PUBLIC EXPENDITURE MANAGEMENT
AND DEVELOPMENT ASSISTANCE IN TAJIKISTAN

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ABSTRACT

The success of governments is often defined and judged by their management of public expenditure because it shows the policies, priorities and activities, which they have taken. In view of the importance of sound expenditure management, the Government of Tajikistan introduced the reforms and approaches in order to strengthen the Tajikistan's public expenditure management system as well as timely utilization and effective allocation of state funds. More clearly the study will assess the approaches and reforms introduced since 2007, many of which are still in the process of being fully implemented. This study has assessed the roles of the Tajikistan's Ministry of finance and Central Treasury Department as well as other key institutions in formalizing and internalizing various approaches for the period of independence.

Based on the evaluation results of PFM system that assessed by PEFA in 2007-2012 in Tajikistan, it was found to be unsatisfactory. It is also true that reforming budgetary and financial management system without paying attention to the other service-wide system, processes and a structure of government is likely to produce little change. It is concluded that the economic growth is the most important determining factor of PEM quality.

The Tajikistan government needs develop domestic revenue mobilization efforts, negotiate in better way of deals with investors to increase state budget allocating and implementing capacity. In addition, the government should continue the reformation of economic and financial measures aimed at mitigating the gaps in the market, and the redistribution of income and resources, and to stabilize the economy.

Keywords: Public Expenditure Management, Public Financial Management Reform Strategy, Evaluation method and PEFA assessment result.

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LIST OF ABBREVIATION

CIS	- Commonwealth of Independent States
CTD	- Central Treasury Department
DFID	- The Department for International Development
EC	- European Commission
GoT	- Government of Tajikistan
IMF	- International Monetary Fund
JICA	- International Cooperation Agency
JCPS	- Joint Country Partnership Strategy
MoF	- Ministry of Finance of the Republic of Tajikistan
MTEF	- Medium-Term Expenditure Framework
MDGs	- Millennium Development Goals
Mln	- Million
NBT	- National Bank of Tajikistan
NDS	- National Development Strategy
PARS	- Public Administration Reform Strategy
PEM	- Public Expenditure Management
PEFA	- Public Expenditure and Financial Accountability
PFM	- Public Financial Management
PFMS	- Public Finance Management strategy
PRS	- Poverty Reduction Strategy
PIP	- Public Investment Program
RT	- Republic of Tajikistan
SOEs	- State Owned Enterprises
TSA	- Treasury Single Account
TJS	- Tajik National Currency
VAT	- Value Added Tax
WB	- World Bank
WTO	- World Trade Organizations

CHAPTER 1

INTRODUCTION

1.1. Background to the study

Tajikistan is country in transition from centrally planned to market economy. Since 1991, after Tajikistan became independent state, economic and political reforms took place. Tajikistan has been facing unprecedented challenges over the last decades.

After the collapse of Soviet empire, all newly independent countries, in an effort to improve performance in public expenditure management, used different approaches that have been applied in other developed countries.

At the same time economy of Tajikistan followed a similar path to those of the other Commonwealth of Independent States (CIS) following the break up of the Soviet Union in 1991.

Real GDP growth, which had begun to recover from the crisis, with GDP growth after falling to 3.4 per cent in 2009, and rebounded to 6.5 per cent in 2010, and its real growth reached to 7.4 per cent in 2011.

Table 1.1.1. Selected Economic Indicators

	2008	2009	2010	2011
GDP per capita (US $)	495	549	611	811
GDP (Somoni billion)	17.7	20.6	24.7	30.1
GDP – real growth, %	7.9	3.4	6.5	7.4

Source: Agency on Statistics under GoT

The growth was mainly due to Tajikistan's principal exports aluminium and cotton and by remittances.

Strong growth and a change in the process for defining value added tax (VAT) boosted domestic proceeds, which rose by more than 6% of GDP from 1999 to 2006.

This allowed state expenditures to growth while keeping the total fiscal deficit at an average of 3% of GDP during 1995-2006, and avoiding essentially any resort to domestic funding of the deficit. Initial expenditures of the government rose from 13% of GDP in 1998 to 21.7% of GDP in 2006 (WB, 2008).

The revenue collection rate of the Tajikistan budget, which was 14 percent of GDP in 2000, has been steadily increasing and exceeded 24 percent of GDP in 2011 (MoF, 2012).

The success of management of public expenditure is solidly dependent in the intermediate and final results, which allows the government on achieving the national strategic goals. An evaluation of the system of PEM usually made at three stages: aggregate fiscal discipline, allocative efficiency and technical efficiency.

Considering various options the government proposed, three major strategies for the reform includes: enacting new laws and major strategic documents and developing a PEM system (Chapter Three, Section 3.1).

Towards this, the government, after stabilizing economic situations since 1997, finally promulgated several important laws in the finance system and till date has made amendment to them, viz., the new Public Finance Law, the Treasury Law, the Public Audit Law and the Law on the Supreme Audit Institution.

In this respect, these laws are expected to be an "umbrella" for implementing better public financial management at all levels, including budget preparation, review of draft budgets, approval, accountability and control of their execution, reporting and accountability. Further discussion of the major strategies and their implementation will be presented in Chapters Three and Four.

The level of the State budget of the Republic of Tajikistan

The general government budget of the Republic of Tajikistan includes the following levels: the republic budgets (central government budget and the budgets of state targeted funds), local budgets, social protection funds, and the public investment program (PIP).

The republican budget covers expenditures of administrative bodies under the guidance of the state, the legislative and judiciary bodies (Parliament and Justice).

The local government budgets include four levels of administrative and territorial units: regions (oblasts), districts (rayons), villages, and community administrations (jamoats). It should be noted that the local budgets are formed to the level of cities and regions.

The budget of protection is an extra-budgetary element that accrues funds for social protection purposes, specifically for pension and social insurance expenses.

Lastly, the public investment program covers capital expenditures funded by the republican budget and by donors through loans, credits, and grants.

In order to achieve positive result in public finance management, following approaches such as medium-term expenditure frameworks, and treasury single account were then introduced to eliminate weaknesses and anomalies. These approaches will be presented by detail in Chapter Four.

1.2. Objectives of the study and research questions

The main objective of this study is to explore the Tajikistan's Public Expenditure Management (PEM) System and analyze the integrity of the utilization and effective allocation of funds. More clearly the study will assess the approaches and reforms introduced since 2007, many of which are still in the operation of being completely implemented. Based on the general objective stated, the study will focus on the following specific objectives:

1) To examine the Public expenditure and treasury system in Tajikistan since the PFM reform process started.

2) To examine the contribution of donors to strengthening of PFM reform in the country.

3) To provide recommendations towards improving the effectiveness of public expenditure management.

In order to achieve the aims of the study the following research questions will be addressed:

1) To what extend have the Public expenditure and treasury system in Tajikistan been since the Public Finance Management (PFM) reform?

2) To what extent has the process of the implementation and approaches to PFM reform contributed to the outcomes?

3) What are some of the recommendations towards improving the effectiveness of public expenditure management?

1.3. Methodology

This study is oriented at understanding the implementation of the PEM system in Tajikistan in general and examining and analyzing the factors contributing to a better management. Given that the study is intended to evaluate[1] the process and results of given strategies, it is necessary to understand how elements, stages and processes of PEM are interrelated in particular.

Due to lack of data, researchers have only recently begun to use quantitative analysis of PEM and PFM reforms. This assessment framework and data collection program is known as the Public Expenditure and Financial Accountability (PEFA) program. To achieve the purposes of this study, the research showing the indicators and outcomes of the PEFA assessment was developed on the basis of the study. Two methods of (M1) and (M2) have been used. Method (M1) indicates the weakest link in the connected dimensions of the indicator dominates and the Method 2 (M2) based on an average dimension of individual indicator scores[2].

In addition, the discussions of the conceptual basis of PEM in Chapter Two shows the relationships between different institutions, such as the Ministry of Finance, Treasury and line ministries at multiple levels and it also shows their relationships between treasury functions. However, in this study the secondary data were used and information collected from scholarly books, reports and journals, rules and regulations, and from policy studies related to public expenditure management in Tajikistan and international experience.

Moreover, the Ministry of Finance, Treasury Department, and line ministries were the key organizations studied in this research. However, the key resources are gathered from the developmental program's report.

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[1] Evaluation research is a type of applied research that attempts to define how well a program or policy is working or achievement of its goals and objectives (Neuman, 2006)

[2] PFM Performance Measurement Framework, www.pefa.org

1.4. Significance of the study and its contribution to public policy and management

The research is important because it will support the roles of the Finance Ministry and Treasury Department in managing public money effectively at the operational level. The efficient use of public money is necessary to enhance the sustainability of national economic growth, development, and achieving of the government in millennium development goals (MDG).

However, the empowerment of line ministries to control their costs, and the presentation of their financial statements are all expected to eliminate the weaknesses and minimize the corruption and disappointment.

CHAPTER 2

LITERATUTE REVIEW

2.1. Introduction

The success of the government, usually judged on their public expenditure management, as it shows their policies, priorities and actions, as well as increasing transparency of budgetary procedures and information (Allen & Tommasi, 2001).

Understanding the importance of rational spending and the need to improve public services in the management of fiscal imbalances and absorb unexpected financial turmoil, governments around the world are attempting to revise their public financial management in general, and public expenditure management, in particular. Such reviews and reforms have led to improvements in public expenditure management.

According to DFID in last years there has been a more interest related to public expenditure between governments, development agencies and the general public. Governments are more aware of the importance of public spending as a means of to achieve their goals, peculiarly in the area of poverty reduction (DFID, 2001).

While public expenditure is hardly the only source of potential corruption, corruption in government is often equated with large procurement and major public works project (Campo & Tommasi, 1999, p. 12).

Transition countries recognize the importance of effective management of public expenditure and of many important reforms in this area. However, they are still burdened, which varies from country to country, by their inheritance from the previous regime (Allen & Tommasi, 2001, p. 28).

Before examining the recent improvements, this chapter begins with a conceptual framework for the management of public expenditure and its main stages, in particular, in the treasury management. It then examines the roles and relationships between key institutions and the degree of control, especially between the Ministry of Finance and line ministries.

2.2. Public Expenditure Management

There has been extensive literature written related to public expenditure management by many researchers, including financial institutions around the world.

Public Expenditure Management (PEM) is a new approach to an old problem. In fact, many developing countries have sound fiscal and financial management systems, but still lack of fiscal discipline, unable to reallocate resources in line with the strategic priorities and operate inefficiently (Schick, 1998).

According to DFID (2001, p.8) public expenditure management is the way in which public resources are allocated and manage.

PEM is one of the major instruments of state policy. PEM is a primary means of public policy and distribution of sources efficiently, effectively and sensitively (Allen & Tommasi, 2001, p. 19).

While spending policy is trying to find an answer to the question "what" needs to be done, expenditure management tries to answer for the question "how" it is to be done. It is true that attempts to establish a more rigid boundaries between policy and implementation, as a rule, in the end lead to unrealistic policies and, over time, both bad policy and poor implementation. Nevertheless, the difference between the validity of

PEM procedures and processes and purposes that they are meant to achieve remains very important.

But Ahmad claims that there is no universally accepted definition of PEM in the literature; historically it was only the study of public finance. The financial researches were the essence of public finances, and many economists and financial analysts have focused their researches in the financial and economic growth (Ahmad, 2012, p.15).

> According to Schick (1998, p. 2) "PEM emphasizes substantive outcomes and these outcomes pertain to i) total revenue and expenditure, ii) the allocation of resources among sectors and programs, and iii) the efficiency with which government institutions operate. Table 2.1 shows these elements and their main characteristics. PEM accepts that it may not necessarily lead to optimal financial results even if the government follows the approved budget".

Table 2.1 Basic Elements of Public Expenditure Management

Aggregate Fiscal Discipline	Allocative Efficiency	Operational Efficiency
Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond.	Expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.	Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.

Created by author (source: Allen Schick, 1998)

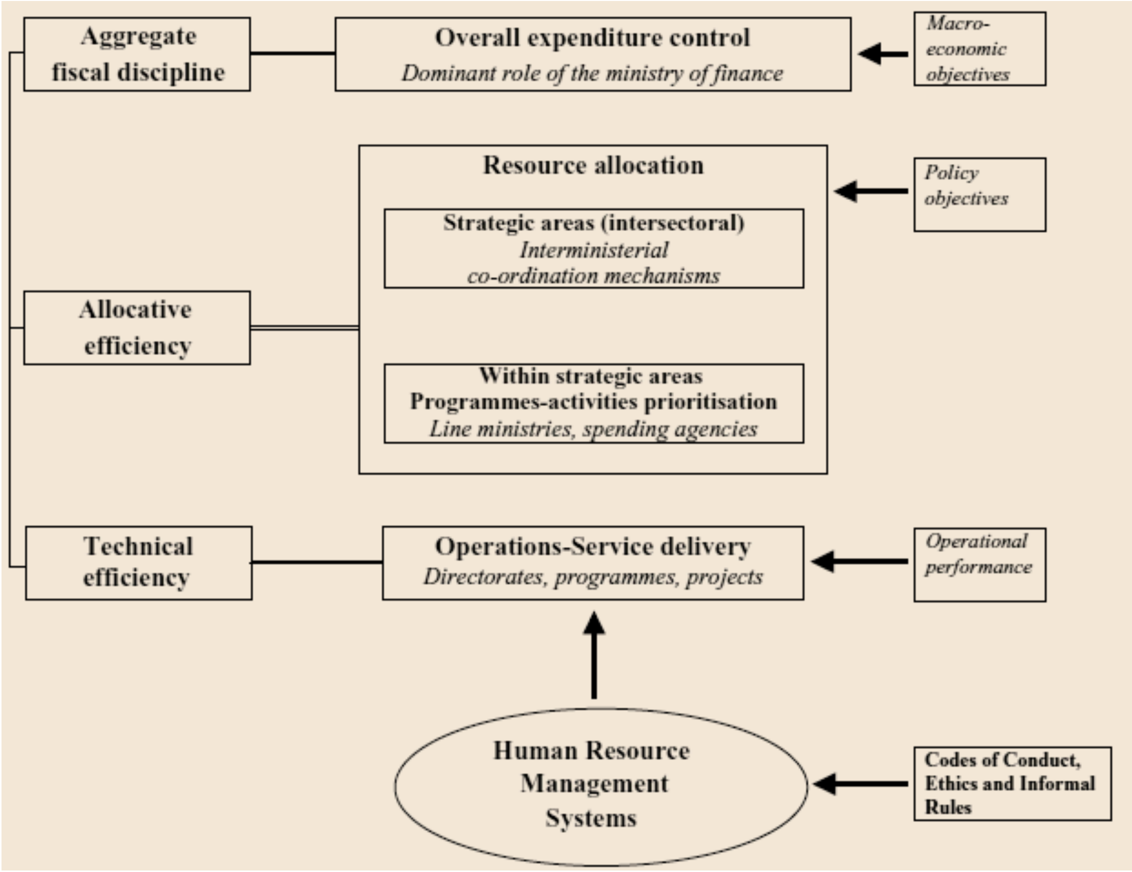
Later public expenditure itself has been identified as one of the many forms of government intervention intended to compensate for the failure of markets and the allocation of capital (Chu & Hemming, 1991, p. 1).

