

**REGIONAL WORKSHOPS ON HARMONIZATION AND ALIGNMENT AND MANAGING FOR
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**Capacity Development:
Tajikistan's Aid Coordination Unit**

I. Background

1. **Capacity development.** "Capacity development" may be defined as a process through which individuals, groups, and organizations enhance their abilities to mobilize and use resources to achieve development objectives on a sustainable basis. Such capacity development includes:

- Human skills development, including adequate training and compensation;
- Improvements in management systems;
- Changes in the governance/institutional context; and
- Organizational change to support effectiveness

Capacity may be developed at the service delivery level (e.g., human resources, technology, infrastructure) and at the internal management level (e.g., leadership, planning skills, systems orientation, sound structure and processes). Capacities at both of these levels need to be adequate if Governments are to effectively implement nationally owned and led poverty reduction strategies (NPRSs) and manage foreign assistance projects around nationally-owned development objectives. Indeed, sound implementation of public policy is essential for facilitating and sustaining rapid and inclusive economic growth – and this can only be achieved when the requisite capacities exist at country level.

2. **Building capacity for donor coordination.** Governments of developing countries often face multiple and complex donor requirements. In many countries, adhering to diverse donor operational policies and procedures creates a substantial burden on the Government's administrative/managerial capacity. In effect, the scarce resources devoted to donor requirements detract from the Government's ability to implement nationally-owned poverty reduction strategies. In order for aid to be effective, the Government must take the lead in coordinating project design, implementation, and evaluation. The Government needs to have the capacity to effectively link projects into overall sector plans and ensure the best use of overall resources. Such coordination is vital given limited absorptive capacities. Development partners should cooperate fully with the Government in harmonizing and aligning their efforts in support of country-owned development objectives.

3. **Country Background.** The Republic of Tajikistan may be described as a poor, landlocked, and aid-dependent country that continues to make the transition from a Soviet state to a market-based economy. Tajikistan, with a population of just over 7,000,000 people, has the lowest per capita GDP of the 15 former Soviet republics. The country experienced a civil war from 1992 to 1997, but has now largely recovered. Attention by the international community in the wake of the war in Afghanistan and the "global war on terrorism" has brought increased development aid, which has the potential to create jobs and increase long-term stability. Tajikistan's public sector employs approximately 300,000 people, with the largest numbers being in education (about 165,000) and health (about 75,000). The country is heavily dependent on remittances from overseas workers – about 15% of the population live and work abroad, primarily in the Russian Federation. Increased aid flows and gradually increasing Government capacity are helping create sustainable growth in the domestic economy.

4. **The difficult transition to a market economy.** Moving from a controlled economy model to one based on market principles has entailed major challenges for Tajikistan's leaders. The aftermath of the civil war made it necessary to defer addressing local level reforms, while the economy was also harmed by the loss of many skilled persons to Russia and other countries. Government managers have not

always been delegated the authority required to balance policies, priorities, resources, and staffing. When this occurs, the only alternative is to rely on informal systems or networks to obtain and allocated resources, set priorities, and deliver services. The challenge for Government agencies is that they lack capacities at both the skills level (i.e., management, policy/strategy analysis) and institutional level (underdeveloped management structures and lack of accountability). The situation is made more difficult by the low pay and unattractive working conditions for Government workers compared to alternative employment.

II. Donor Coordination

5. **Increased aid flows.** External assistance, especially concessional loans and grants, play a crucial role in Tajikistan; approximately 40 donors pursue diverse activities in the country. Donor commitments to Tajikistan are increasing rapidly. From 1998 to 2000, aid commitments rose from \$40 million to \$130 million, and, at the 4th Consultative Group meeting in 2003, donors pledged \$900 million of assistance over three years (\$700 million of which is grant financing). Efforts towards donor coordination are now occurring in diverse areas/sectors, including small and micro-finance initiatives, enhancing the investment climate, resolving the cotton far debt crisis, and improving service delivery. Of most relevance to the current case study and discussion, development partners are now better coordinating their efforts to build capacity at all levels of government institutions. This is vitally important given considerable evidence that capacity development efforts are among the least harmonized of all development aid categories.

