

**Republic of Tajikistan: Report on Observance of Standards and Codes—
Fiscal Transparency Module**

This Report on the Observance of Standards and Codes on Fiscal Transparency for the Republic of Tajikistan was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on January 25, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Tajikistan or the Executive Board of the IMF.

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Report on The Observance of Standards and Codes (ROSC) Fiscal Transparency Module

Prepared by the Fiscal Affairs Department

Approved by Mohsin Khan and Teresa Ter-Minassian

January 25, 2007

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in Tajikistan in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Tajikistan has made some encouraging progress in recent years in improving fiscal transparency and meets the requirements of the fiscal transparency code in a number of areas. The roles and responsibilities of the executive, legislature, and judiciary are clearly defined. Reporting on the budget to parliament and the general public has strengthened in recent years. Consolidating all tax legislation into two organic codes has improved the transparency in respect to taxation, although there remains scope for further improvement. Government operations are well distinguished from the activities of the central bank, and in most cases also from activities of the financial sector.

In several areas, Tajikistan meets fiscal transparency requirements partially, but further reforms could bring it closer to meeting international best practices. Donor-financed projects and some extrabudgetary revenues and expenditures are not yet well integrated with the budget process; and boundaries of the general government sector needs to be clearly defined. Tax expenditures due to extensive tax exemptions, as well as contingent liabilities need to be analyzed and published to improve transparency. Quasi-fiscal activities (QFAs) in the energy and transport sectors remain sizable warranting more intensive monitoring and analysis. Financial relations between the tiers of governments need to be put on a sounder and more permanent footing. The monitoring of financial operations of state-owned enterprises deserves greater attention and scrutiny. The framework for budget preparation has improved in recent years, but does not yet meet the requirements of the Code in some areas. Modernizing and consolidating treasury operations is also a matter of urgency, as are reforms in external audit.

Effective implementation of recently-enacted laws will, however, be crucial to achieving the level of transparency stipulated in legislation. This will be a challenge given long-standing weaknesses in public administration and control systems. Key areas where further improvements are needed to meet the requirements of the Code are, amongst others:

- (1) Review and demarcate the boundaries between the general government sector and the broader public sector;
- (2) develop an organizational classification in line with international standards for budget preparation and execution;
- (3) Strengthen the link between policy and budgeting; (4) further strengthen macroeconomic analysis and forecasting;
- (5) submit a fiscal risk assessment report with the budget; (6) show separately in the budget documents the cost effect of policy changes; (7) strengthen the external audit function; (8) establish a ministry of finance (MoF) website to disseminate publicly budget preparation and execution data, as well as information on Tajikistan's public financial management system, including reforms being considered or under way; (9) compile a database for domestic debt and financial assets and publish the same together with the foreign debt data; (10) introduce a sounder and more permanent system for revenue sharing and resource transfer formulae between tiers of government; (11) eliminate extrabudgetary activities and consolidate them with mainstream line ministry activities; (12) analyze and publish contingent liabilities and QFAs in the energy and transport sectors; (13) complete the establishment of a Treasury Single Account by consolidating all domestic currency bank accounts used in the general government sector; (14) design and implement a comprehensive commitment control system in harmony with the implementation of the new decentralized procurement system; (15) expand the functions of the cash management unit to include all the functions of modern government cash planning and management; and (16) harmonize any internal control and internal audit reforms carefully with other public financial management and public administration reforms.

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ABBREVIATIONS

EBF	Extrabudgetary Fund
EU	European Union
GDDS	General Data Dissemination Standard
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual, 2001
INTOSAI	International Organization of Supreme Audit Institutions
MOET	Ministry of Economy and Trade
MoF	Ministry of Finance
MSRD	Ministry of State Revenues and Duties
NBT	National Bank of Tajikistan
NFPEs	Nonfinancial Public Enterprises
PFI	Public Financial Institutions
PIP	Public Investment Program
QFAs	Quasi-fiscal activities
ROSC	Reports on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard
SEDP	State Economic Development Plan
SFCC	State Financial Control Committee
SOE	State-owned Enterprise
SPF	Social Protection Fund
SPC	State Property Committee
TadAZ	Tajikistan Aluminum Works

I. INTRODUCTION¹

1. **This report provides an assessment of fiscal transparency practices in the Republic of Tajikistan against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*.** The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Tajikistan.