At the same, due to a variety of results adjustment programs, some of the studies in the late 1990s concentrated on the management of public expenditure, rather than a public expenditure policies. Potter and Diamond (1999) consider PEM as the interaction between issues of budget preparation, budget execution and cash management in such a way to achieve fiscal discipline in the management of total expenditure, the efficient allocation of resources and efficient service delivery.

According to Allen and Tommasi at present, government spending are aimed at different objectives, including economic and social objectives development or redistribution purposes (Allen & Tommasi, 2001, p. 43).

Thus, governments need fiscal policies, policy on government revenue, expenditure and borrowing, in order to achieve macroeconomic stability and other policy objectives. Table 2.2 shows and majority of authors agree that PEM has three main objectives and levels of budget management.

Figure 2.1. Basic objectives of PEM and budget management



Source: Allen & Tommasi (2001, p.20)

All three goals have a very strong interaction both theoretically and practically (World Bank, Public Expenditure Management Handbook, 1998, p.3).

These three objectives complement each other and are interdependent. As a central instrument of policy, expenditure management should conduct all three general objectives of economic policy.

However, according to Campo and Tommasi (1999, p.3) financial stability calls, in particular, for fiscal discipline; economic growth and equity are pursued partially through provision of public money to the different sectors, and most apparent, all three goals are required efficient and effective use of resources in practice.

Without fiscal discipline, it is impossible to achieve effective implementation of strategic priorities and programs.

According to Schick (1999, p.47) aggregate fiscal discipline applies to all of the key performance indicators of the budget: the total revenue, the financial balance and public debt, in addition to the total cost. It makes little sense to set limits without spending decisions as the amount of income, budget surplus or deficit and the debt burden.

Aggregate fiscal discipline requires a general cost control, with cost estimates based on realistic forecasts of income and ability to create financial goals and to enforce them (Allen & Tommasi, 2001, p. 19).

But in many developing countries, the aggregate fiscal discipline is not a significant issue, and attention to other goals may be more relevant to their circumstances and needs of the country. Also, the preparation of macroeconomic and fiscal should be the starting point of the budget. It means that public expenditure should be in line with the framework of the macroeconomic goals that are set in advance.

Macroeconomic indicators are statistics that show the current condition of the economy of the state, depending on the particular area of the economy (industry, labor, trade, etc.). They appear regularly at a certain time by public authorities and the private sector. Indicators such as the level of the budget deficit, government debt and emergency funds are defined before the annual budget is prepared (Campo & Tommasi, 1999).

Developing countries present macroeconomic indicators in a medium-term framework for 3-5 years as a guide for annual budget preparation. Determining the length of term depends on a country's ability to predict the economic conditions in the medium term.

But in most developing countries, such a medium term projection is still too far away to be able to operate because of the unstable macroeconomic situation in the country, high inflation, unpredictable national income, the pressure to spend more, and dependence on external funding (DFID, 2001).

However, Schick (1998a) notes that in the course of implementation, implementation of the general budget discipline can move up and down, although medium-term targets should be fixed and achievable. This shows that the aggregate fiscal discipline is characteristic of sound PEM, but the mechanisms by which developing countries can establish and maintain discipline should be studied further.

One of the main goals underlined in the recent literature is the efficient allocation of resources, which means that the budget allocations for ministries and spending units should be fully utilized to provide the goods and services required by the public (Premchand, 2005).

Ideally, the government should seek the efficient allocation of resources in all the financial terms, when the budget grows, and when it is reduced when additional resources to finance the additional costs, and when they are not (Schick, 1998, p. 90).
Allen and Tommasi claim that distribution efficiency acts at various levels of the government. The distribution of resources among programs, as well as activities within these strategic areas requires both proper measures within line ministries for sector policy formulation and adequate technical capacities within budgetary organizations to select the most cost-effective programs, projects and activities (Allen & Tommasi, 2001, p. 21).

But no government can effectively monitor the budget's results unless it also controls the details of expenditure. If it doesn't, sectoral pressures will impel the government to spend in excess of budgeted totals.

According to (Schick, 1998, p. 89) allocative efficiency refers to the ability of the government to allocate resources on the basis of the effectiveness of government programs in achieving its strategic objectives. Allocative efficiency requires that the government establishes and prioritizes objectives and that it assess the actual or expected contribution of public expenditures to those objectives.

Technical efficiency principally regards the operational level, and depends on the program terms and condition in the budget units via effective and efficient management systems (Allen & Tommasi, 2001, p. 21).

The effective use of budget resources both technically and functionally depends on the applicable capacity of programs and services at lower cost or minimizing per capita (Allen & Tommasi, 2001).

Spending units set targets and goals as criteria for monitoring the use of funds. However for many developing countries, governments still struggle to maintain aggregate fiscal discipline before paying attention to the efficiency of resource allocation and performance.

> However, Campo & Tommasi (1999, p.3) mention: “there are linkages between the key objectives of the PEM, their respective principal activities, and at the government level, which they are mainly operative. Fiscal discipline requires control at the aggregate level; strategic resource allocation requires good programming, which entails appropriate Cabinet-level and interministerial arrangements; and operational management is largely an intraministerial affairs. It should be emphasized, that fiscal discipline and operational management are more amenable to technical improvement than is the strategic resources allocation”.

Moreover, PEM goals can be easily extended to fiscal discipline and fiscal results from good revenue forecast, as well as cost control.

Public expenditure management is divided into the three major levels of budget management and implementation. Some research links cash planning and management (Potter & Diamond, 1999).

The first level of budget management of PEM is to prepare a budget that starts with the planning and implementation of macroeconomic and ends with the adoption of the budget law.

Macroeconomic forecasts are not simple predictions of movements in macroeconomic developments. In this regard, Campo and Tommmasi note that macroeconomic projections are built on the definition of objectives and instruments in areas such as monetary policy, fiscal policy, exchange rate and commerce policy, external debt controlling, adjustment and promotion of the private sector actions and the reform of state-owned enterprises (Campo & Tommmasi, 1999, p.98).

Macroeconomic and financial programming has been dominated for well over a generation by the simple but powerful model developed by Jacques Polac[3] and used in virtually all stabilization programs supported by IMF (Campo & Tommasi, 1999, p. 14).

Forecasting macroeconomic prospects, identifying affordable total government spending, sending budget circular inviting proposals from line ministries, preparation and presentation of the budget proposals, review and negotiating of the budget proposals and budget approval by Parliament some of the stages of preparation of the budget (Allen & Tommasi, 2001). But in practice in each country depends on the control system and the relative roles of the finance ministers and parliament.

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[3] See Schiavo-Campo and Tommasi p. 417

In levels of resource allocation to support the effectiveness of budget preparation, the role between the major participants such as the executive and legislative institutions, the Ministry of Finance and line ministries should be clear in order to ensure optimum interaction.

However, some anomalies are usually on the preparation of the budget at the expense of short-term budgets, lack of evaluation of the previous and current budget implementation, loose budgetary funds and extra-budgetary accounts and the lack of data on quasi-fiscal activities (Schick, 1998; DFID, 2001).

The recent literature on public expenditure focuses more on the system of cash management because of the importance of deadlines, amount, and cost of resources.

In this regard Campo and Tommasi claim that; “cash management” has the following purposes: controlling spending in the aggregate, implementing the budget efficiency, minimizing the cost of government borrowing, and maximizing the return on government deposits and investments (Allen & Tommasi, 2001, p. 178).

But for cash management, the control of outflow, which is directly related to organizational arrangements for budget execution can pose more difficulties, also, the implementation of a good cash management system needs strong support from a sound budget execution system and from effective accounting and reporting systems.

So the interaction between the systems are integrated into the treasury management system. These interactions are pulled together in order to demonstrate the comprehensive interaction of stages and processes and systems in implementation the tasks of operational efficiency.

2.3. Key Stages of PEM

Table 2.2. The sequences of budget execution, cash management and accounting

Treasury Management		
Budget Execution	Cash Management	Accounting
• Approval of budget document as authority to spend • Commitment • Payment verification • Payment	• Budget implementation plan and cash plans • In-month forecast & revised forecast • Manage cash surplus/ shortfall • Cash limits (option)	• Maintain records of appropriation and warrants • Record, validate, post, and list all transactions • Maintain ledger accounts • Consolidation & Reporting

Sourse: Ahmad N.F. from (Potter & Diammond, 1999; Allen & Tommasi, 2001; Hashim & Allan, 2001)

As mentioned earlier, broadly, public expenditure management involves two main steps, budget preparation and budget execution. These two phases are supported by several essential stages of PEM. Because this study focuses on the management of funds during budget execution, it covers all the processes of budget implementation, which includes the implementation of the budget, cash management, and accounting and reporting (Table 2.2).

Preparation of the budget will not be discussed here because it is beyond the scope of this study. However, table 2.3 shows the outline of budget preparation and its process.

Table 2.3. Possible timetable for budget implementation

	J	F	M	A	M	J	J	A	S	O
Preparation of macro-economic framework										
Ceilings by sector prepared by MOF										
Cabinet approves strategy and ceilings										
Budget circular is released										

Line ministries submit budget request
Budget request reviewed
MoF/Negotiations
Draft budget prepared by Council of
Ministers
Budget submitted to Legislature
Legislature scrutinize and approves budget

Source: Alen & Tommasi, 2001

2.3.1.The treasury function

The Treasury is the government body that can overcome the contradictions that arise in public financial management, providing resources through the formation of a structure of the same rules, which will lead to the universality of the budget process.

Elements of planning and forecasting, implemented through the treasury system, provide an opportunity to link the objectives of macroeconomic policy with the objectives of regional and local entities. Unity of control allows assessing the results of the use of budget funds, first, quickly, and secondly, to determine the specific efficiency in solving each problem.

Treasury systems provide the government with essential financial services, including payment processing, accounting, fiscal reporting and financial management on a comprehensive, frequently on centralized basis. Many advanced economies networked computer systems that integrate all these functions of finance and line ministries and their departments spending. And also these systems can include modules for budgeting, debt management, budget funds, local governments, as well as other functions.

In Fraser’s view to describe the Treasury as free market oriented is to caricature it:

> "To appreciate the profits that could flow from an exempted market system if the circumstances necessary for the establishment of such a system could be satisfied: it is another thing to believe that those circumstances can be established and steady across a broader front. A better description of the Treasury is to perceive it as a power for "economic rationalism". But in todays integrated economy market plays a major role. To ignore them, or to intervene in ways which fly in the face of them, is apt to produce policies, which do not contribute, as they should to sustained improvements in living standards" (Whitwell, 1990, p. 137).

Effective use of the potential of the treasury gives the opportunity to move to a functional budget, which, along with the traditional cost items will present major challenges, funding, and the solution of which provides a socio-economic progress of the state, more efficient use of limited resources (Komarova, 2005).

In the treasury's view, the government could only establish (and should be content to do so) what it referred to as the "pre-condition" for recovery or, more generally, for the conduct of economic affairs (Whitwell, 1990, p. 127).

Governments need to ensure both effective implementation of their budgets and the effective management of their financial resources. Spending organizations ought be provided with the finances needed to implement the budget within the prescribed period, and the expense of public borrowing ought be reduced to a minimum (Campo & Tommasi, 1999, p. 177) (Allen & Tommasi, 2001, p. 241). Sound management of financial belongings and liabilities is correspondingly required.

> According to Allen and Tomassi (2001), Campo and Tommasi (1999) financial management within the government interacts several activities:

"devising of fiscal policy; budget formulation; budget performance; controlling of financial operations; accounting; and auditing and assessment. As part of the wider financial management, the Treasury task is to reach a number of specific purposes declared above". It involves the following activities [4]

- Cash management;
- Management of government bank accounts;
- Financial planning and forecasting of cash flows;
- Public debt management;
- Administration of foreign grants and counterpart funds from international aid;
- Financial assets management (Allen & Tommasi, 2001, p. 241)

In order to implement these activities, organizational arrangements and distribution of responsibilities vary depending on the countries.

However, according to Allen and Tommasi in some states, the Treasury Departments concentrate only on cash and debt management functions. But in other countries, the Treasury also accomplishes budget execution controls and or accounting and budget performance, reporting activities, but in rare countries, debt management is performed via an autonomous agency (Allen & Tommasi, 2001).

2.3.2. Authority to spend

After the annual budget law is approved by parliament, line ministries have the right to spend the money in accordance with allocations to programs and economic classifications.

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[4] See Ter-Minassian and Martinez-Mendez (1995)

According to Campo and Tommasi (1999) a budget document is prepared as an authority to line ministries or to budget recipients to utilize resources for the provision of goods and services for the current year.

Hereby, Allen and Tommasi note that the budget documents should not only cover all government revenues and expenditures, but also reveals a more transparent way of all political commitments and decisions that have a direct or future financial implications (Allen & Tommasi, 2001, p. 43).

They also considered that the type of documents differs depending on the treasury system and the degree of control enacted by each country, the form and details of the budget documents are implementation-oriented budgeting, a list of accounts, and cash planning (Allen & Tommasi, 2001, p. 241).

The policy and systems are different in each country. And typically in some countries, the treasury department focuses only on cash and debt management functions but in other countries, the treasury fulfills budget execution controls and/or accounting activities. But in finally, the documents shall be in conformity with the performing of objectives, the expenditure are allocated to each unit, and must show the interaction between the functions of PEM.

Thus, according to Allen and Tommasi each amendment in the accounts must be taken by the finance ministry as a consequence the more detail of the accounts. Finance Ministries are responsible for the custody and controlling of all public money and have right of access to any information from other line ministries and agencies, and other tiers of government, which it deems necessary for analysis and control (Allen & Tommasi, 2001, p. 65).

2.3.3. Verification

During verification period, related authority should check whether or not the goods or services have been delivered as provided in the contract. Spending units have to check the quantity and quality of goods or services, as well as and validate invoices.

After the goods and services have been delivered, the items tested, the bills will be accepted, and then the cost unit prepares the payment order for the finance ministry (Hashim & Allan, 2001).

But in some cases spending units prepare the payment order for the finance ministry and after obtaining money they deliver goods and services. In this connection, spending units need to establish adequate mechanisms for checks and balances in order to perform all the tasks, in particular, test ordering and receiving goods and services.

The problem here is to what extent probability of the budget will allow proper monitoring.

