

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN (SUMMARY)<sup>1</sup>

### A. Public Financial Management

1. The Government of Tajikistan formulated a Public Financial Management Strategy, 2009–2018 to increase credibility, policy alignment, and transparency of the budget cycle.<sup>2</sup> A Public Finance Management Council was created as the nodal agency to plan and manage the reform process. Its overall objectives are to improve the quality of macroeconomic and fiscal forecasting, align borrowing with the debt management strategy, manage fiscal risks, and align investments and recurrent budgeting with sector planning. The Ministry of Finance (MOF) has been receiving support from the World Bank since April 2009. Other development partners like the European Commission, the United Nations Development Programme, the Department for International Development of the United Kingdom, the United States Agency for International Development, and the Swiss Development Cooperation are providing ongoing support.

2. The Government has made progress in piloting medium-term expenditure frameworks in select ministries and provinces starting in 2014. Despite this, there are continued systemic weaknesses, as reflected in the limited implementation capacity across line ministries. The introduction of a uniform chart of accounts as per the 2001 Government Finance Statistics System aligns budget planning and execution reports. A Treasury single account is operational covering central and local budgets. A basic accounting and budgeting package was acquired from Turkey, and a new organizational structure of the Treasury was created. An information technology center was created in 2015 with funding from the MOF, and about 9,000 employees have received training in the new processes.

3. Continuing challenges include (i) significant differences between the original plan and the actual allocation of funds, (ii) the lack of detailed reporting on expenditure payment arrears, (iii) the limited monitoring of fiscal risks posed by state-owned enterprises and local governments, (iv) a risk of achieving targeted goals because of the absence of quality sector strategies coupled with frequent changes of ministries' leadership, (v) loose connections between capital investments and recurrent budgets, (vi) the need for further improvements in tax collection including incentives for tax payers, (vii) the lack of data on resources allocated to service delivery in major sectors, and (viii) the need to improve external audits.<sup>3</sup>

### B. Procurement

4. ADB prepared a country and sector procurement assessment in 2015 that covered transport, energy, and agriculture and natural resources sectors.<sup>4</sup> The assessment concluded procurement risk to be *moderate*, and emphasized that most of the issues could be addressed through collaboration between government and development partners. Evidence of this was presented in four areas—policy and regulatory framework, institutional framework and management capacity, procurement operations and market practices, and integrity and transparency.

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<sup>1</sup> This summary is based on ADB's Tajikistan Pilot Country and Sector Agency Procurement Risk Assessment prepared in October 2015 and the World Bank's project appraisal documents on public financial management reforms. World Bank. 2009. *Public Financial Management Modernization Project*. Washington, DC.; World Bank. 2015. *Second Public Finance Management Modernization*.

<sup>2</sup> Tajikistan. *Public Finance Management Strategy of the Republic of Tajikistan. For 2009-2018*. Approved by the Decree of the President Of the Republic of Tajikistan on 20 March 2009 #639

<sup>3</sup> World Bank. 2012. *Tajikistan. Public Expenditure and Financial Accountability Assessment*. Washington, DC.

<sup>4</sup> ADB. 2015. *Tajikistan Pilot Country and Sector Agency Procurement Risk Assessment*. Manila.

5. A comprehensive procurement law that covers the preparation of standard bidding documents and the bidding process is needed because the existing legislation that was promulgated in 2006 with amendments in 2012 only provides guidance on developing bidding documents, so procurement entities follow separate bidding processes. A new draft public procurement law was prepared in 2014, and development partners, including ADB, are now reviewing it. The improved draft law includes procurement planning and budgeting, preparation of specifications, renaming of procurement methods in line with international terminology, eligibility and qualification requirements, regulations to require preparation of standard bidding documents, framework agreements, contract implementation and administration, transparency, record maintenance, and ethics and conduct standards. It also proposes measures to reduce issues identified under the institutional framework and in-country procurement operations.

6. The new draft law aims to minimize potential conflicts of interest by staffing the specific regulatory and supervisory roles of the Public Procurement Authority—the Agency for the Procurement of Goods, Works, and Services—with trained personnel. The Public Procurement Authority, created in 2010 through a resolution, was also planned as an independent agency that would report to the President. However, it directly undertakes procurement activities for public entities that are not certified as qualified procurement entities by the country's Qualification Commission. Out of about 6,000 procurement entities, there are only 35 agencies certified to undertake procurement functions. In 2014, about 4,500 contracts with a resource envelope of \$450 million were processed by the Public Procurement Authority, accounting for 45% of total state budget funds. While current public procurement law provides for decentralization of procurement, there is limited progress because of capacity constraints.

7. Government staff need government-led procurement professionalization and accreditation programs, as all procuring entities are mandated to have separate procurement divisions with a tender committee with qualified procurement specialists. The World Bank is currently supporting procurement training through the Institute of Public Administration, which was the Civil Services Advanced Training Institute until 2013. Crown Agents of the United Kingdom has been selected to develop the advanced procurement training modules, oversee testing, and manage the certification process. The training of trainers has been completed, and there are plans to rollout the training program across the country. National standard bidding documents need to be developed for each method of the procurement process to standardize the contract provisions and streamline the evaluation process. There is a need for a standard procurement manual to streamline all procurement related business processes. Capacity of local firms needs to be developed to promote local business and competition through various initiatives, such as a partnership between local firms and reputable international firms, which may take place during ADB's Business Opportunities Forum.