II. DETAILED DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

Definition of government activities

2. **General government is largely defined consistently with Government Finance Statistics (GFS) principles, and is mostly covered in the budget process.** A two-tier structure of government exists (central and local governments), which resembles that of general government. The central government consists of the republican budget and the Social Protection Fund (SPF). There are no other state extrabudgetary funds (EBFs). However, while indicative estimates of extrabudgetary transactions of budgetary organizations (so-called special resources), are taken into account in the budget submitted to parliament, individual budgetary organizations may adopt supplemental revenue and expenditure schedules during the year. These extrabudgetary transactions are processed by the treasury and are included in the fiscal reports, although actual expenditures could exceed the indicative estimates included in the approved budget.² The definition of government activity is consistent between the ministry of finance (MoF) and the central bank (National Bank of Tajikistan, NBT).

3. **Recent initiatives promoting the introduction of user charges and fees could complicate the defining of boundaries of the general government sector and its**

¹ Discussions on fiscal transparency were held in Dushanbe during July 21–August 3, 2006. The IMF staff team comprised Ms. Jacobs (Head), Messrs. Pattanayak (both FAD), and Mr. Zohrab (FAD's regional advisor based in Tbilisi, Georgia). The mission met with a number of senior officials of the Ministry of Finance, including Mr. Najmuddinov (Minister of Finance), Mr. Sokhibov and Ms. Harmrakulova (both Deputy Ministers), and Mr. Abibulaev (Budget director). It also met with the Minister of Health, officials from the National Bank of Tajikistan, the State Financial Control Committee (SFCC), the State Property Committee (SPC), the Social Protection Fund (SPF), the Central Procurement Agency, the Ministry of State Revenues and Duties (MSRD), Tajikistan Aluminum Works (TadAZ), National Statistics Office, Civil Service Department under the President's Office, Dushanbe City Council/Mayor's Office, Chamber of Commerce, and several donor agencies. Mr. Moers, IMF Resident Representative, participated in some of the meetings and provided substantial support to the mission through his office. The mission was also expertly assisted by Mr. Slavnov and Ms. Azizova (interpreters).

² For example, during the fiscal year 2006, while the indicative estimates of expenditures from special resources totaled 66.0 million somoni in the budget approved by parliament, the actual expenditures under this category totaled 107.4 million somoni in the first ten months of the year.

consistent coverage in the budget process. In the context of sectoral reforms, the authorities intend to promote fee-supported services of budget-financed institutions. According to the *Law on State Finances*,³ a budget organization is any organization that receives not less than 70 percent of its funds from the budget. However, the current regulations do not distinguish between nonprofit/nonmarket institutions that need to be included in the general government sector and nonprofit/market institutions and public corporations that need to be included in the broader public sector. This could complicate complete coverage of the general government in the budget process.⁴

Box 1. General Government Budget in Tajikistan, 2005		
	In Somoni millions	In percent of GDP
Republican Budget	798.2	11.1
<i>Of which:</i>		
Public Investment Program (PIP)	264.1	3.7
Extrabudgetary accounts (so-called special revenue accounts)	78.1	1.1
Central government budget = Republican budget + Social Protection Fund budget 1/	959.0	13.3
General government budget = central government budget + local government budgets	1402.7	19.5
1/ There are no other extrabudgetary funds in Tajikistan.		

4. **The general government budget currently includes the central and local government budgets** (Box 1). Local governments include four levels—provinces (oblasts), towns, rayons (rural districts), and sub districts (jamoats) (see paragraph 12). The *Law on State Finances* does not define the revenue sharing system for key taxes (e.g., VAT and income tax) between the central and local governments. Transfers to local governments are approved by parliament as part of the annual budget. Local governments (and budget organizations) are allowed to collect additional revenues⁵ and use them for additional expenditures. They are treated as special extrabudgetary resources. These resources can be spent with the approval of *Oblast* chiefs for local budget organizations, and of the Ministry of Finance (MoF) for republican budget organizations. They are not reflected in the initial budget nor are presented to parliament through a supplementary budget to seek its authorization for spending; however, the use of these resources pass through the treasury and are included in the budget execution reports.

³ Law No. 77 of 2002.

⁴ For more detail, see IMF, *Government Finance Statistics Manual*, 2001, p. 10.

⁵ In accordance with Article 4 of the Republic of Tajikistan *Law on Other Compulsory Payments to the Budget*, No. 197 of July 28, 2006. However, the establishment of other types of payments and fees, as well as changes and additions to or the repeal of existing payments and fees, are carried out following the procedure for making amendments and additions to this Law.