2.3.4. Payment authorization or payment

In many countries, the body that permits payments is different from the one that receives goods and services, or it can be in the same location, but with its functions performed by the various divisions (Allen & Tommasi, 2001).

Payment order is an international banking term, which refers to directive to the bank or other financial institution by an account holder authorizing the bank to make a payment or number of payments to third parties. It can be defined as instruction to transfer funds allocated through the paper and / or electronic form. If the cost of units hold a certain amount of money, the payment orders is checked, usually at another unit, or chief financial officer, to make sure that it is within the limits, then the check is issued.

In spite of the goods and services having been provided, the payment order will be issued only on the basis of the availability of appropriated funds.

The implementation of cash rationing in some developing countries is leading to delays in the release of payment orders or payment order issued but then postponed to their costs or finance ministry (Potter & Diamond, 1999). As a consequence, this leads to an increase in payment arrears.

The treasury system should be developed that could guarantee the availability of money or adjust spending activity unit based on available resources.

2.3.5. Cash planning and management

The main function of treasury management during implementation of the budget is the planning and managing of cash efficiently and effectively.

According to Campo And Tommasi (1999, p.194) cash planning is fundamental and involves; (i) the preparation of an annual budget implementation plans, which should be transmitted by quarterly; (ii) the preparation of a monthly cash and borrowing plan; and (iii) weekly review of the fulfillment of the monthly cash plan. To prepare the monthly cash plan it is necessary to monitor commitments, in order to prevent debts generation or delays in payment.

However, Allen and Tommasi claim that cash management contains the following purposes: “controlling spending in the aggregate, implementing the budget efficiently, reducing the cost of government borrowing, and extending the opportunity value of resources. In accordance with this, preparation of monthly cash outflow plans requires good monitoring of both payment and obligations. To provide sound cash, the treasury department should constantly coordinate with other institutions; such as the budget department, the tax committee, and line ministries, to do so, they provide treasury with data and records. But, in some oversimplified systems the finance ministry adjusts only those line ministries, which have very bulky budget allocations" (Allen & Tommasi 2001, p.243).

In most countries cash plans are set three years ahead though the government retains the option of revising these targets in subsequent budget cycles (Schich, 1988 p.526). The ministry of finance also takes into account the trends of the obtaining and payment figures from previous years.

From cash management viewpoints centralizing cash balances give identical results. At first sight, the variant that places payment transactions processing and accounting controls under the full responsibility of the treasury department might seem more effectual both in terms of cash management and expenditure monitor (Allen & Tommasi, 2001, p. 245).

However, the centralization of accounting controls and centralized management of the float can lead to inefficiency and corruption furnace, in countries with poor governance, especially where the treasury is responsible for the selection of suppliers to be paid. For instance, according to Premchand:

> "That who favor reintroducing the treasury system propose that treasuries would not only scrutinize payments, but would also is responsible for compiling accounts. But cash a step could widen the chasm between expenditure responsibility and the power of payment. Moreover, practices show that treasuries are no less enduring to political pressures than are the commercial

banks. Circumvention and politicization cannot be cured through the reintroduction of the treasury system. Rather, observance of discipline, which is essential part of effective government financial management must be secured through tighter controls, periodic oversight, strengthened accountability, greater citizen participation and, above all, greater transparency" (Premchand, 1995).

In order to achieve good cash planning, the finance ministry should work with the central bank to control monetary deficiencies and surpluses. The minimum balance government accounts is set by the central bank and is used as basis for determining the fluctuations of cash balance. If a cash shortfall occurs the finance ministry may issue treasury bills of exchange or other legal short-term instruments.

However, according to PEFA cash planning in Tajikistan is not based on the substantial needs of the budget organizations and there is no good indication of factual resource availability for commitments PEFA (2012). Thus, it is possible that MDAs are expecting only increases by reason of a historical under evaluation of the revenue generation.

In the presence of cash surplus, the excess can be placed in profitable short-term investments (Campo & Tommasi, 1999). Cash management is designed to support fiscal discipline, to support ministries and spending units in providing of their activities, and maintaining the cash balance on the accounts of the treasury.

However, many developing countries have not yet developed by specialized cash management, because they are still attempting to control their line ministries and budget units, typically regulation of funds and budget reductions (Allen & Tommasi, 2001).

In order to establish a good treasury system it will be able to shift from cash control to cash management, in this regard the finance ministry needs to have a good relationship with the central bank as the fiscal agent, and it requires coordination between them.

2.3.6. Accounting

An accounting system is the overall structure of the methods and procedures used to record, classify, report, and interpret information about the financial affairs of the company or any of its agents or organizational elements (W. Bartley Hildreth 1993,p.363).

In order to be transparent and clarity, all government operations should be recorded and reported. In this connection Allen and Tomasi argue that:

> "Accounting and reporting systems are important for budget management, financial accountability, and policy-making. So, to ensure compliance and proper use of public funds, it is necessary to track the use of budget allocations for each stage of the expenditure cycle. Fears concerning future impact of current government solution give governments and incentive to improve their accounting for obligations, while operational performance concerns encourage the development of systems to assess the full costs of programmes and account for public assets and their uses" (Allen & Tommasi, 2001, p. 291).

The arrangement for recording transactions differ in each country depending on the role of the finance ministry, the fundamentals, the number of accounting and reporting entities, and the sphere of government transactions. But in many countries, accounting and reporting are the major responsibility of the Ministry of Finance.

According to Campo and Tommasi (1999, p.225) account systems are generally classified into four categories including cash, modified cash, modified accrual, and full accrual. This classification relates to the accounting principles that determine when the transactions or events should be recognized for financial reporting purposes.

However, according to Hashim and Allan (2001) accounting and reporting are related to the planning cash management, including cash flow, which is used to the analysis of cash flows in operating investment and financing activities (Hashim & Allan, 2001).

Well-functioning accounting and financial management systems, these are among the basics that underpin governmental capacity to allocate and use resources efficiently and effectively (World Bank, 1998).

However, Schick (1998, p.34) noted that another popular innovation is to install integrated financial management systems that link accounting, budgeting, procurement, disbursement, and other financial operations.

In order to obtain dependable and accurate financial reports, an accounting system must be supported by appropriate chart of accounts, accounting standards and periodic reconciliation of financial data (Allen & Tommasi, 2001).

In fact, each financial transaction must be recorded and the report submitted, but in many developing countries, it is still hard to do, because it leads to an efficient and complicated treasury system. Another task is to present informative details of non-financial reports, a question that arose in connection with the performance-based budgeting. And non-financial reports must show the progress in achieving outputs and outcomes, but whether reports should be consolidated with financial reports is another question that should be explored. All the stages are located in the development of the treasury system. However, prior to the development of the treasury system, the relationship between the ministry of finance and other relevant institution should be clearly defined.

2.4. Key Actors, Roles and Relationships in PEM

The success of public expenditure management, in particular, treasury management, requires a clear separation of functions and intensive interaction between the main institutions (Schick, 1998a).

The Ministry of Finance, line ministries and the central bank are the main actors in any system of the treasury, that provide the transparency of PEM but each country has certain institutional arrangements, which depend on the state structure. This section will be identified the interaction between the key institutions and to what extent their changing roles can influence the level of control will be discussed.

2.4.1. Finance Ministry

The Ministry of finance in many countries as financial authority and the treasury plays an important role in the initiation and administration of public sector reform. Therefore the roles of finance ministries in the management of public expenditure are crucial with respect to all objectives and phases (Campo & Tommasi, 1999).

> According to Schick (1998, p.100) there are strong reasons for centralizing intra sectoral allocations In the Ministry of Finance or Cabinet: "(1) The Centre may redistribute more widely than can a line minister or the department; (2) The central authorities have a more comprehensive with the interests of the state and priorities than one department which is bound to a sectoral pressures and prospects; (3) Central authorities can contribute

reallocation based on evidence of the effectiveness of program, evaluative findings, and objective analysis; (4) Central involvement is importance to establish rules and procedures that compliance fiscal discipline and ensure that the cost of program proposals are clearly reflected in the budget; (5) Departments can protect existing programs without strong pressure from the center rather than reallocate resources".

The finance ministry must be enabled to monitor and control the implementation of the budget and also it should have the authority to regulate accounting standards, financial control, internal audit procedures, related personnel and administrative activities (Allen & Tommasi, 2001, p. 65).

In this regards the finance ministry also should have right to have an access to any related information from other ministries and agencies, and other tiers of government. It deems necessary for analyses and control.

2.4.2. The Central Bank

The central bank as a monetary authority is responsible for providing good economic indicators, so as to maintain the finance minister to maintain aggregate fiscal discipline.

According to Schich (1998, p.69) an independent central bank also can check budgetary opportunism, provided that it enjoys sufficient public esteem so that its voice can be heard above the din of political debate.

In this regard, Allen and Tommasi (2001, p.256) claim: "In most countries the central bank is the primary treasurer of the government even wherever budgetary organizations preserve their bank account in commercial banks. More commonly, central banks are the fiscal agents of the government and implement actions in areas such as government bond issuing, state debt management and intervention in the secondary market for government securities"[5].

Moreover, the central bank will support the government to issue certain borrowing securities, such as Treasury bonds or treasury bills. While in some countries issue of government securities is the responsibility of the treasury, depending on the relationship between the government and the central bank, and, in particular, the capacity of the Ministry of Finance (Campo & Tommasi, 1999).

Thus, the relationship between the key agencies in treasury managing liquidity will depend on the institutional arrangements in each country, the arrangements under the influence of the extent to which the reforms in public expenditure management has been implement. In particular relations between the treasury and the sectoral ministries will determine the level of expenditure control.

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5 See Blommestein and Thunhoml (1997) and Ter-Minassian, Parente, and Martinez-Mendez (1995).

CHAPTER 3

OVERVIEW OF THE TAJIKISTAN'S PUBLIC EXPENDITURE SYSTEM

3.1. Public Expenditure Management in the RT

3.1.1 Responsibilities and PEM procedures

The Finance Ministry plays a basic role in managing public expenditure. At the same time the ministry as a financial organization has a principal function in maintaining aggregate fiscal discipline, budget law enforcement and ensuring effective control of budget expenditure (Alien and Tommasi, p. 65).

The Ministry of finance as a fiscal authorizer provides incentives for the private sector and develops forecast of revenues and expenditures of the state budget of RT for 2 years, following the next fiscal year (MoF, 2006). As the State Treasurer, the Ministry receives, stores and allocates money to finance expenditures, particularly in the promotion and implementing of programs of line ministries and agencies.

However, finance ministry cooperates directly with a large number of budget organizations including the 17 main sub-national governments and their budgeting processes (3 oblasts, the city of Dushanbe and cities and rayons of republican subordination). In addition, the Ministry is responsible for the preparation of the annual state budget, budget control activities and reporting of the budget execution (Law on Public finance, 2011).

In the system, the Ministry shares its role with the line ministries in preparing the state budget, because of the implementation of budgeting approach. According to law on public finance the state budget is prepared for next fiscal year and two following years and fiscal year corresponds to the calendar year and covers the period from January 1 to December 31 (Article 7).

Moreover, the Ministry of Finance has the right to reduce the preliminary allocation of the budget and to freeze the accounts of budgets based on the discussion.

In preparing the budget, some of the principles, such as universality, unity, and specific guidelines are followed by the government. Based on the annual system, the government budget is made from January 1 to December 31, and up to 2007 not used the medium term in the preparation of the budget.

For the controlling budget execution in the case of unused allocations the government is allowed spending units to carry-over these funds into next year's budget, as well as programs that are financed by foreign funds. In addition, the fiscal adjustment must be offered to the Ministry of Finance, with the response not later than a certain week after the document was received.

Starting from 2006 the all state transactions have been used by the banking system, but for some reason the Finance Ministry allowed miscellaneous expenses paid by cash advance. In addition, each request for payment of the cost of units must be signed by the responsible specialist and accompanied by supporting documentation. The specialist is also responsible for keeping records manually and reports on expenditure units, not only for cash payments, but also for all financial transactions.

Besides, in order to control all these financial transaction the government also established institutions acting as Agency for corruption and internal auditors.

3.1.2. The Treasury System and its role in strengthening PEM

As Hashim and Allan note that the term of Treasury system - is the description of integrated computerized systems for managing government transactions, which is covering budget execution and authorization processes including: commitments and payments, managing cash and other assets and liabilities, maintaining accounts and fiscal reporting (Hashim & Allan, 2001).

However, Allen and Tomassi argue that countries differ in terms of the structure they have established and the level of financial independence given to each ministry. Many applicant countries have formed a treasury system through which all public budget funds are managed (Allen and Tommasi, 2001, p.275).

The Treasury reform in public expenditure management is considered as one of the achievements of the country's post-independence in Tajikistan since the collapse of the Soviet Union in 1991.

The Decree of the RT "On establishment of the treasury in the country" was adopted by the Government on July 18, 1996, # 327 and in the same year the Treasury System and further giving an opportunity to create a legal environment, the mechanism and the new levers of public financial management.

The first and very serious step in this direction was the adoption of the Decree of the Government on 15 January 1997, # 36 "On the Regulation of the Central Treasury Department". According to this document, in order to improve the planning and efficient use of resources, strengthening control over revenues and expenditures was introduced in the Central Treasury Department with divisions in regions, cities and districts.

On this basis, using the best practices worldwide was created to improve the treasury banking mechanism; computer programming and information technology was adopted to carry out the calculations of budgetary funds.

The relationship between the national and local budgets was changed so that the Social Protection Fund and the Road Fund were consolidated within the state budget. The Government also started work in order to terminate the extra-budgetary funds of sectoral bodies and ministries.

On January 1, 1998 all accounts of public bodies, ministries and their departments were transferred to the treasury system and their funding carried out through the Central Treasury Department. In January 1999, a single account of the treasury was opened in the National Bank of Tajikistan.

A new grouped income and expenditures of the state budget was introduced in 2000, and it plays a major role in improving public financial management and ensuring transparency of reporting on budget execution.

With the aim of strengthening supervision purposeful use of budget funds by the order of the Minister of Finance on February 17, 2000, # 24 was established oversight of internal audit in the structure of the Central Treasury Department.

The Law of the RT "On the Treasury" was approved the first time in 2001, which fully defines the status, structure, rights and accountabilities of the Treasury. In the second half of 2001 the overall funding of budget organizations were implemented in accordance to fully mechanized program of treasury system.

The Decree on February 20, 2002, # 33 "Instruction of calculating and reporting on budget execution in the treasury" and the order of execution of revenues and expenditures of the state budget approved by finance ministry and has been implemented through the Treasury.

The method of introduction of the calculation and reporting of the Treasury system was defined. This specifically determines the function of treasury substructures.

In 2002 the Law "On the Public Finance of the RT" was adopted, and it contribute to further strengthening of public financial management.

