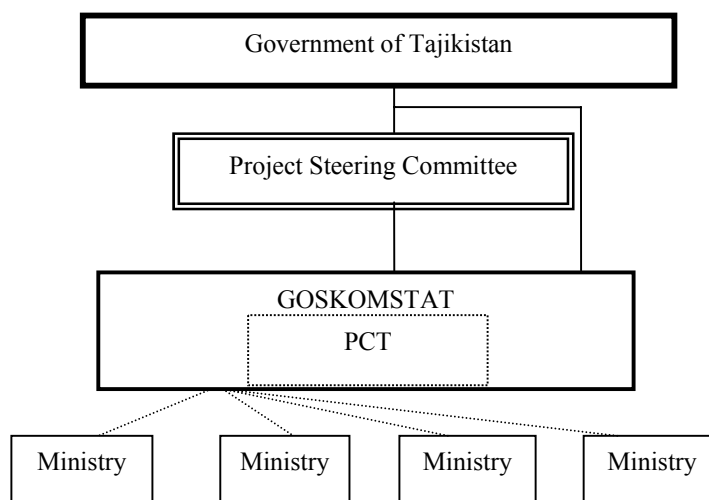
All other aspects of the project would be implemented by relevant GKS staff with the assistance of local and international consultants. Please also refer to Figure 1 below for project implementation arrangements.

It is the Bank’s policy to gradually discontinue the use of stand-alone entities created for the purposes of project implementation. This policy has found its full reflection and support during the last CPPR conducted jointly with the Government, the Bank and ADB. After internal consultations and discussions with GKS and the Government it was agreed to use the previous implementation set-up utilized by the Strengthening the National Statistical System project funded by a TFSCB grant. Given the good implementation capacity experienced during the previous project and high commitment of GKS, it will be possible to effectively carry out the implementation and daily project administrative work.

A project implementation manual will be prepared to set the framework of rules by which the project coordination team will manage the project, under the World Bank regulations for financial management and procurement. The manual will also include written job descriptions for each member of the team that clearly define responsibilities, lines of supervision, and limits of authority. An appropriate training program which will include World Bank financial and procurement management procedures will be designed for staff and will start prior to project effectiveness to ensure that the project team is active and ready to operate at project effectiveness. The allocation of responsibilities should enable the appropriate separation of duties to ensure proper accountability. The team will produce all necessary reports on financial and procurement activities as requested by the World Bank and described in the manual of procedures.

The project will support salaries for the unit; consultants services for monitoring and evaluation studies, audits, project reviews and the production of the Procedure and Project Implementation Manuals; and furniture and equipment for the unit.

Figure 1. Proposed Implementation Set-Up.