5. **The relationship between government and state-owned enterprises (SOEs) is not clear.** In spite of the ongoing privatization, there are still more than 500 public enterprises with varying levels of government equity ownership. With the exception of the Tajikistan Aluminum Works (TadAZ), all of the SOEs report directly to their respective sectoral ministries. These SOEs are legally separate from the government,⁶ but the respective ministries appoint the directors and key personnel. These organizations provide monthly, quarterly, and annual data to the ministries. They also prepare annual financial statements, including income and expenditure accounts and balance sheets. No centralized monitoring of SOE financial performance exists, however reports are also sent to MoF and the State Statistics Committee. Some SOEs receive explicit subsidies from the republican and local government budgets for providing goods and services to the public (e.g., transport and utility services for certain low-income groups).

6. **Government holdings of fully-owned corporations and equity remain significant.** Data on government equity holdings are available on request, but published only partially, as in the case of enterprises identified for privatization. No financial corporation is entirely publicly owned, but the government owns the majority share of one of the largest banks, the Amanat Bank. The State Property Committee (SPC) has 347 (from a total of about 500) SOEs on its privatization list, including joint stock companies and other enterprises with government ownership. There are 37 SOEs (natural monopolies) which will not be privatized, but restructured. Little information is publicly available about local government ownership of companies.

Government relations with nonfinancial public corporations and the private sector

7. **Quasi-fiscal activities of public nonfinancial corporations have remained significant, especially in the energy and transport sectors.** In these sectors, fully or partially government-owned enterprises dominate and carry out QFAs. In the energy sector, these activities continue to be significant as reforms in the electricity subsector are still ongoing. Arrangements guiding the transfer of dividends from SOEs to the state budget are regulated. In general, SOE dividends should be transferred to the budget as prescribed by relevant laws and regulations, and depending on directors' decisions on profit distribution.

8. **The legal framework for privatization and the use of privatization proceeds is relatively clear.** Privatization is carried out under the 1997 *Law on the Privatization of State Property*. The SPC is in charge of privatizing the government's share in 459 enterprises. The SPC executes the privatization program, which is currently covering the period 2003–2007. Privatization takes place through either bidding auctions or tender processes. The accounting of privatization proceeds is transparent—all official proceeds are remitted to the treasury and used for budget financing.

9. **Laws and processes regulating the nonfinancial private sector are well defined formally, but the inspection system poses many informal restrictions on private sector**

⁶ There is no separate law on SOEs but their operations are guided by, amongst others, the *Civil Code of Tajikistan* and the *Law on State Property*.

activity. Government regulations of nonfinancial sectors are generally spelled out in the *Civil Code* (1999) and the *Law on Companies* (1991). Licensing and business registration procedures are still cumbersome with a pervasive system of multiple inspections on standards and other certificates remain in place. Prices, tariffs, and fees in a number of sectors (e.g., energy, heating, transport, water, education, and health) are administratively determined by a national regulatory agency, the anti-monopoly committee. Tajikistan currently lacks a formal body such as an anti-corruption commission (ideally comprising members of the civil society as well), which could be tasked as a “watch dog” on all corruption-related matters.

Government relations with the central bank and public financial sector

10. **The central bank is formally independent and currently does not carry out QFAs.** The primary objective of the NBT, according to *Law on the National Bank of Tajikistan* (1996),⁷ is to “achieve and maintain the stability of the purchasing power of national currency.” Articles 24–30 of this Law describe the relationship between the NBT and the government, including its role as the banker and financial advisor and fiscal agent of the government. There is an adequate legal basis in place regulating the transfer of NBT net profits to the budget. The NBT’s role in financing of the budget deficit is clearly spelled out in the NBT law. The NBT does not currently carry out any QFAs.⁸

11. **Public financial corporations are no longer allowed to carry out QFAs.** The government controls only one commercial bank (see paragraph 6); but all financial institutions are subject to supervision by the NBT as spelled out in Chapter V of the NBT Law. In the past, the government-owned bank undertook some QFAs with concessional lending to certain sectors of the economy. This is no longer allowed.

Fiscal management relations among the branches of government

12. **The fiscal roles of the executive, legislative, and judicial branches are defined in the Constitution and relevant laws.** The Tajikistan Constitution gives a clear description of executive, legislative, and judicial functions. The *Constitution*⁹ (Chapters III and V) sets out the relations between parliament and government. Parliament also approves the republican budget (which includes the budget of the SPF). According to the *Law on State Finances*, if the annual budget law is not approved by the start of the fiscal year, monthly provisions, equal to one-twelfth of the authorized budget of the previous year, are allocated. Before presentation to parliament, the draft of the annual budget is discussed by the cabinet. However, there is no practice of consulting or seeking views on budgetary and related issues from representatives of employers, labor groups, government, and civil society.¹⁰

⁷ As amended in 2001 and 2002.

⁸ See article 25 of the *Law on the National Bank of Tajikistan*.