A management division was created in the structure of the Central Treasury Department on banking operations, and began preparations for the transition to electronic financing.

The efforts to connect networks of computers and recovery electronic linkage between the Central Treasury Department and the local treasuries began in 2006 and were fully completed in 2010 so that all 73 local authorities have been connected with the Central Treasury Department.

Starting from 2007 the state budget joined investment projects, public debts, grants and special funds budget enterprises, organizations and develops the overall size of the state budget for the year. Therefore the service of the Treasury was also completely changed. It became necessary to amend the law and on June 18, 2008, # 396 adopted new Law of the RT "On the treasury."

The main objective of this law is to strengthen the control of performance of the state budget and it is directed at improving the financial mechanism. As well as the endorsement of documents, supplies, reporting and calculations, expedient use of budgetary resources, clarity of revenue and expenditure of the state budget.

With the strengthening of the management of public finances in the economic reforms of the Republic, as well as increasing population needs in material resources, there are new challenges to ensuring sound and efficient management of public finances. Therefore, for the development of public financial management, including the Treasury brought about new commitments with the responsible authority.

The assigned task was complicated and the Government of the RT needed to work together with the international financial institutions, line ministries, departments and agencies in the deliver of new methods, techniques, as well as widely used domestic and foreign experiences.

3.1.3. Accounting and reporting on budget execution

The accounting system is capable, with difficulty, of producing accurate in-year reports on central or general government budget outturns. The accounting system produces quarterly reports on central and local government budget outturns.

However, it is difficult to ensure that the accuracy of the reports is of an internationally accepted quality.

According to IMF accounting system in Tajikistan does not provide accurate consolidated data on budget arrears in a timely manner. The data are not captured by the treasury's accounting system; they are captured by the budget organizations' accounting systems, but are not consolidated on a timely basis for centralized decision-making, because the preparation and transmission of budget organization accounting data are on a manual basis.

It should be noted that the treasury's accounting system incorporates the budget classification.

3.2. Public Expenditure Management and its tools

3.2.1. Government revenues

The total volume and sources of revenues

State budget revenues of the RT include the following type of revenues: republican budget revenues; local budget revenues and revenues of state target funds.

According to the law on finance, republican budget revenues consist of tax and non-tax revenues and grants as well as non-repayable transfers. Local budgets revenues consist of local tax and non-tax revenues as well as funds received from the regulated state taxes and fees and other payments.

Tax policy is implemented on the basis of the Tax Code of the RT, Customs Code of the RT, law of the RT “On state duties” and other legal normative acts (law On public finance, 2011).

To ensure the State Budget revenues the government, through state financial support and encouragement of small and medium entrepreneurship and other economic sectors, developed and adopted several drafts of legal normative acts.

The Law of the RT “Including of amendments to the Tax Code of the RT” was adopted. Based on this law, the level of income tax decreased from 25 percent to 15 percent and the level of value added tax decreased from 20 percent to 15 percent for all economic sectors.

According to estimates, this measure led to a reduction of the tax base by 6-7 percent, but the government is confident in its positive effect in encouraging domestic entrepreneurs and exporters, which is expected to have positive impact on the budget in the long term (MoF, 2010).

However, Friedman notes that a cut in tax leads to higher deficits, which should influence government to reduce its level of spending (Moalusi, 2004).

Table 3.2.1. Total domestic revenues

	2008		*2009*		*2010*		*2011*	
	Original budget	*Actual*	*Original budget*	*Actual*	*Original budget*	*Actual*	*Original budget*	*Actual*
Taxes	2,811	3,298	4,268	3,659	4,353	4,444	5,585	5,849
Non-tax revenue	171	149	317	211	253	329	488	504
Special funds of BOs	130	323	183	318	284	696	504	504
Total	3,112	3,770	4,768	4,188	4,890	5,469	6,577	6,857
Actual/Budget in %		121,1		87,8		111,8		104,3

Source: Ministry of finance (Somoni / Million)

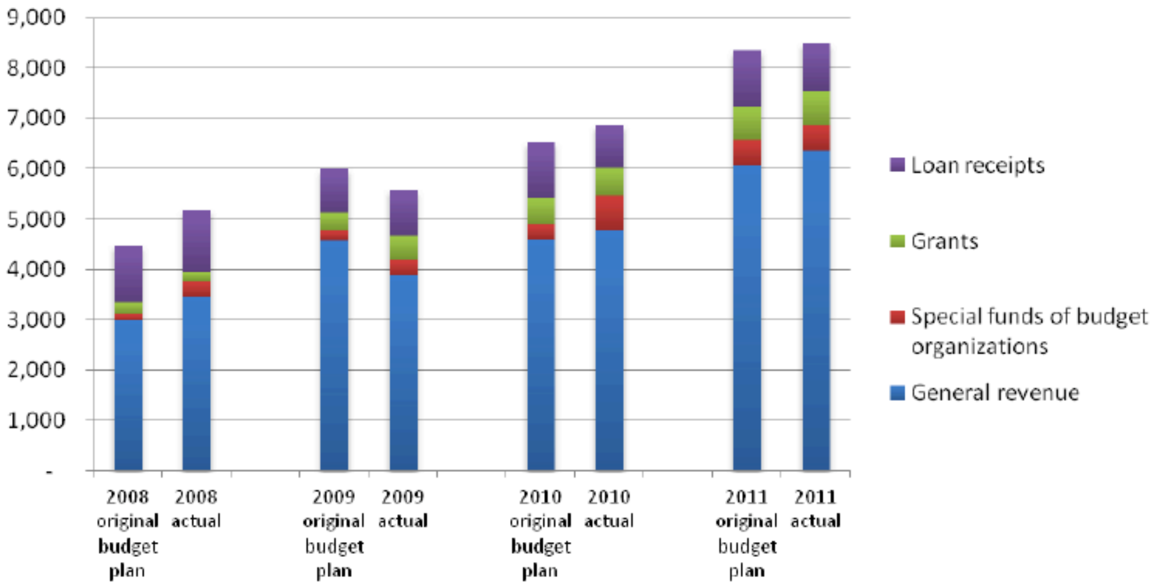
In 2009 due to the world financial crisis and its negative impact on the economy of the country, several necessary measures were undertaken to ensure stability of the state revenue collection efforts.

Aiming at mitigating the impact of the financial crisis, the government amended the state budget in the first six months of 2009, primarily on its revenue side. Also, it adopted the Law of the RT “On amending the Tax Code of the RT” dated May 19, 2009 #525. This led to a prescribed reduction in income taxes (for commercial banks and other legal entities) and value added tax VAT (from 20% to 18%) and an increase in the “threshold” for eligibility for simplified tax for agricultural producers.

However, specialist audit firm "Pricewaterhouse Coopers" Pavel Hermansky notes that the tax burden in Central Asia is high and Uzbekistan the highest among the countries of Eastern Europe and Central Asia with a rate of 98.5% - 181st place. But within 185 countries in this ranking, Tajikistan is located in 175th place with a total tax rate of 84.5% (Asia Plus NA, 04.01.13).

On 7 November 2011, the Government introduced the Concept of Tax Policy until 2015, which aims to develop tax legislation, as well as cooperation of Tajik entrepreneurs and individuals with tax authorities, for improving the economic situation in the country and provide more understandable tax services to taxpayers.

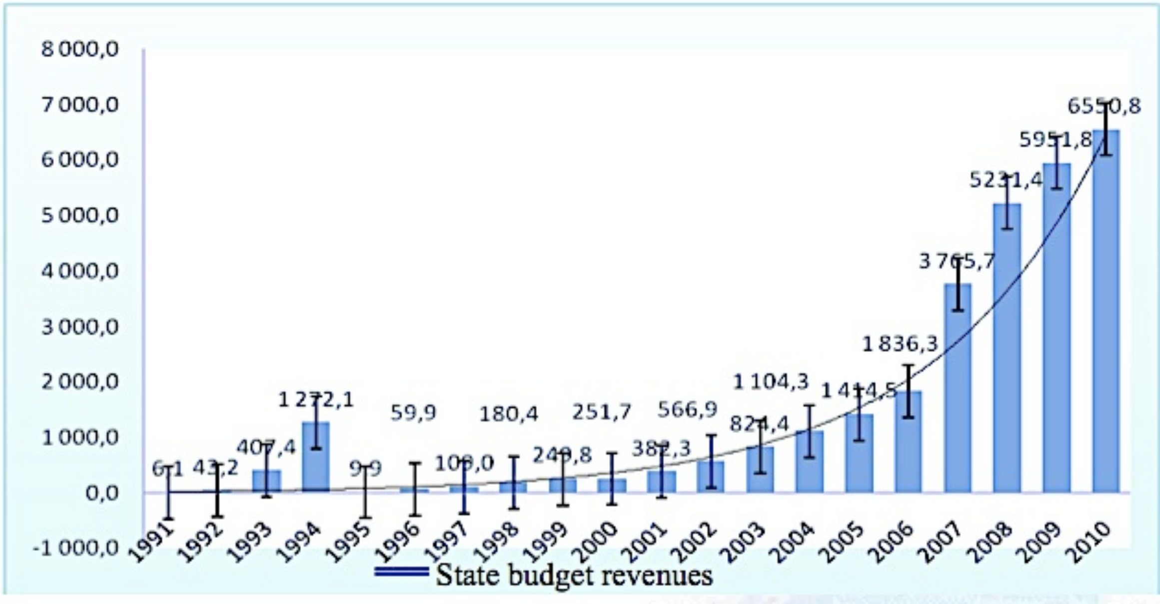
Figure 3.2.1. Revenue including grants and loan drawdowns 2008-2011



Source: PEFA (2012)

The total volume of government budget revenues with annual average growth of 16.6% during the period of 2012- 2013 is estimated at TJS 9350.5 million and TJS 10379.0 million accordingly, where this indicator equals to 25.5% of GDP volume in 2012, and 23.2% of GDP volume in 2013.

Figure 3.2.2. The dynamics of the State budget revenues (1991-2010 mln Somoni)



Source: Ministry of finance

It is important to note that the Government's fiscal space is very limited and mainly depends on the budget support from the donor community (will be discussed in Section 4.5., Chapter Four). However, a narrow tax base and heavy dependence on import-based taxes contributed to a fragile fiscal position. Table 3.2.2 shows that total revenue equaled to 24.4% of GDP.

Table 3.2.2. Overall revenues and GDP

	2008	2009	2010	2011
GDP (Somoni millions)	17,706.9	20,628.5	24,704.7	30,069.3
GDP – real growth, %	7.9	3.4	6.5	7.4
Overall revenues and grants (% to GDP)	22.1	23.4	23.2	24.4

Source: Ministry of Finance (2012)

Other state revenue, which has a cash value of the interest are government loans. The received funds are directed not only to solve the state budget deficit, but also to provide the major and investment costs associated with the share of state property.

Given this goal, starting from 2007 all means of grants and loans received from abroad are shown in the state budget.

3.2.2. Public expenditure of the RT

The financial policy of the RT and the cost of its budgetary resources not only ensure the independence of the country as a sovereign, democratic, legal, secular and unitary state into a market-world standard, but are also considered the only right way directed to development.

In accordance with legislation of Tajikistan the formation of state budget expenditures is based on the principle of single structure, forms, methods and instruments of operation, normative minimal state social standards of budget allocation, and financial costs for providing public services.

Nevertheless, in accordance to law on finance the total state budget of the RT consists the following levels: the republic budgets (central government budget and the budgets of state targeted funds), local budgets, social protection funds, and the public investment program (PIP).

In this regards, the republican budget covers expenditures of administrative bodies under the guidance of the state, the legislative and judiciary bodies (Parliament and Justice). The local government budgets comprise four levels of administrative and territorial units: regions (oblasts), districts (rayons), villages, and community administrations (jamoats). The budget of protection is an extra-budgetary element that accrues funds for social protection purposes, especially for pension and social insurance expenses. Finally, the public investment program covers capital disbursements financed via the republican budget and by donors through loans, credits, and grants. The average disbursement of PIP is estimated at about 3 percent of GDP.

It should be noted that the Republican budget accounts approximately over 60 percent of overall general government expenditure. Local budgets consist around 30 percent of government spending. The state targeted funds are used only for the aims definitions by legislation and in accordance with the budget of indicated funds and make up over 10 percent of government expenditure. However, according law on finance Tajikistan has only two state targeted funds including a contingency fund and a President's Reserve Fund, which are both disclosed in the budget.

Table 3.2.3 Distribution of the Budget (% of total expenditure)

	2007	2008	2009	2010	2011
State budget expenditure	100 %	100 %	100 %	100 %	100 %
Including, & percentage:					
Republican budget	59	58	55	53	60,3
Local budgets	30	30	32	33	28.6
Social Protection Fund	12	12	13	14	11.1

Source: Ministry of Finance

The republican budget expenditures are financed by taxes, subsidies, and domestic and foreign loans. But, the local government expenditures consist around one-quarter of the total budget expenditure equal to 4 per cent of GDP distributed among the oblasts, rayons and Jamoats.

State Budget Expenditures is planned with the aims of satisfying the priority needs of public sectors concerning their medium term priorities and the excess of expenditures towards the incomes.

The budget expenditures in the national economy for the period of independence include the following results: in 1991 it amounted to 1,309.0 million rubles; in 1995 -

2753.1 million rubles; in 2000 –TJS 49458.1; in 2005 –TJS 355.2 million, 2009 –TJS 770, 7 million; and in 2010, more than TJS 1.2 billion.

Table 3.2.4. Government budget expenditures (in million Somoni)

	2009	2010	2011
Government Budget (including PIP)	**5687,3**	**6712,5**	**8562,0**
GB excluding PIP	**4601,6**	**5484,9**	**7081,3**
Including: Special funds of Budget Organizations	351,0	484,3	571,3
Social Protection Fund	676,7	868,9	1121,7
Current expenditure	**3728,4**	**4479,3**	**4622,8**
Including: Fund of Labor compensation (wages)	971,0	1153,1	1490,1
Other current expenses (ex. Salaries)	2757,4	3326,2	3132,7
Capital expenditures	**1958,9**	**2233,2**	**3939,2**
Including PIP	508,3	751,7	1480,7

Source: Ministry of finance (2012) www.minfin.tj

In this connection, table 3.2.4 indicates that the government of Tajikistan jointly with the Ministry of finance mainly focuses on the priority areas and accordingly government expenditure will be implemented through the functional classification in priority sectors. These indicators on average include: education 18.47% of public expenditures; 6,72% health; 16,45 % social protection and fuel energy sector by 13.3% of public expenditure (MoF, 2012).

