

TA COMPLETION REPORT

Division: Programs Department (East)
Division II
Kyrgyz Resident Mission

TA NO. AND NAME TA 3382-KGZ: Strengthening the Capacity of Ministry of Finance for Financial Management and Planning of the Public Investment Program			TA AMOUNT APPROVED: \$463,500	
EXECUTING AGENCIES: Ministry of Finance			REVISED AMOUNT:	
REPORT DATE: 3 October 2001			CLOSING: Original: 5 July 2001 Actual: 31 July 2001	
APPROVAL DATE: 28 December 1999		TA AMOUNT UNDISBURSED: \$37,400		
SIGNING DATE: 24 January 2000		TA AMOUNT UTILIZED: \$426,100*		

TA DESCRIPTION:

Over 80 percent of the Kyrgyz public investment program (PIP) is externally funded. The PIP has been extensively used to bridge the widening domestic resource gap to sustain a high level of aggregate investment for economic and social development. This resulted in the external debt burden rising from virtually nothing at the time of independence in 1991 to about 44 percent of GDP by 1997. The devaluation of the national currency following the Russian financial crisis of 1998 was the major factor for the external debt rising sharply to 91 percent of GDP in 1999. The large size of public external debt raised serious concerns about the sustainability of PIP. Doubts began to emerge on the magnitude of its benefits in the light of inefficiencies in project implementation which were becoming increasingly apparent. After a careful examination of the fiscal sustainability of the external debt, the IMF-supported Poverty Reduction and Growth Facility (PRGF) prescribed a sharp compression in PIP. This necessitated prioritization of the existing projects to ensure that increasingly scarce public investment resources are allocated to the most efficient and high priority projects. Following this, the Government came under pressure to comply with IMF conditions and sought ADB technical assistance in 1999 to strengthen its capacity to plan, prioritize and manage the PIP. Considering the urgency and the strategic need for technical assistance in the area, ADB responded to the request quickly even though the TA was not included in that year's Country Assistance Plan.

TA OBJECTIVES AND SCOPE:

The main objective the TA is two fold: to improve the Government's financial management capacity and its capability to manage PIP through staff training and procedural and organizational changes; and to provide necessary support for prioritization of PIP urgently in the wake of the requirements of the PRGF. To achieve these broad objectives, the TA envisages the following scope of work: (i) analyze the present organizational structure of the MOF and recommend refinements to achieve improved flow of information and effective implementation of PIP; (ii) review and enhance MOF's capacity to coordinate with other agencies for managing PIP; (iii) design and implement an effective financial reporting and monitoring system for PIP; (iv) improve the Government's ability to make estimates of recurrent costs and medium term forecasts to assess the budgetary implications of PIP; (v) review the project appraisal and prioritization methods presently used by MOF and improve them to internationally acceptable standards; (vi) review and suggest improvements to administrative procedures and legal framework governing PIP management; and (vii) identify training requirements and conduct capacity building training for MOF staff in high priority areas. The terms of reference, though ambitious for the available time and resources, were appropriate for the purpose. The implementation of the TA took place during a most critical period of budget and debt constraints and hence it proved to be useful to the Government.

TA INPUTS EVALUATION:

The TA envisaged a total of 38 person months of consultant inputs comprising 14 person months of international consultants (IC) and 24 person months of domestic consultants (DC). The inputs of IC were reduced to 13 person months because the resources allocated for the PIP Advisor were adequate only for 11 person months and not for 12 months as envisaged owing to higher than anticipated contracting costs. Reduction in IC inputs did not have a significant bearing on TA outcomes as the deficiency was made up to a large extent by closer guidance provided to the TA by the ADB's Kyrgyz Resident Mission. Besides providing hands on training to staff on a continuous basis, formal training programs were conducted in two phases. In the first phase, the PIP Adviser and DC conducted five internal workshops to prepare the staff for a more structured and longer duration training program. These workshops provided basic inputs on financial analysis, project cycle, basic principles of cost-benefit analysis, and the application of appraisal techniques to real life projects. Subsequently, the international training consultant conducted a formal 18 day program on the techniques of project appraisal and project prioritization. The Government appreciated the consultant inputs and training programs as timely, pertinent and of high quality. In ADB's view the quality of consultant inputs was satisfactory.

* Includes \$121,2240 committed but not yet disbursed.

TA OUTPUTS EVALUATION:

The TA has provided the following tangible benefits to the Government: (i) for the first time, it enabled the Government to make a re-evaluation of the ongoing PIP projects and rank them in terms of their benefits; (ii) put in place a useful, though basic, project monitoring and review system; (iii) helped in the internal reorganization of MOF to strengthen the PIP department; (iv) provided valuable inputs into the drafting of the Public Debt Act and the draft Budget Law which, if implemented, will strengthen public expenditure management and rationalize the management of PIP and external debt; (v) helped in achieving a better integration of PIP into the budgetary process and put in place a basic forecasting system; and (vi) provided training on PIP planning and management to staff from the Ministry of Finance and other key economic ministries and the central bank. While the TA output covered the entire scope of TA, its impact on specific objects is varied. The most valuable contribution of the TA is its remarkable success in sensitizing the Government to periodically review project benefits and link allocation of scarce public resources to high priority projects with better benefits; and the Government had already used this principle, for allocating resources in 2001 budget. However, the progress has been more modest but satisfactory in technically complex areas like in-depth monitoring of projects, estimation of recurrent costs, forecasting and preparing medium term sustainable PIP plans, and making complex legal and procedural refinements. On all these fronts the TA has made a valuable beginning, which would certainly improve the understanding of the staff and prepare them for receiving more complex inputs in future. The TA also provided critical inputs for determining the long term requirements of public investment for the Government's Comprehensive Development Framework 2010. The TA was concluded in time and has received considerable praise and appreciation from the Government at the highest levels.

TA OVERALL ASSESSMENT AND RATING:

The TA is found to be "Successful". Its output is highly visible and extremely useful to the Government and the donors. It has tacitly convinced the Government about the need for prioritizing the existing PIP projects and has helped considerably in offsetting resistance from interested parties to reducing the allocations for or pruning the size of low priority projects. In this strategically important respect, the TA has been very successful. In the more technical fields of PIP planning and in the complex procedural and legal aspects of PIP management, the TA has enabled the Government to take very important first steps. Training of staff has also been largely successful since, of the 30 staff members trained, only one left the Government and another staff member was transferred out of PIP department to a more crucial but unrelated assignment in the MOF. Sustainability of this effort would depend on timely implementation of the second phase of the TA.

MAJOR LESSONS LEARNED:

The TA could have been larger and stretched over a longer period of time to cover all aspects of PIP adequately. The TA inputs got exhausted by the time the Government needed them for developing a medium term PIP rolling plan to assess its short and medium term budgetary implications. The time and resources allocated for training could cover mainly the project appraisal part of PIP management.

FOLLOW-UP ACTION AND RECOMMENDATIONS:

The TA has been successful in achieving its overall objectives and helped in considerably strengthening Government's capacity for managing PIP. The areas that are required to be further strengthened should be addressed as soon as possible because the Government need to expeditiously develop a medium term PIP rolling plan to integrate it with the future budget exercise.

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