⁹ 1994 *Constitution of the Republic of Tajikistan*.

¹⁰ The Budget Committee comprises of government and trade unions, but has no representatives from civil society.

Fiscal management relations among different levels of government

13. **The revenue and expenditure assignments of the different levels of government could vary from year to year.** The division of responsibilities between republican and local governments and the rules for the preparation and execution of local government budgets are broadly defined in the *Constitution*, the *Law on Local Government Authorities*, and the annual budget law. The budget process in Tajikistan is centralized with the MoF preparing the state budget that includes both the republican and local government budgets. However, the current and capital budgets are essentially determined separately, with the capital budget being controlled by the ministry of economy and trade (MOET). Local budget revenues and expenditures are determined by MoF on the basis of norms calculated to estimate the amounts of grants and contributions for the regions. In practice local governments have limited opportunities to exercise the functions assigned to them. Issues concerning the financial resources of local governments are decided at the central government level. Financing gaps of local governments to meet their expenditure responsibilities, which vary from region to region, are currently addressed by means of government grants or various types of transfers. Problems associated with uneven development among the regions, and consequently the vertical imbalance of local budgets, could be attributed to the uneven distribution of per capita budget revenues among Tajikistan's regions. The local governments have no legal borrowing powers.

The legal and administrative framework for budget management

14. **The legal framework for management of public funds is generally clear, but fragmented.** Key principles for management of the republican and local budget processes are set forth in the *Law on State Finances* and the *Law on State Borrowing*. The annual budget law establishes fiscal targets and constraints. The *Tax Code* (2005) establishes tax rates and bases for domestic taxes. Customs duties are determined by the *Customs Code* (2005), while the *Law on Social Insurance*¹¹ and the *Regulation on the National Social Protection Fund*, defines the scope and coverage of the SPF. Gradual implementation of these laws has gradually brought more stability and transparency into the fiscal system. The MoF plays a dominant role in fiscal management, and its role has been strengthened recently through various mechanisms, including the introduction of treasury reforms and organizational changes in the ministry.

15. **Foreign-financed investment projects are not well integrated into government operations, which complicate monitoring and fiscal management.** The part of the Public Investment Program (PIP) that is financed by donors is shown separately in the budget documents and is not fully covered by treasury operations. Information on projects financed by donors, however, is available due to the fact that information on assistance provided by donors to the government is incorporated in budget documents. The annual law on the budget determines the overall budget deficit target including information about projects financed by donors.

¹¹ Law No. 518 of 1997.

The legal and administrative framework for tax policy and administration

16. **The legislative basis for taxation is comprehensive, but might not always be clear to the tax payer.** The tax and customs codes provide the legal basis for tax liabilities and concessions for all major revenue categories. Tax laws and regulatory acts are generally accessible, however, the application of the laws is sometimes difficult for tax payers to understand. Major tax policy changes are generally introduced together with the annual republican budget. Legislation was recently passed to revise tax liabilities and discretionary concessions for certain types of taxes. Specifically, Article 4 of the *Law on Other Compulsory Payments to the Budget*, No. 197 of July 28, 2006, spells out the establishment of other types of payments and fees, as well as that changes and additions to or the repeal of existing payments and fees, should be carried out following the procedure for making amendments and additions to this Law.

17. **Tax exemptions are extensive and tax expenditures are not systematically reported.** Tax exemptions from direct and indirect taxes are extensive, causing considerable costs to the government. Aggregate estimates of tax expenditures are neither available nor reported to parliament.

18. **Strengthening of tax and customs administration occur in recent years but some weaknesses remain.** Chapter 13 of the Tax Code, which became effective in January 2005, defines the legal framework for the activities of the ministry of state revenues and duties (MSRD). It also specifies the enforcement powers of tax officials. The institutional setup of the MSRD had been strengthened by the creation of MSRD as a separate tax collection agency which no longer reports directly to MoF. Taxpayer Identification Numbers are now widely used by the tax and customs administration, but the degree of discretion that the tax and customs codes grant to tax officials in requesting information from, and in releasing information to, third parties might be considerable. MSRD still employs Tax Police officials as part of its staff component.

19. **The tax and customs legislation clearly specifies taxpayers' legal rights and obligations, including the right to appeal, however, these rights are not well known and understood.** The Tax Code specifies the procedure available to the taxpayer to appeal against decisions of tax authorities and actions of tax officials. Complaints must be filed first with the local tax offices. A ruling by a local tax office on a complaint can be appealed by a taxpayer at the level of MSRD headquarters or relevant judicial authority (Chapter 36 of the Tax Code). Taxpayer information could be improved, in particular by providing easy access to all laws and regulations through website publication. No "Taxpayer Bill of Rights" exists in Tajikistan.