Table 3.2.5 Budget allocation by function (% of total expenditure)

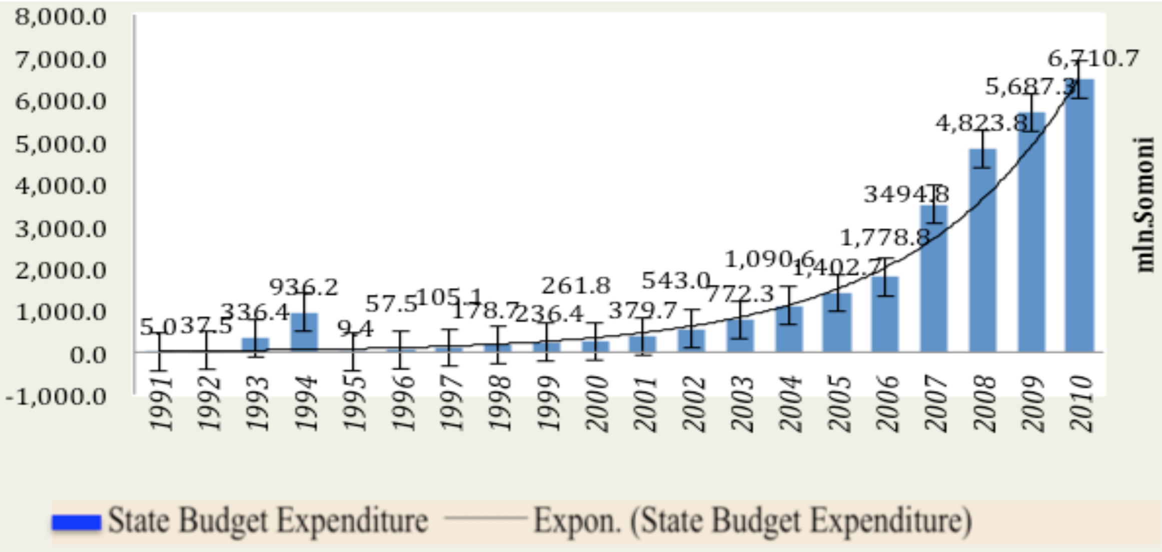
		2008	2009	2010	2011
1	Public administration	12.00	8.90	7.70	8.10

2	Defense	5.60	4.60	4.70	3.70
3	Law enforcement	6.40	5.50	5.20	5.00
4	Education	19.20	20.00	19.90	14.80
5	Health	6.80	6.80	7.20	6.10
6	Social protection	16.40	16.80	17.30	15.30
7	Communal services and utilities	7.20	7.70	7.60	8.50
8	Culture & sport	5.60	4.20	6.00	3.60
9	Fuel & energy complex	9.00	13.30	13.90	13.80
10	Agriculture	3.00	2.00	2.00	3.60
11	Industry	1.40	0.60	1.00	0.90
12	Transport & communications	3.10	2.20	2.20	12.40
13	Other economic activities & services	0.70	0.40	0.90	0.30
14	Other services	3.60	7.00	4.40	3.90
	Total percentage:	100	100	100	100

Source: Ministry of finance

Moreover, during the post-independence period with the development of production capacity and tax sources the size of financing in the real sector, which is considered a determinant of economic opportunities, increased more than 102 times starting from independence period (Najmiddinov et al, 2012).

Figure 3.2.3.The dynamics of the public expenditure (1990-2010)



Source: Ministry of Finance (2011)

Another line of budget expenditures in the post-independence period was directed to the implementation of social policy. The Poverty reduction strategy, as well as program development and reforming in the social sectors, Medium-Term Expenditure Framework (MTEF) program and forecasting of socio-economic development of the RT is considered examples.

On September 2006 the Government adopted the Decree on the commencement of MTEF development and will be discussed in Chapter Four. Thus, in subsequent years in order to continue the ongoing reform in the public financial system, quality development of State Budget, targeted and efficient use of budget funds, avoid the shortcomings during the budget implementation, the State Budget for fiscal year is prepared according to the Mid- Term Expenditure Framework.

Last years State Budget Expenditure is implemented on the basis of certain strategic documents, which include National Development Strategy of the RT for the period of up to 2015, Poverty Reduction Strategy of the RT (2007 – 2009) updated to cover the period of up to 2012, Strategy on public finances management for the period of 2009- 2018, and other strategic documents.

Table 3.2.6. GDP and State Budget Expenditure Indicators (Million Somoni)

	2005	2006	2007	2008	2009	2010	2011
GDP	7,201.0	9,272.0	12,780.0	17,609.0	21,402.0	24,500.0	30,180.0
GDP – real growth, %	-	-	-	7.9	3.4	6.5	7.4
State Budget Expenditure	1,407.69	1,778.80	3,494.82	4,823.82	5,687.33	6,710.78	8,562.00
Public Expenditure % to GDP	19,5	19,2	27,3	27,4	26,6	27,4	28,4

Source: Ministry of finance

The general government expenditure as a percentage of GDP measures the amount a country spends in relation to the size of the economy. The recovery of public spending was very pronounced. Primary government expenditures raised from 13% of GDP in 1998 the lowest level since independence (WB, 2007).

Starting from 2007 all means of grants and loans received from abroad are shown in the state budget and accordingly government expenditure increased from about 19,2 percent (2006) to 28,4 percent (2011) of GDP.

However, according to Fan and Rao on average, developing countries spend much less than developed countries and for instance, the total government spending as a percentage of GDP for the OECD countries made up the range of 27 per cent in 1960 to 48 percent in 1996 (Gwartney, Holcombe, and Lawson 1998), vis-a-vis to 13-35 percent in most developing countries (Fan & Rao 2003, p. 6)

The Government and the Ministry of Finance with its conservative fiscal policies are trying to keep a low budget deficit. Formally, the planned budget deficit on average covers around 1% of GDP, but actually for the year in Tajikistan even actually observed a budget surplus (as usual over fulfilled revenues and expenditure out rarely achieves 100% performance) (MoF 2012).

However, improvement is needed for the government but not sufficient to specify the optimal accountability whilst the society as a whole is not satisfied with providing a service.

Thus, Pahlavani et al, argue that if executives recognize the relationship between government's expenditure and revenue without pause state deficits can be averted. In this way the relationship between government expenditure and government revenue has drawn significant interest. This is due to the fact that the interrelation between government revenue and expenditure influences the budget deficit (Pahlavani et al, 2011).

As it was mentioned in Section 3.2.1 that for effective utilization of all funds, including grants and loans, which the country receives from abroad, have been shown in state budget since 2007. Thus, 81 joint investment programs are estimated during the period of 2011- 2013, which includes implementation of 48 joint investment programs during 2011. According to data from the Ministry of Finance, financial statements contain information on revenues and expenditures associated with all projects funded through loans and grants.

Table 3.2.7. Public Investment Program and Development assistance (US $ Million)

	2008	2009	2010
Loans	350.1	43.5	179.4
Grants	39.7	48.1	78.4
Contribution of Government of Tajikistan	17.9	14.3	27.6
Total	407.7	305.9	285.4

Source: Ministry of finance RT

CHAPTER 4

THE IMPLEMENTATION AND ANALYSIS OF REFORM PRIORITIES

4.1. Transition countries and approaches to public expenditure management

4.1.1. The post independence period and fiscal imbalances in the transition countries

According to IMF the transition process in the CIS (Commonwealth Independence State) countries was more complex than originally expected, especially for those countries that are relatively poor in natural resources (IMF, 2002, p.3). Public expenditures in most CIS countries with economies in transition in 1992 were considerably higher than in countries with a market economy. Therefore, most transition economies implemented major fiscal reforms.

At the initial stage of transition the need for major fiscal reforms was commonly underrated. According to UN Economic Commission for Europe the main focus was more on the need for rapid privatization, the need to reform state structures, and the public administration in order to perform different but crucial roles in a market economy (UNEC For Europe, 2000).

At the same time after independence practically all countries with economies in transition had recognized the need for new systems, which required not only new tax laws but also new skills, technical knowledge, implementing a new fiscal institutions and political capital.

The patterns in public revenues and expenditures reflect local factors, and mixed advice received from the Western countries and institutions such as the IMF and World Bank. The change in fiscal imbalances has been particularly remarkable for CIS countries, reducing average deficits on average by 8.8 percent of GDP during 1992-1997 and by 2.1 percent of GDP during 1998-2003 (table 4.1.1). These trends were the result of the financial imbalance of the main revenue shock during the early transition period.

To many of the CIS countries, which got independence from the Soviet Union also meant the loss of large transfers from the center, which had mixed declines in government revenues due to resulting economic downturn, limited tax system and weak administration. However, Alam and Sundberg (2002) note that in 1992 both Uzbekistan and Kyrgyzstan lost transfers from Moscow, which was equivalent to about 18 percent of their countries' GDP in 1991. But for Tajikistan the loss in revenue and expenditures are more associated with independence, adverse external shocks, and the consequence of post-conflict period, all these contributed to a drastic reduction in expenditures. As a result expenditures fell from 67 percent of GDP in 1992 and it reached to 14 percent of GDP in 2000.

Table 4.1.1. Saving and Investment Imbalances in Transition Countries (in percentage of GDP; unweighted average)

	Private sector balances			**Government balances**			**Account balance**		
	1992-1997 average	1998-2003 average	1992-2003 average	1992-1997 average	1998-2003 average	1992-2003 average	1992-1997 average	1998-2003 average	1992-2003 average
Armenia	1.4	-8.9	-3.6	-18.1	-4.0	-11.0	-16.7	-12.9	-14.6
Azerbaijan	-13.8	-12.9	-12.9	-6.0	-1.9	-3.9	-19.8	-14.8	-16.8
Belarus	-3.8	-2.1	-2.8	-3.2	-1.4	-2.3	-7.0	-3.5	-5.1
Georgia	-7.4	-3.6	-5.6	-13.1	-3.8	-8.4	-20.5	-7.4	-14.0
Kazakhstan	-4.3	-0.2	-2.2	-4.9	-1.6	-3.3	-9.2	-1.8	-5.5
Kyrgyzstan	-4.3	-0.2	-1.7	-9.3	-8.0	-8.7	-13.6	-8.2	-10.4
Moldavia	1.0	-8.2	-3.7	-10.2	-1.1	-5.6	-9.2	-9.3	-9.3

Russia	10.2	9.1	9.7	-7.4	0.6	-3.4	2.8	9.7	6.3
Tajikistan	-3.5	-4.1	-3.3	-11.8	-1.1	-6.5	-15.3	-5.2	-9.8
Turkmenistan	13.5	-6	3.8	-3.1	-0.9	-2.0	10.4	-6.9	1.8
Ukraine	8.3	4.5	7	-11.2	-0.5	-5.8	-2.9	4.0	1.2
Uzbekistan	4.0	2.3	3.3	-7.6	-1.4	-4.5	-3.6	0.9	-1.2
CIS	**1.3**	**-2.5**	**-0.6**	**-8.8**	**-2.1**	**-5.5**	**-7.5**	**-4.6**	**-6.1**

Source: Aleksander Aristovnik (Public Sector Stability and Balance of Payments Crises in Selected Transition Economies)

The main cause that forced governments to sharply cut expenditures in CIS countries were the loss of fiscal transfers as well as control over state resources. In this regard the expenditure reform implemented in all CIS countries and according to Aristovnik reduced average expenditure for these countries fell from about 43.8 percent of GDP in 1992 to 25.0 percent of GDP in 2003. This caused a dramatic Expenditure reduction in Tajikistan and Armenia.

Table 4.1.2 shows CIS government expenditure in priority areas during 1995-1999. According to IMF at the start of transition period, the social sectors in the CIS countries were not stable, and had been maintained via massive direct and indirect transfers from the central authorities of the Soviet Union. Whenever transfers from center were stopped the financial position of the enterprises declined, the latter often transferred their social infrastructure responsibility to local governments, which were already facing financial difficulties and did not have enough skills to deliver social services. Also the table shows that the per capita dollar expenditures on health and education in the CIS countries.

Table 4.1.2. General Government Social Expenditure in selected CIS

	Education		Health		Pensions		Other social protection	
	1995	1999	1995	1999	1995	1999	1995	1999
Armenia	2.8	1.9	1.8	1.3	3.0	3.8	1.8	1.6
Azerbaijan	4.5	4.2	2.1	1.1	1.8	4.2	3.2	2.7

Georgia	1.2	2.6	0.7	1.1	1.5	2.6	n/a	1.3
Kyrgyzstan	6.5	3.9	3.7	2.3	7.4	5.6	0.9	0.7
Moldova	7.5	4.2	4.9	2.4	6.8	5.6	1.8	0.9
Tajikistan	3.3	2.1	2.1	1.0	2.5	1.8	1.1	0.1
Uzbekistan	7.4	7.8	3.6	3.0	5.2	10.5	3.4	3.0
CIS Average	**5.8**	**5.9**	**3.1**	**2.3**	**4.7**	**7.7**	**2.6**	**2.4**

Source: IMF (2002)

However, in spite of the decline in the share of expenditure to GDP, factual government spending has been increasing in many countries with economies in transition that experienced high GDP growth (Natalie & Manuela, 2006). Thus, the budget process reform in the region is more to ensure that the budget process continues to require the necessary tools to improve efficiency, in which further control over disbursement is likely to provide savings.

Despite both economic and political similarities, Central Asian Countries implemented a plenty of alternative economic and political reforms. However, Alexander Libman et al., (2008) note that in Tajikistan the approaches and implementation of economic reforms were delayed due to poor quality of governance comparing to other countries in the region. The main reason for the low quality of governance was the civil war of the early 1990s and consequences of this conflict.

In addition, less state interference in the market further reduced the budget deficit. Structural reforms in public finances were important objectives of economic policy in most countries in transition.

4.2. Strategic and Medium-Term Expenditure Priorities

The Mid-Term Expenditure Framework (MTEF) concept comes from the public finance management reforms that were undertaken in the EU and other countries in the

1980s and 1990s. The following countries, New Zealand; the United Kingdom and Australia were among the leaders introducing the MTEF.

Medium-term expenditure system is to assess the sources that affect political change and new programs and the organization of the budget needed in the future with long-term planning applications costs.

Medium-term expenditure system provides or allows for viewing over financial measures in the application of budget expenditures (Schick, 1999, p.13).

Medium-term expenditure system includes the distribution of sources, from the top to the bottom, the estimate of the short-and medium-term political costs from the bottom to the top, and the harmony of these costs with available sources, in the end (the World Bank, Public Expenditure Management Handbook, 1998, p.48).

Medium-term expenditure planning costs focusing costs with policy priorities and makes it possible to connect to a particular method with budget realities and representations connecting frame (World Bank, Public Expenditure Management Handbook, 1998, p.3).

The system depends on the safe commitments in achieving macro-financial discipline, binding budget for a certain technique and strategic priorities of governments and central sites for the distribution of publicsources (World Bank, "What is the MTEF").