### **C. Anticorruption**

8. Tajikistan acceded to the United Nations Convention against Corruption in 2006. Progress on the Istanbul Action Plan is limited. Tajikistan's rank on Transparency International's Corruption Perception Index between 2009 and 2014 ranged between 152 and 158. A new anticorruption strategy for 2013–2020 was approved in 2012. Observers are concerned that the new strategy is not based on in-depth assessments of the implementation experience of the previous one and lacks mechanisms to monitor progress and track resources allocated to its implementation. Ministries require capacity development to implement respective action plans.

9. Multiple agencies like the Agency for State Financial Control and Fight Against Corruption (for all existing legal acts and their drafts) and Ministry of Justice (for enacted legal

acts of ministries, state committees, other state agencies, and local governments) have similar mandates to oversee anticorruption. The MOF approved an action plan for developing internal control during 2011–2015, where five ministries and agencies established internal audit units, reporting to the Agency for State Financial Control and Fight Against Corruption. Although international audit standards have been translated into the Tajik language, accounting practices are not compliant with international standards.

### Summary Governance Risk Management Plan

| Substantial Risk   | ADB Actions   |
|--|---|
| <b>1. PFM</b>  |   |
| <b>1.1</b> Policy emphasis on new road construction and the lack of integration of investment and recurrent budgets leads to underfunded road maintenance and results in unsustainable infrastructure.   | <b>1.1</b> ADB will support the preparation of an action plan to integrate investment and recurrent budgets in the transport sector, and adequate maintenance budgets in loan covenants and other agreements.         |
| <b>1.2</b> High receivables of electricity providers, connected with defaults in payments, especially by TALCO, discourage investment in the energy sector and improve electricity generation, transmission and distribution.  | <b>1.2</b> ADB will facilitate through the Development Coordination Council a concerted approach toward the restructuring of Barki Tojik and TALCO. ADB will support energy efficiency at TALCO.                      |
| <b>1.3</b> Poor accounting and financial reporting at Barki Tojik impedes management based on meaningful operating metrics, resulting in poor sector management and results, and failed audits.  | <b>1.3</b> ADB will strengthen the accounting and internal control capacity of electricity providers. ADB will also address the need for full compliance with IPSAS standards by 2019 in all relevant communications. |
| <b>2. Procurement</b>  |   |
| <b>2.1</b> Procurement law is not a consolidated legal document and lacks standard procurement documents and manuals that increase risks of misinterpretations.  | <b>2.1</b> ADB will support the review of the draft procurement law and the development of standard procurement documents.  |
| <b>2.2</b> Public Procurement Agency (PPA), the authorized body on procurement created by, and reports to, the President, is both a regulator and executor of procurement for non-procurement certified government agencies. This increases risks of potential conflict of interests and delays. | <b>2.2</b> ADB will support restructuring of the PPA into an effective regulatory agency and promote the continuation of the procurement decentralization.  |
| <b>2.3</b> Lack of a recognized procurement professionalization program for national procurement staff, limited capacity and understanding of international standards, and slow learning as a result of separately managed PIUs and staff turnover increases misprocurement risks.               | <b>2.3</b> ADB may consider supporting government-led comprehensive procurement capacity building and professionalization programs.   |
| <b>2.4</b> Lack of capacity of local firms reduces participation and development of local businesses.  | <b>2.4</b> Facilitate capacity building initiatives such as ADB's organized Business Opportunities Forum.   |
| <b>3. Anticorruption</b>   |   |
| <b>3.1</b> The current focus of TAFAC on enforcement and financial audit instead of on prevention may lead to an ineffective integrity system that could result in continued high levels of corruption.  | <b>3.1</b> ADB will support the restructuring of TAFAC jointly with partners in DCC. Support will be provided to minimize areas of overlap with agencies such as the internal audit departments of the MOF and MOJ.   |
| <b>3.2</b> Low trust in government procurement and adherence to payment schedules may deter SMEs from participating in public tenders, resulting in reduced competition, innovation, and SME growth.   | <b>3.2</b> ADB will promote procurement capacity building and intensify public–private dialogue, support actions to strengthen knowledge, and practice managing conflicts of interest.                                |
| <b>3.3</b> Entrenched clientelism and patronage staffing may cause low accountability and commitment to competence and can result in poor public sector and project performance.   | <b>3.3</b> ADB will emphasize merit-based personnel management in ADB-funded projects and engage more strongly in the recruitment, promotion, and training of PIU personnel.  |

ADB = Asian Development Bank, DCC = Development Coordination Council, IPSAS = international public sector accounting standards, MOF = Ministry of Finance, MOJ = Ministry of Justice, PFM = public financial management, PIU = project implementing units, TAFAC=Agency for State Financial Control and Fight Against Corruption, SME = small and medium enterprises, TALCO=Tajikistan Aluminum Company.

Source: Asian Development Bank.