Public servants' code of behavior and anti-corruption activity

20. **The conduct of government employees is subject to a variety of laws and regulations.** In recent years, the government has taken some initiatives to combat corruption, which however continues to be perceived by businesses, donors, and others as a key

problem.¹² In general, the code of conduct for civil servants and other government staff is regulated by legislation.¹³ In addition, the *Law on Combating Corruption* was passed in 1999 and in accordance with Article 6 of this Law, “all government authorities, local governments (*khukumaty*), and all persons authorized to perform government functions shall be required to fight corruption within the limits of their competence.” In 2004, a new *Code of Ethics* for civil servants was approved and is generally available. Government officials are obliged to submit on an annual basis special tax and property returns.

B. Open Budget Preparation, Execution, and Reporting

21. **The annual budget process is mostly regulated by cabinet resolution each year, however, the budget presentation is not yet fully consistent with international standards.** The main steps and timing for budget preparation are described in Box 2. The *Law on State Finances*¹⁴ does not define a detailed budget calendar and prescribes the due dates only for: (i) submission of the draft budget by the MoF to the cabinet and (ii) submission of the draft budget by the government to the parliament. Additional dates are prescribed through a cabinet resolution every year. However, the budget cycle mostly follows a regular time table, which begins in May of each year with the issue of instructions by the MoF to each line ministry, local government, and other budget organizations to submit their budget proposals by end-July. In July each year, the MoF also prepares a macro framework with inputs from the MOET, the MSRD, and the NBT. Negotiations between the budget organizations and the MoF take place in August. The line ministries and budget organizations are required to defend before the budget commission¹⁵ if their proposals based on needs substantially exceed indicative budgetary increases. By September, the finalized draft budget is presented to the cabinet and the president’s office. After their approval, the budget is submitted to parliament by November 1.

22. **A new budget classification based on corresponding GFS 1986 classifications came into force on January 1, 2005 and includes the main aggregates i.e., revenues, grants, expenditure, lending minus repayments, and financing.** The functional classification is also based on the GFS 1986. The budget classification, however, does not include an organizational classification to allow a clear tracing of responsibility before parliament for the collection and use of public funds.¹⁶ Parliament approves the budget by

¹² Tajikistan has tended to score low in comparison with other transition countries in a variety of indices measuring perceptions about corruption and red tape, including Transparency International’s corruption perception index. See for example <http://www.transparency.org>.

¹³ For example, the *Law on Civil Service* (as amended in 2001).

¹⁴ Law No. 77 of 2002.

¹⁵ A budget commission was established in 2005 with the prime minister as the chairman, the minister of finance as the deputy chairman, other key ministers, representatives of the president’s office, and the chairman of the social protection fund and trade unions.

¹⁶ Most countries have relatively sound organizational classifications for this purpose, often to sub-departmental levels, to allow detailed specification of administrative responsibilities. Although a list of key budget organizations is used by the MoF in Tajikistan for apportionment of the appropriated budget and in budget execution and reporting, there is a difference between such a list and a hierarchical organizational classification

(continued...)

broad functional categories and allocations are made to individual spending units during the year administratively by the MoF.

Box 2. The Budget Preparation Process		
Due Dates	Activities	Legal basis
End May	Issue of instructions by the MoF to the line ministries/local governments/budget organizations to guide the preparation of budget estimates.	Cabinet resolution
June*	MOET presents macroeconomic projections to the MoF based on its State Economic Development Plan (SEDP).	Cabinet resolution
July	Preparation of macroeconomic framework by the MoF.	Cabinet resolution
End July	Line ministries/local governments/budget organizations present their budget proposals to the MoF.	Cabinet resolution
August	Negotiation with the line ministries/local governments/budget organizations on proposals for inclusion in the state budget.	Cabinet resolution
September	The MoF submits the draft state budget to the cabinet.	Article 39 of the <i>Law on State Finances</i>
November	The draft state budget is submitted to parliament.	Article 39 of the <i>Law on State Finances</i>
By 31 st December	Parliament approves the state budget.	Article 44 and 45 of the <i>Law on State Finances</i>
January	Publication of the annual budget law.	Cabinet resolution
* This due date is applicable for the 2007 budget onwards; the MOET used to submit its macroeconomic projections by end August earlier.		