4.2.1. The Mid-Term Expenditure Framework in CIS countries

In this regard, since the 1990s after the collapse of the Soviet Union the MTEF has been introduced in a number of CIS countries, where it was one of the key tools in support of the budget reform program. Table 4.2.1 explains the MTEF process in the

CIS countries. It should be noted that the principles and main elements of the MTEFs are the same in all CIS countries. Table 4.2.1 shows the period, which a MTEF was introduced in CIS countries.

Table 4.2.1. Transition countries with MTEFs

Commonwealth of Independent States	
Kyrgyz Republic	1998
Armenia	2000
Russia	2001
Moldova	2002
Georgia	2005
Tajikistan	2006

Source: Created by author from (http://www.mpsfc.gov.md/file/sedinte_donatori/material7_5_en.pdf)

However, according to DFID (2009) initial evaluations of the MTEF in 2002 showed limited success because of the highly complex, political and institutional nature of the task.

4.3. Analysis of the Public Expenditure Management System of the RT

4.3.1. Weaknesses

Tajikistan launched a major reform, the success of which will depend in part on the attention given to each of its elements (IMF, 2010).

More clearly Tajikistan has faced unprecedented challenges in the past decade. The country gained independence in 1991 and immediately faced severe shocks, including the loss of large transfers from the center, a sharp deterioration in the terms of trade, and major natural.

Tajikistan is the weakest country within the Central Asian countries. The state is roughly considered to be economically and governmentally fragile. However, according to DFID (2012) Tajikistan is very unlikely to reach the Millennium Development Goals and accordingly the relative poverty rate is 47.2% in 2009.

The reforms the government initiated were influenced by the emergence of high inflation rates, an increase in the budget deficit and huge public debt, while the pressure from international financial institutions and the rapid recovery of other countries, including other former Soviet republics previously mentioned, added further strength to the demand for change.

In 2003, the overall fiscal balance registered a surplus of 0.6 percent of GDP (excluding the PIP) and an overall deficit of 2.4 percent of GDP (including the PIP). Overall, though, the financial situation remains precarious due to a continued large burden of external debt and very sizable quasi-fiscal deficits. At end of 2003, the total external debt stock was an estimated 73 percent of GDP (World Bank, 2005).

However, according to PEFA (2007), Tajikistan's tax revenue grades amongst the lowermost in the commonwealth of independent states (CIS) region. The average percentage of tax revenue to GDP has improved to around 16 per cent in 2004 and 2005. But, this ratio is still low by regional standards, although unmoving in line with other low-income countries, many of who also suffer from tax collection problems.

Moreover, due to the global financial crisis there was a negative impact on the economy of the RT. In this connection it was impossible for the Government to prepare the state budget on the basis of Medium-Term Expenditure Framework. Thus, reduced the development of cash transfers by commercial banks due to the decrease of deposits and active means in foreign currencies that faced problems with the solvency.

On the other hand, Tajikistan has strongly suffered from the global economic and financial crisis of 2008-09 as a result of a significant drop in remittances, a major source of foreign exchange earnings and revenue for many families, and the collapse of prices for cotton and aluminum, the main export items. In addition, the local currency depreciated significantly in 2009 (EBRD, 2012).

In early 2009 when the financial crisis was beginning to show global effects, during the months of January – September, the rate of national currency fell by 28 percent, and cash flow compared to 2008 decreased by 25 percent.

The state Budget of the RT in 2009, was adopted in November 2008 and due to crisis was considered by Parliament in May 2009 and had been reduced to TJS 459 million (about $ 107 million).

Imports and remittances were reduced fully from the 2008/09 crises. However, according to IMF (2012) remittances are still particularly important for Moldova, the Kyrgyz Republic and Tajikistan, where remittances from Russia are a key source of foreign exchange and consists around 15-40 per cent of these countries GDP.

The scope for efficiency improvements in public expenditure was difficult to assess because of data limitations. However, major allocative and technical inefficiencies characterized public expenditures, so there must be the potential for improving both types of efficiency through reforms to financial system.

Such approaches as a medium-term expenditure framework, performance-based budgeting, treasury single account, and accrual accounting were taken to eliminate weaknesses and inaccuracies.

In general, before providing reforms, the financial system has major weaknesses such as poor financial or non-financial statements, poor linkage between successive stage expenditure, and lack of control on the state of funds, and less extent human resources and support systems. These weaknesses let to the government launching an ambitious program of reforms.

4.3.2. Public expenditure and financial accountability assessment in the RT

The purpose of the Public Expenditure and Financial Accountability (PEFA) assessment is to provide the Government with an objective assessment of the country's Public Finance Management (PFM) systems. It aims to support better understanding of the overall budget cycle and government spending, as well as assistance in identifying those parts of the public finance management system that must be reformed.

It also promotes a common understanding between the Government and the donors wishing to support further PFM reforms (PEFA, 2007, 2012).

The Government formally nominated the PEFA methodology as measurable indicators for monitoring fully supported by donors.

It should be noted that PEFA assessment was undertaken two times in 2007 and 2012 and these two-conducted PEFA assessment were focused on the Government of Tajikistan – at the Republican Level. Thus, they did not cover the sub-national level or provincial administrations.

This framework has a total of 31 indicators, 28 indicators covering the sustainability of the country's PFM system, and 3 indicators addressing the interaction of donors with a budget process and PFM system in the country. The sources of information include official governments reports, and external evaluations reports of the WB, IMF and other institutions. Thus, various PFM components have been examined including fiscal and debt management, budget formulation and execution, internal control, procurement, accounting and reporting, audit, transparency and external controls.

Indicators are scored from A to D, with A indicating extremely sound PFM performance, D indicating poor performance. There is 4 point scale equivalent numerical rating—1 is equivalent to D; 2 to C; 3 to B, and 4 to A, In this analysis, D+ assumes an equivalent scale point of 1.5; C+ is 2.5; and B+ is 3.5. Table 4.3.1 presents the results for the period of 2007 and 2012 in Tajikistan, with 31 indicators, of which the first 28 are focused on government performance, whilst the last three indicators look at donor practices. However, all 31 indicators are interrelated. As Bangura argues "Donor practices, for instance, could impact a lot on the credibility of national budget for a fragile state like Sierra Leone with high aid dependency ratio" (Bangura 2012, p.16).

De Renzio also found that the average score of PEFA indicator trend pushed to start higher and reduce the movement through the budget cycle. However, countries have been less successful in accomplishing than in comparing to the budget preparation, and it seems accounting practice even harder, and countries are at low oversight (De Renzio, 2009).

Table 4.3.1 shows PEFA assessment results in Tajikistan, while in 2012 it has slightly higher numerical score 2.33, but its difference with the period of 2007 is not as wide at 2.05; both having a PFM grade of C. The PEFA assessment focuses mainly on the national level of the PFM system of the country. At the national level, it aims to cover the whole system of PFM, including crosscutting and general issues, the revenues, budget cycle, from planning to execution, monitoring and audit, as well as the interaction of donors with PFM system.

Table 4.3.1 Overview of Assessment Results

	Periods	2007		2012	
	Dimensions & Indicators	**Grade**	**Score**	**Grade**	**Score**
	A. PFM Out-Turns: Budget Credibility	**-**	**2.87**	**-**	**2.75**
1. M1	Aggregate Expenditure Out-turn	B	3.00	A	4.00
2. M1	Composition of Expenditure Out-Turn	C	2.00	C+	2.50
3. M1	Aggregate Revenue Out-Turn	A	4.00	B	3.00
4. M1	Stock and Monitoring of Expenditure Payment Arrears	C+	2.50	D+	1.50
	B. Key Cross-Cutting Issues: Comprehensiveness and Transparency	**-**	**2.25**	**-**	**3.08**
5. M1	Classification of the budget	D	1.00	B	3.00
6. M1	Comprehensiveness of information included in budget documentation	A	4.00	A	4.00
7. M1	Extent of unreported government operations	C+	2.50	B+	3.50
8. M2	Transparency of inter-governmental fiscal relations	B	3.00	B+	3.50
9. M1	Oversight of aggregate fiscal risk from other public sector entities	C	2.00	C+	2.50
10. M1	Public access to fiscal information	D	1.00	C	2.00
	C. Budget Cycle				
	(i) Policy-Based Budgeting	**-**	**2.25**	**-**	**2.50**
11. M2	Orderliness and participation in annual budget process	B	3.00	B+	3.50
12. M2	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D+	1.50	D+	1.50
	(ii) Predictability and Control in Budget Execution	**-**	**1.88**	**-**	**2.16**
13. M2	Transparency of taxpayer obligations and liabilities	C	2.00	B	3.00
14. M2	Effectiveness of measures for taxpayer registration and tax assessment	D+	1.50	C	2.00
15. M1	Effectiveness in collection of tax payments	-	-	D+	1.50
16. M1	Predictability in the availability of funds for commitment of expenditures	D+	1.50	D+	1.50
17. M2	Recording and management of cash balances, debt and	C+	2.50	C+	2.50

	guarantees				
18. M1	Effectiveness of payroll controls	D+	1.50	D	1.50
19. M2	Competition, value for money and controls in procurement	C	2.00	C+	2.50
20. M1	Effectiveness of internal controls for non-salary expenditure	C+	2.50	C+	2.50
21. M1	Effectiveness of internal audit	D+	1.50	C+	2.50
	(iii) Accounting, Recording and Reporting	-	**2.25**	-	**2.38**
22. M2	Timeliness and regularity of accounts reconciliation	B	3.00	B+	3.50
23.	Availability of information on resources received by service delivery units	C	2.00	D	1.00
24. M1	Quality and timeliness of in-year budget reports	C+	2.50	C+	2.50
25. M1	Quality and timeliness of financial statements	D+	1.50	C+	2.50
	(iv) External Scrutiny and Audit	-	**1.50**	-	**2.00**
26. M1	Scope, nature, and follow-up of external audit	D+	1.50	D+	1.50
27. M1	Legislative scrutiny of the annual budget law	C	2.00	B+	3.50
28. M1	Legislative scrutiny of external audit reports	D	1.00	D	1.00
	D. Donor Practices	-	**1.33**	-	**1.50**
D-1/M1	Predictability of direct budget support	D+	1.50	D+	1.50
D-2/M1	Financial information provided by donors for budget and reporting on project and program aid	D+	1.50	C	2.00
D-3/M1	Proportion of aid that is managed by use of national procedures	D	1.00	D	1.00
	Average	-	**2.05**	-	**2.33**

Source: Created by author from www.pefa.org

In general overall objectives of the assessment is to update progress made in the implementation of PFM reforms in Tajikistan from the time when assessments conducted in 2007 and last in 2012. However, the table presents, Tajikistan's PFM performance generally slightly improved during the periods from 2007 to 2012. In particular, there was remarkable improvement only regarding the comprehensiveness and transparency of the budget, which scored 3.08. In a sense, some of the seven PFM dimensions assessed have slightly improved but in particular remaining low by indicators. In these assessments mainly lagging are: (i) the credibility of the budget, which underlined the management of the gap between planned and actual spending in the course of implementing national programs; and (ii) policy-based budget process, underlying based on evidence of financial planning through the preparation and submission of bottom-up sectoral plans during a multi-year planning framework.

4.3.3. Diagnosis of the current Public Sector Management System

Fiscal discipline

Utilizing conservative budget estimates and limited requirements for the budget are basic principles in the context of bounded resources and economic impact on the country.

According to Public Finance Management strategy[6] (PFMS) paper, the current Treasury system is not equipped with the prerequisite tools for the effectively management of the budget execution and reporting processes. Treasury Single Account (TSA) was introduced partially, in other words local budgets act through individual bank accounts in commercial banks, and special extra budgetary funds of budget organizations run through separate accounts.

The tax revenues are still quite low, partly because of the tax benefits, as well as weaknesses in tax administration (and the resulting higher tax debt). In addition, there are substantial quasi-fiscal activities of state owned enterprises (SOEs), and the risk of renewed practice of issuing state guarantees for the debts by SOEs. Monitoring the financial risks associated with the SOEs is weak. The deficit and debt provision requires careful monitoring to ensure that the debt burden does not again become unstable.

According PFM strategy paper (2008, p.5), accounting system in Tajikistan is

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[6] Approved by the Decree of the President of the Republic of Tajikistan on September 20, 2008 # 542

focused on providing a series of reforms: improving the cash method of accounting for control of budget spending, improve expenditure accounting for budgeting and decision-making, use of accrual-based accounting methodology for evaluating budget performance in budget organizations. None of the above reforms is effective on the following: the chart of accounts is not detailed enough for a deep analysis of income and expenditure to ensure effective decision-making, the basis of accrual accounting in the budget organizations does not comply international standards (PFMs, 2008).

Strategic allocation of resources

Public and policy-based competition for resources is not yet developed in the management of public finances (PFMS, 2008). 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 its infancy. Tajikistan has started to implement a Medium Term Expenditure Framework (MTEF).

The Decree on the start of development of MTEF[7] was adopted by the Government on September 2006 and implementation has been based in accordance with Article 34 of the Law of the RT " On public finance of the RT", for the efficient use of resources under the purposeful state sectoral programs for medium term.

According to PFMS (2008, p.6) the main asset of the current system is the orderly planning and budget processes, which is an important condition for the implementation of state policy through the competent distribution of budget resources. However, in the last three years, expenditures increased on average by more than 8

[7] The Decree of the Government of the Republic of Tajikistan as of September 07, 2006, #409 on "Implementation of Mid-Term Expenditure Framework in the Republic of Tajikistan".

percent during the execution of the budget. The uneven provision of additional resources has led to significant shifts in the sectoral allocation of funds. While this practice allows flexibility in budget implementation it makes the distribution of decisions taken at the planning stage of the budget less than ideal.

4.4. Medium-Term Expenditure Priorities in the RT

The development of Tajikistan's economy in recent years was mainly associated with government economic functions. The Government intends to continue the implementation of economic measures aimed at mitigating the gaps in the market, and the redistribution of income and resources, and to stabilize the economy in the coming years. The efficiency and integrity of government's social and economic policy is to clarify the priority problems and their solution based on the medium-term (and long term) strategic planning.

Inter alia, one of the prioritized tasks for the government of Tajikistan is the reduction of poverty in the country. However, according to IMF the poverty rate gradually declined in recent years from 72.4% in 2003, to 53.5% in 2007, and 46.7% in 2009 (IMF, 2012). The Poverty Reduction Strategic Program (PRSP) was developed with the participation of representatives of various levels of government and several non-governmental organizations and independent experts and was approved by the Government in June 2002.

Integration of MTEF in the budget process, a practice that has been used regularly since 2006, up to date plays an important role in the integrated problem solving. In this respect, it should be noted that since 2006 in Tajikistan medium-term frameworks of public expenditure is legally recognized as part of the overall budget process and in accordance with the procedure defined by law.