6. **Consultative Group Meetings.** A series of Consultative Group (CG) meetings have been held in Tajikistan. The fourth CG meeting (May 2003) was the first held in Dushanbe, signaling a breakthrough in internal security in the aftermath of the civil conflict. The meeting, which was jointly chaired by the Tajikistan Prime Minister and the World Bank Regional Director, was attended by representatives from 11 bilateral and 15 multilateral agencies. Topics discussed included poverty reduction; public investment and financial requirements; investment climate and private sector development; and development partner roles. At a follow-up CG meeting (February 2004), development partners continued to align their assistance, especially in the health and education sectors. Agreed-upon priority areas included education; land reform, private sector development, local communities, and governance. Coordinating and harmonizing assistance in these areas is essential for achieving the MDGs in Tajikistan.

7. **Poverty Reduction Strategy Paper (PRSP).** Tajikistan's Poverty Reduction Strategy Paper (PRSP) sets out short term (2002-2005), medium-term (2002-2007), and long term (2002-2015) goals for poverty reduction. Nine sector working groups participated in the formulation of the PRSP, with 56 seminars and roundtable conferences involving more than 2000 participants from all sectors of society being conducted. The World Bank and ADB conducted a joint Country Portfolio Performance Review in March 2004. The Government subsequently adopted the action plan emerging out of that review and is now laying the groundwork for broader cooperation and better aid coordination in all country operations.

8. **Example of sector-level coordination: Farm debt.** One sector in which major disruptions had occurred was agriculture. After five years of civil war in the 1990s, the agricultural sector was faced with major changes in the economy and marketing system. The Government had decontrolled agricultural prices, abolished mandatory crop sales to the Government, and transferred state and collective farms to private management. At the same time, irrigation systems had deteriorated, with significant damage having occurred to pumps, headworks, and canals. In response, international and domestic cotton traders lent heavily for cotton production which did not meet repayment requirements, thus creating an increasing overhang of bad debt. The amount is now \$180 million of which an estimated \$50-\$60 million may not be repayable. To address this issue, major development partners held a series of roundtable discussions with the Government on farm debt resolution. In addition to alleviating the significant debts incurred by cotton farmers, coordinated technical assistance was provided to improve farm productivity and profitability, strengthen competition among marketing and business providers, and liberalize export procedures. These and other issues are being addressed through intensive collaborative efforts involving the Government, the private sector, and the international funding community. Findings of the project were

discussed by stakeholders (including the Government and the major external funding agencies) at a roundtable meeting Dushanbe in April 2004.. In that context, the Government has re-emphasized its determination to resolve the cotton debt problem, including through continuous improvements in aid coordination and sector-level capacity. Stakeholders are continuing this consultative process now and a coordinated response is being developed to deal with debt resolution, key cotton marketing and policy issues, and land reform.

III. Tajikistan's Aid Coordination Unit

9. **The "original" Aid Coordination Unit (ACU).** After independence in 1991, Tajikistan incurred significant external debt (increasing from zero to \$850 million by 2000, of which \$320 million came from multilateral institutions). As foreign assistance increased during the 1990s, the Government established the Aid Coordination Unit (ACU) with assistance originally from World Bank (1995-1996) and subsequently from UNDP (1997-1998). However, the original ACU had an underdeveloped institutional structure and very limited capacity. The situation was exacerbated by lack of cooperation among development partners, many of whom launched uncoordinated capacity building projects within different lines ministries. These fragmented efforts contributed to:

- Inefficient use of resources
- Uncoordinated programs and projects
- High transaction costs
- Fragmented administrative capacity
- Reduced development effectiveness.

The effort was also ultimately unsustainable, as evidenced by the fact that the ACU disintegrated as soon as the UNDP funding stopped.

10. **Revitalized ACU.** In 2000, the Government of Tajikistan requested technical assistance from the ADB to reinvigorate the ACU. This project was intended to build the Government's institutional and administrative capacities in key areas, including improving aid coordination, effectively managing a multi-year loan program/portfolio, and improving external debt management. The project included extensive staff training, production of annual aid reports, creation of aid databases, and improved procedures and guidelines for aid coordination. The project also produced a planning system that strengthened the consistency and coordination among macroeconomic objectives, sector strategies, the Government budget, foreign aid, and the public investment program.

11. **Need for further capacity development.** While the ACU has done a commendable job given the many constraints it has faced, much work remains to be done. While debt management improved, the institutional capacity of ACU was still unsustainable due to such factors as:

- Lack of technical skills and staff;
- Poor salaries;
- Insufficient administrative capacity; and
- Inadequate budget support.