The macroeconomic framework and policy basis for the budget

23. **The overall balance of general government is used by the MoF as the preferred indicator of the fiscal policy stance in the budget, but the boundaries of general government are still not clearly defined.** The main focus of fiscal policy formulation in the budget is the overall deficit of general government that includes the republican (central) budget, local budgets, the social protection fund, and the donor-funded part of the PIP. However, information on government activities in the budget documents is limited only to those institutions receiving a transfer from the budget. Many institutions under the control of central ministries and local governments are self-financed ones and provide fee-supported

based on a logic to reflect the administrative hierarchy and structure (e.g., a line ministry being at the top or first level and the lowest level administrative unit executing the budget being at the bottom of the hierarchy).

services,¹⁷ and it is not clear whether their revenues and expenditures should be excluded from the measure of the budget balance.¹⁸

24. Good progress has been made in preparing and presenting the budget forecasts and underlying macroeconomic assumptions, but the forecasts come too late in the budget process to provide guidance to the ministries and other agencies. With the recent establishment of a macroeconomic division within the MoF,¹⁹ the process of developing a macro framework for the budget has been strengthened, with the MoF assuming the lead coordinating role to develop the macroeconomic framework by July each year, although the MOET still prepares its own macroeconomic projections based on the social and economic development plan (SEDP). To ensure the consistency between the two sets of macro forecasts (one by the MoF and the other by the MOET), the MOET is required to submit its own SEDP-based forecasts to the MoF by end-June from the year 2006 onwards.²⁰ Information about the main macroeconomic parameters²¹ are provided in the budget for the coming fiscal year plus two years. Information on the underlying assumptions and the methodology used for macroeconomic forecasting is provided to the budget commission and the cabinet but is not presented to parliament as part of the budget documentation. There is no systematic mid-year review of the macro forecasts although ad hoc revisions do take place.²² One major deficiency under the current budget procedure relates to the line ministries and other spending agencies not having information on macroeconomic indicators update for the relevant fiscal year while they prepare their budget submissions based on MoF instructions issued in May. As a result, their budget proposals, being based on initial indicators of the State Economic Development Plan (SEDP), sometimes require revisions after submission to the MoF.

¹⁷ In the health sector, for example, there are four categories of institutions: (i) private medical care facilities, (ii) institutions under the control of the ministry of health and exclusively funded through the budget, (iii) institutions that are self-financed through user charges/fees levied by them but are under the control of the ministry of health for their operations, including determination of their service charges/fees, and (iv) institutions that are under the control of the ministry of health and subject to combined funding arrangements i.e., financed partly through levy of user charges/fees and partly through budgetary transfers.

¹⁸ In the absence of a clear demarcation between the general government sector and the broader public sector in the case of Tajikistan, it is not clear whether these self-financed institutions should be treated as: (i) general government units with separate legal identities (in which case, their revenues and expenditures should form part of the government budget and be included in the measure of the overall budget balance); (ii) nonmarket nonprofit institutions controlled by the government units; or (iii) public corporations owned and controlled by the government units (see paras 2.14, 2.15, 2.19, and 2.20 of the *Government Finance Statistics Manual (GFSM) 2001* for a definition of these terms).

¹⁹ Presently the division has four staff members.

²⁰ Up to the year 2005, the MOET used to submit the update on major economic and social development indicators by end-August whereas the MoF prepared its own macroeconomic forecast by July. This led to protracted discussions between the MoF and the MOET to align both sets of projections.

²¹ Parameters such as growth in GDP, inflation over the medium term, the budget deficit and its financing, aggregate savings and investment, export and import growth, etc.

²² There was no mid-year review during 2005 whereas a revision to the 2006 macro forecasts has been necessitated due to exchange rate movements.

Medium-term planning and analysis of fiscal risks

25. **Only some of the elements of medium-term budgeting are present and fiscal sustainability issues are not systematically analyzed and presented with the budget.** The budget documents include a medium-term forecast of fiscal aggregates with a breakdown by broad revenue and expenditure categories for the budget year plus two forward years. However, in practice the medium-term projections are mechanical, and are neither based on robust revenue forecasts and clearly defined and fully costed expenditure policy proposals; nor rigorously related to the macroeconomic prospects over the medium term. Moreover, the current and capital budgets are essentially determined separately, with the capital budget being controlled by the MOET. As a result, there is no systematic assessment of the future recurrent expenditure requirements of the present capital investments. The existing institutional framework also lacks an effective coordinating mechanism to link the resource allocations with sectoral policy priorities. The line ministries play a very limited role in sectoral policy formulation,²³ with the MoF interacting directly on budget matters with too many disaggregated spending units called the key budget organizations.²⁴ The local governments, whose medium-term projections are also included in the state budget, are free to change their inter-sectoral allocations within the overall budget envelope approved by the national parliament. To address these weaknesses under the current system of medium-term budgeting, the MoF is in the process of developing a Medium-Term Expenditure Framework with the help of the World Bank. As far as assessing the sustainability of current fiscal policies is concerned, the analysis essentially focuses upon the debt ratio, the primary balance and the overall balance, but no long-term report on fiscal sustainability is prepared or published. Some of the existing policy commitments of the government, with a future financial impact, include the pension liabilities and the unemployment and disability benefits under the *Law on Social Security*. The pension payments from the SPF follow a “pay-as-you-go” principle and are essentially funded through employers’ contribution.²⁵ The SPF has so far been able to meet its annual expenditure requirements through employers’ contribution although it is yet to undertake a systematic assessment of the Fund’s long-term sustainability.