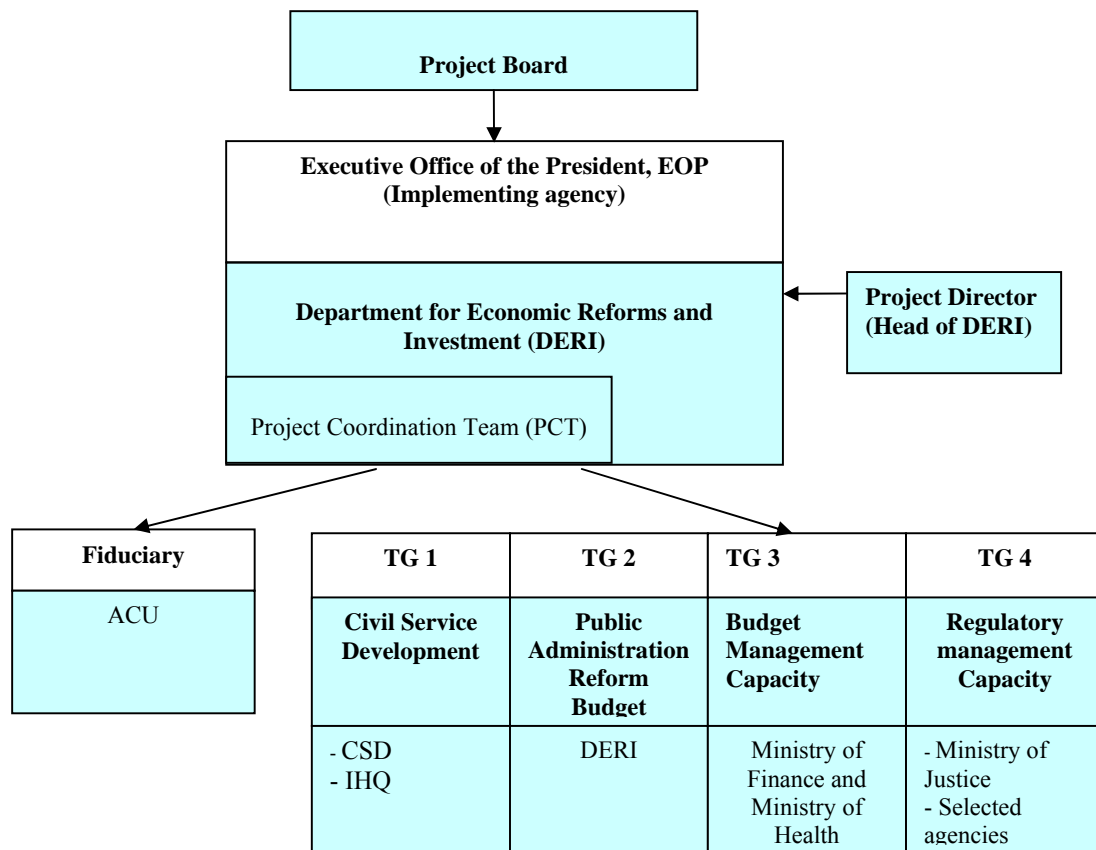


B. Public Sector Reform Project

Project implementation arrangements are set out in Figure 1 below, and have been designed to meet the following requirements:

- Guarantee to the highest degree possible political ownership;
- Ensure unification of management of governance reform implementation and project implementation;
- Ensure agency level involvement and ownership;
- Create strong checks and balances between different elements of the system.

Figure 1: Project Implementation Arrangements



Political ownership is to be guaranteed by the Project Board (PB), which will consist of members of the President’s Working Group (PWG), set up for the purposes of developing the Public Administration Reform Strategy. The Project Board will meet quarterly and perform the following key functions:

- Ensure efficient interdepartmental interaction & resolving interdepartmental issues;

- Endorse project implementation plans, procurement plans, project budget;
- Exercise monitoring and evaluation of project progress on a quarterly basis;
- Approve members of Project Coordination Team and experts nominated as members of evaluation committee from each Ministry.

The unification of management of governance reform and the project will be ensured by vesting project management in the Executive Office of the President. Thus, the Executive Office of the President will be the Project Implementation Agency. The DERI, in line with Presidential Order AP-2017 from January 4, 2006, is responsible of the overall implementation of the project. Within the framework of the Project, DERI will also coordinate the realization of the PARS. The Head of the Department will act as the Project Director. The DERI will report to the Project Board on project-related matters.

Checks and balances will be strengthened by vesting procurement and financial management functions in the Aid Coordination Unit under the Executive Office of the President. This is to ensure that fiduciary functions are vested in an appropriate institution, with existing capacity on Bank fiduciary management. It is also in line with policies on project implementation mechanisms agreed between the Government and the Bank, which are to vest implementation functions in existing state institutions. As per Presidential Order AP-2017 of January 4, 2006, the ACU will be responsible for performing the procurement and financial management functions related to project implementation, while DERI will be responsible for the definition and implementation of project substance.

This model of split execution (based on the modality used in a similar Bank-financed project in Armenia) will ensure that procurement and financial management functions are vested in a qualified unit that, while being accountable to the implementing agency has a separate legal status and is thus more suitable to fulfill fiduciary management functions than the EOP. One procurement and financial management specialist will be hired to perform the additional work load generated by the project. The reporting relations between the ACU and the Reform Unit are defined in the Project Operational Manual.