In other words, full implementation of the planning framework was not achieved, in part due to different systems and parameters among ACU, line ministries, and development partners.

12. **The Follow-on Project.** The Government recognized that the ACU needed further capacity development, particularly through better technical staffing, improved budget support, reduced dependence on external support, and harmonized procedures. In order to achieve these objectives, the Government requested ADB to fund a follow-up technical assistance project to further build capacity. The main elements of this project, which is expected to move into implementation soon, are as follows.

13. **ACU as focal point for aid coordination.** Continued capacity building in the ACU will be codified through a new law on foreign aid coordination that specifies:

- Roles and responsibilities of departments and line ministries for monitoring and evaluation, long-term investment planning, budgeting, macroeconomic forecasting, and other tasks related to aid coordination and management;
- Lines of authority and reporting arrangements; and
- Channels and mechanisms for sharing data among departments, line ministries, and local governments.

14. **Harmonizing donor programs with national strategy and policies.** The project will deepen harmonization at various levels, including:

- Promoting policy dialogues among Government and development partners regarding programs, processes, procedures, and joint sector-wide operations;
- Developing simplified systems and procedures appropriate for Government and partners in managing/coordinating various program/project activities;
- Organizing workshops at which stakeholders clarify requirements for harmonization, including data requirements for project management and monitoring; and
- Improving harmonization in such areas as financial management, procurement, monitoring and evaluation, and social and environmental safeguards.

15. **Developing an aid coordination management information system.** One of the keys to development effectiveness is to tap into the power of modern information technology. The Government and its development partners need to share information in a transparent fashion and to develop compatible systems for aid coordination. Thus, the project will determine the information requirements of all stakeholders and use that assessment to implement a comprehensive management information system (MIS) for aid coordination that will:

- Monitor planned and proposed projects, including the progress of bids, contract awards, and procurement;
- Support management of loans and grants under implementation;
- Coordinate budget formulation and disbursements
- Generate standardized reporting mechanisms for quarterly, semiannual or annual program/project updates;
- Support an ACU website to communicate with stakeholders; and
- Provide the information needed for annualized reporting on aid coordination and management in Tajikistan.

16. **Building capacity for effective portfolio management.** In order to enhance the quality of portfolio management, the project will:

- Streamline the system of internal clearances to minimize project start-up delays;
- Devise procedures and systems for recruiting and retaining key project staff during implementation;
- Expedite procurement and consultant selection by using agreed upon harmonized procedures;
- Create simplified accounting and auditing manuals for use by project management units (PMUs) (in accordance with financial management guidelines of partners);
- Strengthen portfolio performance monitoring through improved management and analysis of data (using the comprehensive MIS described above); and
- Train ACU and PMU staff to implement the new procedures and processes.

IV. Lessons Learned

17. **Keys to effective capacity building.** Effective approaches to capacity development should emphasize country ownership, local participation, and results-focus. In order to be effective, capacity development must go beyond building individual-level skills to address the organizational and institutional levels. Sound aid coordination can strengthen reform efforts in the health and education sectors and accelerate sector-level reforms through pilot activities and community involvement. Financing strategies need to be realigned with well-managed public expenditure management systems to enhance the efficiency of service delivery and improve the access of poor people to those services.

18. **Donor coordination at all levels.** Coordination for capacity building must occur at all levels, including between Government and development partners, among development partners themselves, and between various Government Ministries. Efforts to improve donor coordination have encountered many challenges in Tajikistan, including delays in donor submissions of reporting information, information being provided in non-standard formats, and the implicit donor assumption that the ACU has the capacity to fully analyze complex data. The ACU, representing the interests of the Government and, by extension, poor people in Tajikistan, has taken a strong leadership role in managing relationships with development partners

19. **Key to sustainability: Building Government's human resource base.** Ultimately, this system will be sustainable when Government staff are themselves empowered through training and organizational support. The new project's seminars/workshops will provide analytical and technical training to staff from ACU, PIUs, line ministries, and departments. Consistent with sustainability, local consultants will help develop training materials and deliver the sessions. A "training the trainer" approach will further strengthen staff capacity at central and local levels; later, they will be able to transfer their knowledge and skills to operating staff at lower administrative levels.