According to article 34, the Law of the RT on State public finance, the MTEF regulation approved in June 2010 states that the effective use of the resources within the substantial state sectorial programs for medium term the Government regulates an approval of MTEF for three years and sends it for information to Majlisi namoyandagon Majlisi Olii RT, as well as to line ministries, enterprises and organizations.

Thus, the document also states that the Ministry of Finance of the RT jointly with relevant ministries and enterprises has to prepare the draft of State budget of the RT for the next year according to indicators of MTEF and on the set deadline to send the draft for review to the Government.

The medium-term strategy covers current and capital spending aimed at government funding of the budget sector. And also this involves the major line ministries based on the medium-term budget request and a detailed explanation of sectoral medium-term targets, sectoral expenditure policies, program priorities and forecast of sectoral spending in accordance with the functional groups of budget for the next three years.

4.4.1. Goal and Objectives of MTEF in RT

The MTEFs is one of the basic tools of Government’s fiscal operations. This document outlines the fiscal policy, in cooperation with the sectoral MTEF and presents the medium term public expenditure framework of the Government. Thus, in order to formulate a streamlined public expenditure policy it should take account of existing macroeconomic conditions, the availability of resources and the requirements of public expenditure policy in the medium and possibly long-term periods.

To simplify the preparatory process of MTEF the finance ministry established an intersectoral working group for the relevant ministries to develop an MTEF. The process effectively started in February 2010 to prepare "Guidance for the preparation of MTEF for the period of 2011 – 2013".

The main goal of the MTEF is to improve the management of government spending. De facto, the efficiency of public expenditure can be estimated using the following three criteria:

I) Aggregate fiscal discipline – The package of budgetary resources should include all government expenditures and to be formed prior to the distribution of expenditure in certain directions;

II) Efficient allocation of government expenditures - government spending should be agreed with government priorities, and intersectoral and intra-allocation of resources should be carried out on these priorities;

III) Technical (productive) efficiency - line ministries should choose for financing only those projects and programs that can provide the highest attainable level of efficiency in the sector or sub-sector.

Introduction of an MTEF has the following objectives: I) improve macroeconomic equilibrium via realistic and comprehensive revenue envelope design; II) increase reallocation of funds within and between sectors, on the basis of program priorities; III) promoting in alleviation of the existing shortcomings and financing with a view to improve the quality of future programs; IY) establish strict budgetary restrictions in sectors, creating conditions and levers for the spending agencies for the efficient and targeted use of available funds; Y) improving the system of budgetary programs' evaluation and transparency of public finance management.

Nevertheless, these purposes can be done through the implementation of the

MTEF, which is fundamentally designed and results-oriented to increase the efficiency of public spending.

4.4.2. Sector budget and medium term financial perspectives

The global financial crisis also forced the finance ministry to focus on the revision of the 2009 budget. In this regard, the macroeconomic indicators were below the standard level for the RT and it was not possible to prepare the State Budget on the basis of MTEFs. As a result the MTEFs for 2010-2012 preparation was temporarily put aside. The reducing of revenue in 2009 forced the Government to cut the budget by TJS 400 million whilst at the same time protecting the social expenditure (GoT, 2009).

However, it should be noted that in 2010 the MTEF for the period 2010 - 2012 has been temporarily suspended in the republics of Armenia, Moldova, Kyrgyzstan, and Russia due to the financial crises.

In accordance with the request of the Government on December 30, 2009 under # 133 - F for the period of 2011 - 2013 the budget has been developed under MTEFs for the following sectors: the Education, Health, Social Security, Agriculture, Energy, Transport and communication, land reclamation, Water industry and Culture, that are the priority sectors of the National Development Strategy (NDS) and the PRS.

According to MTEF (2007) the development process of the MTEF for 2011-2013 and the Draft state budget of 2011 and coming years will be included in the two main stages in the budget process including I) Setting expenditure limits and preparing the draft explanatory note to the State Budget Law and II) Developing the MTEF document and the draft of State Budget Law.

However, according to PEFA assessment (2012) the relevant ministries are weak in the preparation and application of MTEF including planning of budget, and its implementation.

4.5. The coordination process with international financial partners and some results.

The finance ministry and the role of development partners is very important in the implementation of the policy of economic and financial reforms, and in general, the development of the overall national economy of the country.

In the last decade donors and partner countries concluded a number of partnership frameworks aiming to increase aid effectiveness and development results. As Bangura argues these frameworks ranged from the Monterrey Consensus “2002” and Rome Declaration “2003”, to the Paris Declaration “2005”, Accra Agenda for Action “2008”, and the Busan Partnership for Effective Development “2011” (Bangura 2012, p.3).

In November 2009, the Government of Tajikistan signed a Joint Country Partnership Strategy (JCPS) with twelve donors (MoF, 2011). The document developed under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action is geared towards I) bringing partners together around shared commitment to support the development goals of Tajikistan; II) outlining of a joint strategic vision and single guiding framework for effective aid coordination and management of JCPS partners’ assistance; III) strengthening the capacity of the government to better manage the development of cooperation.

The result of this cooperation in the period of independence is that the Government of Tajikistan in cooperation with international financial organizations signed a joint investment of more than 100 projects worth TJS 6.7 billion (U.S $ 1.4

billion). These were implemented in various spheres of the economy, including; 9 projects in authorities totaling US $ 139.2 million; in the field of education 8 projects totaling $ 61.4 million; in social protection 4 projects worth $ 54.9 million; in the housing and utilities sector 4 projects worth $15.9 million; in the agricultural sector 18 projects amounting to $163.1 million; in the energy sector 6 projects totaling $ 473.5 million, in the transport sector 17 projects worth $ 243.6 million, and 6 projects for other industries worth $ 13 million. Has also signed 9 agreements worth $ 209.4 million U.S. dollars, which were sent to support the state budget and social sectors (industries).

In accordance with the "Development partner profiles, 2011[8]", nowadays-external assistance for the development in Tajikistan includes about 80 partners involving bilateral and multilateral donors as well as Non-government organizations (NGOs).

According PEFA assessment direct budget support is an important source for the government's revenue in many countries. However, poor predictability of budget support influences financial management of the government in much the same way as the impact of external shocks on the domestic revenue collection (PEFA 2012, p. 99).

However, despite some achievements during post-independence the utilization of effective aid has not been satisfactory. In this regard, according to PEFA (2007 & 2012) donor practices were especially rated poorly. Their practices (table 4.3.1, dimension G) were already poorly rated at 1.33 points and 1.50. Thus, some of the donor practices have slightly improved, such as predictability of direct budget support (D-1); however magnitude of score remains low. In these assessments indicators mainly lagging are Predictability of direct budget support (D-1) and Proportion of aid that is

[8] Development partner profile 2011, (State Committee on Investments and State Property Management of the RT in partnership with the UNDP and DFID, Dushanbe, 2011)

managed by use of national procedures (D-3), both remained unchanged within these periods. It indicates that they were the worst out of the seven PFM dimensions assessed.

The main problems arise from diverse priorities not merely amongst donor and a country, but between donors and the low reach of aid funding in the budget system. Despite this low magnitude score in Tajikistan, De Renzio (2009) found a significant and positive association between income level and PEFA score, and between aid and PEFA score, using 57 PEFA indicators in the analysis. This implies improved public financial management can bring about increased economic growth and this would lead to more aid assistance from development partners.

But, according to WB, the problems in Tajikistan resulted from poor coordination and slow process of reform. The result of lack coordination and duplication of functions undermines reform initiatives, thereby leading to inefficient and ineffective outcomes in development efforts (WB, 2011).

4.5.1. Implementation of PFM reform

As was mentioned above after these shortcomings that government of Tajikistan in cooperation with International financial Institutions used a timely momentum to encourage reforms in public financial management, economic, political, social policy and law sectors.

The government of Tajikistan was forced to follow complex reforms and one of the most important reforms in order to manage public expenditure was Public Financial Management (PFM).

According to WB (2011) a functioning PFM system is just one of many ingredients required for successful post conflict state building. Also necessary to note is the need for robust coordination mechanism to guide the government and development partners in the implementation of reforms.

The need too improve public finance effectiveness and accelerating socio-economic development of the country is clearly reflected in Article 69 of the Constitution of the RT. It is in view of this that the President adopted the PFM Reform Strategy on March 20, 2009 within the overall framework of the National Development Strategy (NDS 2006-2015) and the Public Administration Reform Strategy (PARS 2006 – 2015) and the PRS (2007 – 2009) updated to cover the period of up to 2012. The key reform areas include: implementation of the Treasury Single Account, closer monitoring of fiscal aspects of large state-owned enterprises, social services and safety net reform.

In the area of PFM the main objectives relate to the extension of the horizon of fiscal planning and the gradual move to performance-based budgeting, which may allow better targeting of spending and reduce instability in the distribution of expenditure.

4.5.2. Legal and Institutional Framework for PFM

The legal framework of PFM

The primary legal document on PFM is the law "On public finance of the RT"[9]. The law identifies three main part of the government budget including: the republican budget, the budgets of state target funds and local budgets.

The other important laws in order to accomplish PFM reforms include: Legislations relating to the function of the Treasury (#396, June 18, 2008); the operations of the National Bank of Tajikistan (#383, December 14, 1996 with the latest amendments, July 2007); State Financial Control in the RT (#66, December 2, 2002 with the latest amendments, July 2007); State and State Guaranteed Borrowing and

[9] Law On public finance of the Republic of Tajikistan with amended in 2008

Debt (# 886, December 11, 1999); Local Bodies of State Power (#28, May 17, 2004); and Self-Management Bodies in Urban and Rural Settlements (#1094, December 1, 1994). New Tax and Customs Codes came into force in early 2005 (#61 and #62, December 3, 2004 with the latest amendments, June 2008), and the Law on Public Procurement of Goods, Works and Services was adopted in 2006 (#168, March 3, 2006).

However, according to DFID (2009), while many donors in the developing countries have been assisting with legislative and other regulatory reforms, there have been serious non-compliance from key development stakeholders; just instituting reforms is unlikely to achieve desired results in the absence of the requisite buy-in from the various development actors.

4.5.3. PFM reform processes

Emomali Rahmon[10] notes that as part of the reform of the financial policy of the RT, in particular, will go to the implementation of strategic goals intentions of Tajikistan, including the acquisition of energy independence, a way out of the problem of communication, ensuring food security and social protection of the population, the benefit of which is determined in its policy.

A number of steps to public financial management reform have been undertaken in recent years, many of which are still in the process of being (fully) implemented and / or deepened, while a new round of reforms is on the horizon.

However, the main conclusions and findings from the PEFA reports remain valid and relevant and will be considered in the ongoing PFM reform (MoF, 2007, 2012).

[10] President of the Republic of Tajikistan

According PEFA assessment in 2007, Tajikistan scored ‘A’ in 2 areas, ‘B’ in 4 areas, ‘C’ in 11 areas, and ‘D’ in 13 areas. However, one area was not scored. Considering this report (2007) tax revenue execution is quite low mainly for two main reasons: 1) exemptions from taxes are extensive, tax costs are not systemically reported, and there are considerable transaction costs to the government: and 2) structural weaknesses in tax administration leading to high tax arrears (PEFA, 2007). In this regard, the effectiveness of the measures for taxpayer registration and tax assessment poorly rated at 1.5 points (chapter 4, table 4.3.1, dimension C).

Given that the scores of the PEFA assessment (2012) have not been encouraging, the Government is ever more determined to improve the scores at least more than 50 percent by 2018 (Decree, 2009).

Critical questions have been asked as to why PFM reforms have not achieved intended results in the last decade (Carole and Nico). Some of the observations made in respect of the lukewarm performance of the PFM reforms point to: the fact that the budget is a political process and not only a technical one; that the reform programs need country ownership and political commitment to achieve real sustainable progress, and donor coordination and harmonization is essential (DFID, 2009).

In this regard, researchers are also interested to investigate the impact of PFM reforms on broader state efforts, which are perceived as inadequate in the process (Fritz et al., 2011). This stems from weak capacity of the country, limited domestic revenue, and the consequences of high aid dependency; there have also been high off-budget funding levels and the diversion of qualified specialists from the government to better-paying international organizations.

In the case of Tajikistan, despite the low PFM performance as rated by the scores, there is a general optimism for future progress due to the range of components of reforms the government is believed to have effectively implemented (EU 2007). The government launched the complex process of reforms that have already lead to some positive results, but it is expected that the reform process will take 10 to 15 years with the overall capacity and institutional environment (EU, 2010).

However, starting from 2008 the government has moved to establish the Single Treasury Account (TSA). To date the TSA has been implemented at the Republican level. And so far all revenue and expenditure bank accounts for the Republican Budget and 5 local budgets are now in the TSA system, maintained at the National Bank (PEFA 2012. p.87)

It should be noted that economic growth is the most important determining factor of PFM quality.

De Renzio et al., (2011) argue that the probability that the reform assistance may not be the most effective way of improving the quality of PFM reform. With a support of budget or any other forms of economic development assistance, which is benefit the country economically, and through this action would improve the quality of PFM.

4.5.4. Recent and ongoing PFM reform with donor perspectives

The Government needs to work hard to implement PFM reforms. An effective use of donor resources is important to achieve these goals. The trend in respect to increase use of donor partner country systems means that, in aid-dependent countries, donors play an important role in promoting PFM reform.

According to UN in the recent years, the Government of Tajikistan and finance ministry have managed to create an effective mechanism for donor coordination. This has proved to be successful in developing the PFM Strategy and the preparation of the Public Finance Modernization Project (EU, 2010).

However, according to the PFM Reform Strategy it will also serve as the basis for donors to provide technical assistance, without duplicating or conflicting efforts.

Though, external assistance is helpful for strengthening PFM systems, but donor assistance at the same time creates its own challenges. According to WB, a key challenge has been overcoming capacity problem in recipient countries. This is compounded by the note shifts of government officials to offices established by donor agencies, and the lack of coordination among donors to support capacity building of the state (WB, 2011).

One of the most important projects that provide effectiveness in PEM and will be implemented through PFM reform was signed in October 4, 2012: The "Public Sector Accounting Reform Project" by the Finance Minister Safarali Najmiddinov, the WB Country Manager in Tajikistan Marsha Olive, and Deputy Country Director for Swiss Cooperation Office in Tajikistan, Nicolas Guigas. The aim of the project is to support the Government of Tajikistan to create a more transparent accounting and budgetary reporting practices for the execution of the state budget.

As Marsha Olive emphasized "*Strengthening transparency and accountability for public resources is a key foundation for all of our programs in Tajikistan*,"

The Public Sector Accounting Reform in Tajikistan project is intended to complement the efforts and activities of WB Governance Modernization Project, which has been implemented since 2009.

In accordance with the priorities of the PFM strategy, the public financial management modernization project is working with the Government of Tajikistan to support capacity building in the budget preparation and execution, improve IT capacity and infrastructure of the Ministry of Finance.