26. **No fiscal rule is used in the budget process.** There are no explicit fiscal rules with the exception of the conditionalities inherent to the program targets with the IMF.

27. **There is currently no explicit costing of new policy initiatives included in the budget documentation.** The budget documents identify in a broad manner, the main government policies explaining major changes in budget revenue and spending. It also

²³ During the meeting with the health ministry officials, the mission was informed that the ministry of health is not allowed to receive a consolidated appropriation for all the budget organizations under its control and instead these budget organizations negotiate with the MoF and receive direct allocations from the republican budget.

²⁴ These are first-level organizations that receive direct allocation from the budget. Around 100 of them do exist, but in the absence of a proper organizational classification it is difficult to identify their exact number. It is also not clear whether this number remains constant or changes from year to year.

²⁵ The employers’ contribution is realized through a social tax, which was initially set at 13 percent of the total wage bill at the time of the establishment of the SPF (1996) and later revised to 30 percent and 25 percent in 1999 and 2002 respectively.

contains general statements on new government priorities. The budget documents, however, do not provide a quantification of the costs of new government spending programs nor clearly distinguish them from the cost of ongoing government activities.

28. **Analysis of sensitivity of the budget estimates to changes in economic variables is not included in the budget and fiscal risks are not stated.** While the budget is prepared within a quantitative macroeconomic framework, the budget documents do not include information on all the underlying key assumptions and the methodology used for the macro forecasts. The budget documentation also does not include a report on sensitivity analysis of fiscal aggregates in the face of changes in economic parameters or other uncertainties. The budget does not contain a discussion of fiscal risks arising from changes to macroeconomic variables nor does it contain an analysis of the contingent liabilities. No statement describing the nature and significance of government contingent liabilities, including a statement on government guarantees, and of QFAs, is included with the budget.

Clarity of control of budget execution

29. **Basic accounting and internal control procedures are in place with some limitations.** Accounting, reporting, and reconciliation processes are discussed below. Expenditure control is focused on current control, i.e., on the payment stage, although there is partial ex ante control in respect of commitments and cash management.

Box 3. Lack of Proper Commitment Controls in Tajikistan

- The partial commitment registration system requires budget organizations, before initiating the bid process in respect of the centralized procurement of goods and services, to submit an application to the treasury for certification by it of the availability of funds. This application specifies the estimated value of the procurement and the likely payment schedule to the supplier. This information is registered in the treasury's accounting system and funds are reserved accordingly. However, as discussed below, the coverage of the centralized procurement system is expected to reduce substantially, conceivably to zero, and so the coverage of the commitment registration system would reduce in tandem unless it was decoupled from the centralized procurement system.
- For other expenditures such as for utilities, transfer payments, subsidies, business trip expenses, government lending operations, payments arising out of court decisions, etc., there has been no commitment control. Apart from the quarterly budget allocations, the only information available to the treasury in respect of such expenditures is the information generated by the monthly cash application forms submitted by budget organizations indicating their cash requirements. These forms provide information on commitments and payables for each item of expenditure according to the economic classification. However, this information is not recorded by the treasury for commitment monitoring.

30. **The treasury controls the cash balances of most government bank accounts, but the bank account structure is not integrated.** Most bank accounts used to process budget receipts and payments are controlled by the treasury, with some exceptions.²⁶ The treasury

²⁶ The exceptions are: the pension fund's separate bank account; the bank accounts that are required by international agreements to be controlled separately; and foreign currency bank accounts outside Tajikistan that are controlled by its embassies.

controls 222 domestic currency bank accounts; of these, 73 are tax revenue transit accounts, and the remaining 149 are normally operating bank accounts. The treasury also controls foreign currency bank accounts at the central bank used to fund embassy bank accounts overseas and debt servicing.