DERI EOP will be supported by a ***Project Coordination Team (PCT)*** comprised of civil servants responsible for project implementation in EOP and consultants funded by the Project. PCT will take charge of the day-to-day project management. PCT will be an integral part of the DERI EOP. The PCT will report to DERI, EOP, and will fulfill the following key functions:

- g. Interact with the Bank and other donors;
- h. Interact with relevant government bodies;
- i. Manage a program of monitoring and evaluation of public sector reform as a whole and the project in particular;
- j. Prepare progress reports for review by the Project Board;
- k. Provide training and consultation to key ministries' staff nominated to prepare terms of reference and participate in evaluation of proposals;
- l. Ensure communication and publication of the project results.

The consultants that will support the work of the PCT in day-to-day aspects of project implementation will be hired under the Project Preparation Facility and will be in place by the time of negotiations.

Agency level ownership will be strengthened by creating inter-ministerial Technical Groups that would be formed on four substantive aspects of project implementation. The Technical Groups, which will be formed of representatives of the ministries participating in individual components, would have the responsibility to draft initial ToR for activities to be conducted under the project for approval by the Project Board and ‘No Objection’ by the Bank, and monitor the implementation of activities related to their area of expertise. To ensure transparency and joint accountability, a list of officials nominated to Evaluation Committees on behalf of each Technical Group will be endorsed by the Project Board.

The following four Technical Groups are being constituted:

- Technical Group 1: Civil Service Reform (Executive Office of the President, Civil Service Department and Institute for Higher Qualification of Civil Servants)
- Technical Group 2: Administrative Reform (Executive Office of the President)
- Technical Group 3: Budget Management Capacity (Ministry of Finance and Ministry of Health)
- Technical Group 4: Regulatory Management capacity (Ministry of Justice and selected pilot agencies)

The Technical Groups will be formally established by the time of Negotiations.

In addition, in order to ensure the effective implementation of project activities by the beneficiary, each of the individual institutions involved in the project will, by Board date, (i) designate a structural unit responsible for implementation of said Part of the Project, (ii) designate specified staff, of adequate experience and qualifications, responsible for implementation and oversight of said Part of the Project, and (iii) specify the role and responsibilities of said unit vis-à-vis the ACU and the DERI in respect of procurement of goods and services and the selection of consultants for the carrying out of the related part of the Project.

The Project Operational Manual, detailing the above implementation arrangements, has been drafted and submitted to the Bank on March 1, 2006, and has been subsequently endorsed.

Monitoring, Evaluation and Communication functions are vested in DERI, and will include the following:

- Tracking progress in public administration reforms overall. This will include the design of a monitoring system which will track implementation of key activities included in the Public Administration Reform Strategy based on objective data;
- Developing mechanisms for efficient communication of key objectives and achieved results of the reforms. A clear communication strategy supporting the implementation of public administration reform as well as providing publicity and on project activities will be developed and implemented.

- Conducting surveys to track project implementation. This will support the monitoring and evaluation function of the project and will include the design and implementation of service delivery, public officials, and other surveys/studies that will allow monitoring and evaluating the progress in project implementation.

