

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: KYRM

TA No. and Name TA 3767–KGZ: Strengthening Capacity of the Ministry of Finance for Financial Management and Planning of the Public Investment Program Phase II.		Amount Approved: \$600,000	
		Revised Amount: \$600,000	
Executing Agency: Ministry of Finance	Source of Funding: TASF	TA Amount Undisbursed ¹ \$233,873.7	TA Amount Utilized \$366,126.3
Date		Completion date	
Approval: 13 Nov 01 Signing: 25 Dec 01 Fielding of First Consultant: 5 Aug 02		Original 30 Jun 03	Actual 31 Oct 04
		Account Closing date	
		Original 31 Jun 03	Actual ¹
Description The increase in public external debt made the Kyrgyz Republic's public finances unsustainable and raised serious concerns about sustainability of the public investment program (PIP), which is mainly supported by external assistance. The difficult fiscal situation severely affected the availability of counterpart funds for ongoing projects leading to delays in project implementation. In addition, the unsustainable level of public external debt forced the Government to adopt fiscal austerity as a part of its debt reduction strategy. An important element of this strategy is to limit external funding of the PIP to a sustainable level, which is determined at about 3% of GDP from 2005 onwards. The cap on PIP and consequently on disbursements meant the resources available were not sufficient to finance all the ongoing projects in the pipeline. This created a need to prioritize allocation of scarce resources and direct these to high priority projects. In this context, the Government requested ADB technical assistance in late 1999 to strengthen its capacity to plan, prioritize, and manage the PIP. The Phase I technical assistance ² was successfully concluded in July 2001. This Phase II TA was approved in response to the Government's request for further assistance to strengthen its capacity to manage PIP and sustain the progress made by building on the work done under the Phase I TA.			
Objectives and Scope The TA has three broad objectives: (i) to institutionalize the PIP prioritization process and integrate it with the medium term budget framework, (ii) enhance the coordination between the Ministry of Finance (MOF) and line ministries for managing the PIP, and (iii) to improve the Government's financial management capacity and its capability to manage the PIP through staff training and procedural and organizational changes. To achieve these broad objectives the TA envisaged the following scope of work: (i) assisting the Government in the preparation of a medium-term PIP forecast; (ii) institutionalizing the project appraisal and PIP prioritization processes; (iii) improving the reporting and monitoring systems to enable better PIP management; (iv) improving the inter-ministerial coordination for better project implementation; (v) instituting procedures for estimating the recurrent costs of completed projects; (vi) further refining the PIP prioritization process to streamline the identification and ranking of high priority projects; and (vii) staff training. The TA design was appropriate for accomplishing its objectives.			
Evaluation of Inputs The TA envisaged fielding of two international consultants (IC) for a total duration of 20 person-months (a PIP Adviser for 18 person-months and a Training Specialist for two person-months) and two domestic consultants (DC) for a total duration of 36 person-months. The TA was supervised closely and was implemented in accordance with the terms of reference. ADB and the Government reviewed TA progress jointly on four occasions after TA inception. In addition, the quarterly progress reports were used to closely monitor the TA progress. The MOF collaborated well with the consultants. The TA team also coordinated their activities with the consultants of TA-3996 KGZ: Strengthening the Capacity of the Government for Project Monitoring and Management of Externally-Assisted Projects as required under their terms of reference. Inputs of IC and DC were extended by 2.8 months and 8.4 months respectively mainly to facilitate institutionalization of TA output. The performance of ADB, the EA, and consultants in providing timely and adequate inputs for the TA has been highly satisfactory.			
Evaluation of Outputs The reports produced and activities carried out under the TA covered following areas: Prioritization of PIP and Institutionalization of the Process. The TA developed PIP prioritization criteria after extensive discussions with donors and the government agencies. The final output was presented to donors, senior			

¹ Some consultants' claims are pending and an outstanding advance yet to be liquidated.

² TA 3382 KGZ: Strengthening the Capacity of MOF for Financial Management and Planning of the PIP

Government officials, and the State Commission for Foreign Investment and Economic Assistance (GOSCOMINVEST). The Government adopted the methodology suggested under the TA for prioritizing the PIP through a GOSCOMINVEST resolution in November 2003. A PIP prioritization manual was developed to institutionalize the process.

Preparation of Medium-Term PIP Plan. A medium-term PIP planning framework was developed to help integrate PIP prioritization into fiscal planning. This framework allows the Government to determine the time profile of new projects, and forecasts the long-term disbursement requirements of the ongoing and planned projects. This model was also documented well with the help of an algorithm, a manual, and demonstration excel worksheets. Selected MOF staff got on-the-job training in using the model.

Monthly Reporting System and Information Exchange with the PIUs. The PIP adviser worked closely with the consultants of TA 3996-KGZ to develop a simple and effective monthly/quarterly reporting system for improved project management and PIP planning. The system has been adopted as the standard reporting system through a GOSCOMINVEST resolution of 25 August 2004. It is being pilot-tested now and will be finalized in January 2005.

Recurrent Cost Estimates and Integration of PIP Planning into the Medium-Term Budget Framework (MTBF). A methodology for estimating recurrent costs was developed under the medium-term PIP planning framework. The monthly reporting system provides the necessary information on recurrent costs from the line ministries. For the first time, the Government incorporated recurrent costs of completed investment projects in the medium-term budget framework, for 2005-2007.

Functional Review of Investment Policy Department (IPD). A functional review of the IPD was carried out under the TA. The consultant recommended creation of two units in IPD, a financial monitoring and planning unit, and a project planning and appraisal unit. A candid assessment of risks to the sustainability of TA outputs was made and discussed with senior MOF management. Inadequacy of staff and high turnover are identified as key concerns.

Assistance for Implementing the new Budget Law. The TA assisted the Government in the development of: (i) medium-term budget framework which seeks to integrate the investment requirement for implementing the National Poverty Reduction Strategy into the budget framework, (ii) a budget classification scheme, (iii) procedures for determining "stimulating grants" to the local governments, and (iv) the joint investment policy statement by the MOF and the National Bank of the Kyrgyz Republic.

Training. A total of 15 IPD staff members were trained over 150 sessions covering about 6 broad topics related to PIP management such as planning framework; project economic analysis; economic analysis in social sectors; impact analysis; sensitivity and risk analysis; and project prioritization. Tests at the end of the training program showed a definite improvement in the knowledge of all participants though many of them did have certain gaps in understanding. The Government commended the quality of TA training. Separate workshops were conducted to discuss PIP prioritization criteria, to disseminate TA findings, and to discuss strategic issues with senior officials.

TA outputs were produced in accordance with the TOR, delivered on time, and were of high quality. The Government expressed satisfaction with the quality of TA outputs.

Overall Assessment and Rating

The TA was valued highly by the Government. The IPD of the MOF demonstrated strong ownership by actively participating in all TA activities. The output of the TA is highly relevant. It has accomplished its objectives and policy goals highly effectively. Most importantly, the Government has formally adopted the method suggested by the TA for prioritizing ongoing projects. In this strategically important respect, the TA has been highly successful. However, the sustainability of TA outputs and its impact on institutional development is likely to be modest due to high staff turnover in MOF. Overall, the TA is rated as successful.

Major Lessons Learned

Local academic institutions need to be involved in designing and implementing the training programs. Also, capacity of the local institutions should be built that will promote better knowledge retention and could be used for repeat training.

Recommendations and Follow-Up Actions

To improve the sustainability of TA outputs, the following TA recommendations need close follow-up: (i) functional reorganization of IPD, (ii) development of an information technology strategy for MOF, and (iii) developing local training capacity in project appraisal and PIP management.

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