However, among donors the participation of the European Commission (EC) in the PFM reform is essential. In particular, by the EU has financed four major projects that come directly in addition to the project of modernization of PFM. These projects include: I) Support to Public Finance Management Capacity Building in Tajikistan (Public Internal and Financial Control and Improvement of the Treasury Management (2007); II) Support to Public Finance Management Capacity Building in Tajikistan (Hardware, Software and Network in 73 local treasuries (2006); III) Strengthening the Macro Economic Forecasting and Modeling (2007); and IV) MTEF in the Social Sectors (2007). In this connection some of these projects are still continuing as a second or third Phases to support the PFM reform.

In order to implement the PFM reform in Tajikistan, the EU provided EUR € 8 million towards the mentioned programs, and is proposed to be implemented over three years.

Table 4.5.1. The EU support program for the PFM reform

	Category	**Contribution In** € (EUR)	Organi - zation
1.	**Services**	**7 550 000**	**EC**
	Including:		
1.1.	I) Technical Assistance: Capacity building macro-economic forecasting & fiscal policy formulation, MTEF, Preconditions fiscal federalism, Tajik Financial Institute, (results 1 - 4) II) Public auditing PIFC (result 5) III) PEFA implementation	7 390 000	EC

1.2.	Monitoring and evaluation	100 000	EC
1.3.	Audit and verification	60 000	EC
2.	**Supplies**	**400 000**	**EC**
2.1.	Provision of equipment for the Tajik Financial Institute	400 000	EC
3	**3. Communication/Visibility**	**50 000**	**EC**

Source: Created by author from EU (Reform Support Program)

Thus, the European Commission by co-financing such projects strengthens consistency and coherence of its interactions in the field of PFM and strengthens the overall aid coordination mechanisms.

4.5.5. Donors' Instruments in PFM Reforms

The majority of the CIS countries have received considerable donor assistance during the transition period in the 1990s and 2000s (CASE, 2010). Donors supported these countries with a massive program of reforms towards economic recovery and social and political development. However, the governments also played a crucial role in the development and implementation of these reforms.

A case study by a group of specialists (UNISEF, 2010) showed that the basic PFM reforms till 2007 in many CIS countries were established i) complete budget classification, ii) complete budget coverage and capital budget integration, iii) consolidated treasury single accounts, and iv) adequate budget controls. And accordingly most of analyzed countries introduced the full classification of government revenues and expenditures by economic, functional, organizational, program and funding codes. However, there are still problems with the full implementation of basic elements of the reforms.

It should be noted that post-conflict countries often have increased safety fears, very low human capacity, and the need for reconstruction and a high dependency on foreign aid. Therefore, dependence on aid has a great influence by donor agencies.

Fritz, Ledger, and Lopez (2011) conducted case studies in eight post-conflict countries with PFM reform. The study included Afghanistan, Cambodia, Kosovo, Tajikistan, Democratic Republic of the Congo, Sierra Leone, Liberia, and the West Bank and Gaza. These countries each passed the post-conflict periods of intensive engagement with the international aid community, which included PFM reforms. In this study general findings showed that donor-supported PFM reform efforts do have a positive impact on systems. Table 4.5.2 shows their findings.

Table 4.5.2. The relative progress on PFM rebuilding and reforms

		Approximate starting points of current states and peace-building	Relative progress on PFM rebuilding and reforms by 2010*
1	Afghanistan	2001-2002	Substantial progress
2	Cambodia	1991-1993	Intermediate progress
3	DR Congo	2001	Limited progress
4	Kosovo	1999	Substantial progress
5	Liberia	2003	Intermediate progress
6	Sierra Leone	2002	Substantial progress
7	Tajikistan	1997	Limited progress

Source: WB from (*Assessment based on most recent PEFA scores and case study information)

Thus, Fritz et al., note that significant reform progress has been made in some of the post-conflict countries despite of low human capacity, levels of continuing insecurity, absence of any prehistory of independent statehood, acute levels of under development.

However, according WB in Tajikistan, PFM reforms have been slow and limited in scope to the treasury function and relatively simple, undisputed areas, while efforts at establishing an MTEF did not gain much traction by 2010.

4.5.6. Some of the recent and ongoing reforms relating to PFM in the RT

The RT government took the following reforms since the year 2007, when public finance reform introduced:

i) By the Decree of the President of the RT (2009) the PFM Council was established with the support of EU and it was also assumed that a 10-year PFM reform strategy should be implemented on the basis of rolling 3-year PFM action plan[11].

ii) The new guidelines for internal auditing of line ministries was adopted by the Ministry of Finance and with the support of EU project adopted a medium-term MTEF with specific guidelines (MoF, 2010).

iii) The Administrative Classification at Local Level was approved with the support of EU (GoT, 2011).

iv) The new approved law on Public Finance including the MTEF was prepared by the EU MTEF project (GoT, 2011).

v) The law for a "Supreme Audit Institution" was approved (GoT, 2011).

vi) Progress has been made in respect of the Treasury Single Account and cash management and commitment control is under development (assisted by the IMF regional advisor).

vii) With the support of EU the Government has accepted the Turkish proposal to use their financial management information system (FMIS) and software (SGB.net).

viii) In this regard, with the support of EU the budget execution reports are regularly

[11] Action plan was also approved in November 2009

published and automated budget execution is carried out in all the local offices of the Ministry of Finance.

ix) The new tax code was approved in 2013. This was in open discussion with private sector until September 2012 with the support of IMF, IFC and other donors (GoT, 2013).

However, according to WB in some cases, the political commitment in Tajikistan has been less coherent and offered less space for development partners to become actively involved. This circumstance limited the space for the participation of donors. As a result, Tajikistan has received aid less than expected towards the PFM reform process (WB, 2011).

Also, it should be noted that it is possible for the countries receiving large amounts of aid to attain well-functioning PFM systems, but it is also possible for donors to lower the risk of funds being non-target or plundered for countries whose PFM system are not strong.

There are also many weaknesses in the PFM system, which is considered as an obstacle in the reform implementation. In this regard, according to EU the main constraints in development are the weak capacity in policy formulation, analysis, monitoring and evaluation. Thus, the highly centralized hierarchy system substantially limits the operational potential of ministries and overall efficiency (EU, 2010).

However, during the PEFA assessment (2012) in Tajikistan there were also defined weaknesses in the PFM system, which in particular include the following:

i) The fiscal framework is not yet totally reliable in the field of budget planning.

ii) Inadequate linkages between the budget and the policies, fragmented budgeting processes and scarcity of analytical material in the budget documents and their budgetary implications;

iii) Deficiencies in financial reporting and accounting, including a lack of proper monitoring of expenditure commitment, the lack of reporting on the quasi-fiscal costs incurred by state-owned enterprises, in spite of their considerable size and the lack of financial risk assessment and public expenditure;

iv) Lack of administrative (organizational) budget classification that is necessary for accountability;

v) Weak monitoring of payroll and internal audit;

vi) Weak external audit.

It should be noted that each activity in the PFM Strategy contributes directly to one or several PEFA indicators. Monitoring of achievement of quantitative targets will be conducted with the use of a renewed PEFA assessment, and the next such assessment is planned to be held by the end of 2015 (EU, 2012).

CHAPTER 5

CONCLUSION AND POLICY IMPLICATIONS

5.1. Conclusion

Changing conditions have resulted in many developing countries including CIS countries to apply western approaches and models as a form of institutional framework to address the weaknesses in the Public Expenditure Management system.

The study has explored the Tajikistan's Public Expenditure Management (PEM) System and examined whether the approaches and reforms have been effective in reducing weaknesses and in attaining achievements of the desired improvements in the PEM system. However, the implementation of such approaches has generally produced mixed results in developing countries especially in Tajikistan because of political disagreement, and poor performance as well as poor understanding of the concepts and the western context.

This study was directed at assessing the roles of the Ministry of Finance and other key institutions that assigned to implement Public Finance Management (PFM) reform in Tajikistan since 2007. The main PFM objectives relate extension the horizon of fiscal planning and the gradual move to performance-based budgeting, which allow better targeting of spending and reduce instability in the distribution of expenditure.

However, it should be noted that the developmental programs, which were provided before 2000 basically directed at restoring the most important areas of social infrastructure and overcoming capacity problem.

The modern approaches mainly have been introduced since 2007 to enhance professionalism, transparency and accountability in the PEM system by reinforcing control of ministries and strengthening checks and balances mechanisms. Furthermore, these approaches are expected to increase efficiency and accelerate economic development in general.

Before implementation of approaches and reforms to financial system there were major weaknesses such as poor financial or non-financial statements. In addition, poor linkage between successive stage expenditure, and lack of control on the state of funds, and less extent human resources and support systems found to be main problems of effective PEM systems.

Related to this, Alexander Libman et al. (2008) also claim that the approaches and implementation of economic reforms in Tajikistan were delayed due to poor quality of governance comparing to other countries in the region, which the main reason for the low quality of governance resulted from the internal conflict of the early 1990s and consequences of this event.

However, many of mentioned limitations are more associated with independence and related issues including; the loss in revenue and expenditures, adverse external shocks, and the consequence of post-conflict period, which contributed to a drastic reduction in expenditures and emerging deficiencies in financial system. As a result expenditures in Tajikistan fell from 67 percent of GDP in 1992 and it reached to 14 percent in 2000 and made up 28 percent of GDP in 2011, which is still low comparing to 1990s.

At the same time in Commonwealth Independence State (CIS) countries on average expenditure fell from about 43.8 percent of GDP in 1992 to 25.0 percent of GDP in 2003 because of discontinuity of allocated centralized revenues from the that were allocated by center. It means that all gained independence countries suffered the same problems, mainly reduction in expenditures and instability in financial systems.

The research asserts that PEM, including its modern features, basically reflects a set of control agreements between the participants and the PFM reform will necessarily change these arrangements. In order to change effectively, reformers need to know how to change control mechanisms properly.

The study suggests that approaches and PFM reform needs the active role of the Ministry of Finance of Tajikistan as the main actor in enhancing performance and in strengthening the capability of other key participants.

Furthermore, this study confirms that the roles of the Ministry of finance and treasury are more crucial in undertaking reforms than other line ministries but the institution is also liable to empower line ministries in terms of realizations, skills and knowledge.

5.2. Main findings

Despite of poor coordination and slow process of reforms in the course of post-independence period with the development of production capacity and tax sources, the size of financing in the real sector, which is considered a determinant of economic opportunities, have been substantially increased. The treasury single account has been applied, and the performance indicators have been incorporated into budget documents.

In general, the government has demonstrated great efforts in improving PEM systems specifically since 2007. It has considerably improved its PFM system, including increasing transparency and confidence in the national budget, as well as the accounting, reporting and recording of government accounts.

However, improvement is necessary for the government but not sufficient to indicate the optimal accountability whilst the society as a whole is not satisfied with service provision. Transparency and public discussion of spending priorities in the legislature, civil society and the media are still in its infancy.

Based on the evaluation results of PFM system that assessed by PEFA in 2007-2012 in Tajikistan, it was found to be unsatisfactory. The overall objective of the assessment was to inform progress made in the implementation of PFM reforms.

It is also true that reforming budgetary and financial management system without paying attention to the other service-wide system, processes and a structure of government is likely to produce little change. It is concluded that the economic growth is the most important determining factor of PEM quality.

However, critical questions have been asked as to why PFM reforms have not achieved the intended results in managing public expenditure in the last decade? Some of the observations made in respect of the lukewarm performance of the PFM reforms point to: the fact that the budget is a political process and not only a technical one; that the reform programs need country ownership and political commitment to achieve real sustainable progress, and donor coordination and harmonization is also essential.

Another obstacle involves in collecting tax revenue, in which the country ranks among the lowest in the CIS countries that the average ratio of tax revenue to GDP is lowest by regional standards, and still located in line with other low-income countries.

The result of analyses also showed that the approaches including MTEF and PFM reform have not applied the principles of professionalism, liability, and transparency optimally, because the key institutions have not fulfilled their roles as was assumed.

In this regard Gaiman (1980) wrote that these weaknesses are not newly discovered, and pointed out:

"If ever there was a subject which has been overwritten, overanalyzed and overtheorized with so little practical result to show for the effort, it is budgeting in poor countries".

In this connection WB also reported that in some cases, the political commitment in Tajikistan has been less coherent and offered less space for development partners to become actively involved. Claiming that this circumstance limited the space for the participation of donors. As a result, Tajikistan has received aid less than expected towards the PFM reform process (WB, 2011).

It should be noted that the Government's fiscal space is also very limited and geographical location of country with less national resources does not allow government to achieve millennium development goals in a short period of time.

5.3. Policy recommendation

The government should work harder in clamping down on domestic corruption while pursuing public finance reform programs more strongly to improve incentives in the civil service. The effect of good governance is reducing corruption and finally bringing better impact to efficiency and effective utilization of funds. In addition, it should step up efforts to enhance access to information by the public.

The lack of comprehensive management in the coverage of fiscal operations also leads to weak PEM systems.

Similarly, poor aid management also signals a weak PEM system. Not surprisingly, countries heavily dependent on aid are more likely to have weak PEM. Dependency on aid should be drastically reduced given the perils of growing uncertainties in the aid industry, and the imbalance of power in aid administration between donors and recipient nations.

The government should develop domestic revenue mobilization efforts, negotiate in better way of deals with investors to increase state capacity from the raw sector, and promote private sector and industrial development.

In the case of Tajikistan, despite the low PFM performance as rated by the scores, there is a general optimism for future progress due to the range of components of reforms the government is believed to have effectively implemented.

Lastly, government should continue the implementation of economic measures aimed at mitigating the gaps in the market, and the redistribution of income and resources, and to stabilize the economy. At the same time, the need for major financial reforms is compelled.

Likewise, the improved public financial management can bring about increased economic growth and this would lead to more assistance from development partners.

In addition, it should be noted that Tajikistan joined to the WTO and became the 159th member of WTO since 2 March 2013. As the WTO member would allow the country to strengthen its relationship with financial institutions and it will create favorable conditions for the attraction of foreign investment to the country. According to Eco-Accord Center for Environment and Sustainable Development, one potential advantage for Tajikistan as the WTO member could be an increase in hydropower supply, with revenue rising to world tariffs and it would allow country to raise its budget revenue.

It is hoped that this research will be followed with further investigations to overcome research limitations. For example, exploring further cash management such as the connection between treasury unit and debt management unit in managing short-term cash mismatch or the research can be performed by panel data analysis rather than time series analysis by utilizing sub national data from regions (oblasts), districts (rayons), villages, and community administrations (jamoats).

The other alternative way is expanding the factors affecting the relationship between government expenditure and poverty reduction, such as effectiveness, efficiency, poverty alleviation policy, organization, budget mechanism, etc.

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