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ANNEX 2

Selected Readiness Indicators, WB-financed projects	Project Phase	Applicable?		Ready?		<u>To do, by whom, when</u>
		YES	NO	YES	NO	
Team of staff responsible for implementation established, staffed, and operational <ul style="list-style-type: none"> Core staff in place (Manager/Coordinator, FM, Procurement, M&E) Organigram available, with agreed TORs, staff list, letters of appointment 	Appraisal					
M&E system in place <ul style="list-style-type: none"> Baseline established; performance indicators agreed; data collection strategy in place Completed Annex I in PAD, ready to migrate to ISR 	Appraisal					
Procurement and Financial Management arrangements agreed, and in place: <ul style="list-style-type: none"> Manual of Procedures ready (for FM and procurement, incl. Safeguards) Organizational assessment recommendations implemented Procurement Plan ready; FM arrangements set up; Audit arrangements agreed Co-financing disbursement and joint financing administration arrangements agreed In large operations: <ul style="list-style-type: none"> satisfactory bidding documents for the establishment and testing of the financial/procurement system ready, including a staff training plan 	Negotiations					
Project Implementation Plan for the first year agreed upon: <ul style="list-style-type: none"> Realistic in terms of financing and implementation capacity Letter of development policy agreed upon (prior to Board) 	Negotiations					
Counterpart funding for the first year of implementation allocated: <ul style="list-style-type: none"> Allocations in government annual budget Provisions for timely release of funds (possibly in project account) 	Negotiations					
Land acquisition plans ready: <ul style="list-style-type: none"> Arrangements for financing land acquisition agreed, (RAP or RPF prior to appraisal) Agreed arrangements for community land contributions (with RAP/RPF) 	Negotiations					
Safeguards addressed and disclosed <ul style="list-style-type: none"> Approved ISDS (prior to PCD, revised at appraisal) and safeguard documents (EA, RAP, RPF, IPDP, etc) disclosed prior to appraisal Notification letters sent out, e.g. for riparian countries under OP 7.50 Triggered safeguards addressed EMP and other follow-up reflected in the project costs. 	Appraisal					
Institutional and social assessment completed and applied <ul style="list-style-type: none"> Findings incorporated in design and costs Key elements integrated into the DCA (at negotiations) 	Appraisal					
Consulting contracts prepared <ul style="list-style-type: none"> Terms of reference agreed; bidding documents ready 	Negotiations					
Contracts for goods and services brought to point of signature: <ul style="list-style-type: none"> For at least 20% of the proposed loan amount. For the first year of implementation 	Negotiations					
In co-financing operations, partners identified; written commitments	Negotiations					
As few conditions of effectiveness as possible <ul style="list-style-type: none"> There are no "standard" conditions, but think about bank account, (initial deposit as effectiveness condition) and the legal opinion A limited number of dated covenants 	Negotiations					

	Category	Selected Readiness Indicators, ADB-financed projects ²⁰	Status/Action Plan			
			Management Review Meeting	Staff Review Committee	Loan Negotiations	Board Circulation
1	Project Director and Staff	Appointment of Project Director and Key Procurement Staff (e.g. accountant and procurement specialist) at the time of Fact-Finding or appraisal				
2	Procurement	<p>(a) Procurement Plan should be prepared by EA (with ADB assistance) for goods, civil works and consulting services prior to Loan Negotiations.</p> <ul style="list-style-type: none"> • Goods and civil works – plan to cover first 18 months or project implementation. • Consulting services – plan to cover all recruitments if possible. <p>(b) Bidding documents for project implementation consultants should be finalized, with technical evaluation completed (if possible), prior to Loan Negotiations.</p> <p>(c) Bidding documents for the first goods and civil works contracts should be issued prior to Loan Negotiations, to extent possible.</p> <p>(d) Availability of qualified procurement specialist within Government should be ascertained prior to advance procurement action.</p>				
3	Budget Availability	The amount of the first year budget and the confirmation of government commitment to provide such funding to be obtained before loan negotiations.				
4	Land Acquisition	Land should be available free of all encumbrances for the first year of implementation/construction, if possible, by Loan Negotiations.				
5	Monitoring	<p>Project monitoring and evaluation indicators and mechanisms finalized and approved by Government.</p> <ul style="list-style-type: none"> • Indicators to be developed at Appraisal and should constitute an integral part of project design. • Budget and persons responsible for monitoring to be agreed with Government. 				
6	Government/Borrower Approval	<p>Government approval of project should be obtained.</p> <ul style="list-style-type: none"> • In Central Asian countries, this may be a resolution. 				
7	Signing and Loan Effectiveness Dates	Processing teams to report throughout processing on expected dates for loan signing and effectiveness.				

²⁰ Application of these filters may need to be adjusted depending upon country circumstance and project.