31. **Payment arrears are not a serious problem at present.** There have been instances in the past of arrears being accumulated, particularly for utilities payments, by budget organizations using these appropriations for other purposes. The government introduced protected items in the budget for utilities payments, salary, and pensions to avoid this problem. Payroll data are maintained manually at the level of budgetary organizations only, and the control mechanism to ensure the correctness of payroll records is weak. A proper personnel database or civil service register is under development, as discussed below. One of the reasons payables are not a larger problem is that advance payment is common. Conversely, however, receivables are a significant problem, because of delays by suppliers in delivering goods and services after advance payments.

32. **Cash and debt management are not well coordinated.** Comprehensive formal rolling cash plans are not yet used for effective cash/debt management. The treasury has recently established a cash management division. Its new functions are expected to build on the existing cash planning and management functions and new duties of the cash planning division will be carried out as instructional materials are prepared, and as informed by the authorities, these functions will be compulsory starting on January 1, 2007.

Box 4. Coverage of Cash Planning and Management Functions	
Existing Functions	<ul style="list-style-type: none"> • Consolidation of estimates made by budgetary organizations each quarter of the cash they need for the quarter. • Requests to the banks used by the treasury to ensure the availability of cash. • Contribution to the central bank's liquidity forecasting system by forecasting cash expenditure for the week ahead. • Effecting of payments. • Ensuring funding priority for protected items and commitments registered under the centralized procurement system.
Initial New Functions	<ul style="list-style-type: none"> • Centralized monitoring of cash balances and flows in the system of treasury bank accounts.
Prospective New Functions	<ul style="list-style-type: none"> • Systematic centralized cash outturn analysis and reporting.
Functions Not Yet Provided For	<ul style="list-style-type: none"> • Stable schedule of payment dates and hence elimination of ministerial involvement in decisions on the timing of payment. • Submission of revenue authorities' forecasts to the treasury rather than separately to the central bank. • Definition of comprehensive cash forecasts on a daily basis for several months ahead. • Systematization of cash releases.

33. **The internal audit function has a narrow focus and does not meet international standards.** Internal audit does not undertake a systematic assessment of risks in expenditure management nor are its activities complementary to the external audit function in Tajikistan. The department does,²⁷ however, attempt to avoid undertaking their audits at times close to the external auditor's audits. The department was recently moved from the treasury to report directly to the MoF. The department focuses mainly on assessing legal compliance of expenditure, and has uncovered problems of noncompliance which have resulted in administrative and, occasionally, criminal sanctions. Its reports are not available to the public.

34. **Extensive problems with the existing public procurement arrangements have been documented in some depth.**²⁸ They show that the current procurement arrangements do not provide a sound basis for open and competitive procurement practices. However, there has been some improvement within the existing arrangements as a result of the efforts of the authorities; for example, the open bidding share of the procurement of goods and services has recently increased from 46 percent to 58 percent. A new procurement law, which is largely if not completely UNCITRAL compliant, has been enacted, although the regulations required to implement it have not yet been promulgated. However, the existing tendering law contradicts the new procurement law, and so the tendering law will need to be repealed. In addition, the authorities will need to develop new tender procedures and documentation according to international standards and then embark on training and reorganization.

35. **Despite recent changes, the existing civil service employment arrangements are still problematic.**²⁹ Civil service legislation, enacted in 1998, has been largely ineffective. Civil service management structures have been weak. The pay and benefits system has been inadequate, too complex, and nontransparent. However, a Government Reform Strategy was approved by the president in 2006 and a sweeping civil service reform process has begun. It involves: a strengthened civil service regulatory framework; transparent employment arrangements, including open and competitive recruitment; a streamlined pay and benefits system; an upgrade of skills; and capacity-building in the civil service department. It also provides for parallel arrangements for the public service employees outside the civil service, i.e., military and law enforcement employees. Regulations on competitive recruitment and a code of ethics for employees have been promulgated, and all officials now have to file income and property tax returns. An upgraded computerized civil service register is planned.³⁰ Training programs are under way or planned.

²⁷ The department has 57 staff, of which 7 cover the 800 central government budget institutions, with the balance covering local government.

²⁸ World Bank, *Country Procurement Assessment Report*, 2003.

²⁹ World Bank, *Public Expenditure and Institutional Review*, 2005.

³⁰ A version of the software has been in use since 2005, but not all institutions are connected on-line, and the software needs further development, including to enable payroll cost forecasting.

Clarity of internal control and independence of tax administration

36. **There is almost no computerization of the government tax administration system and its internal audit function has not yet been fully established.** At present, no computerized system is operational in the tax and customs departments. Many of the tax offices operate manually and some have obsolete computers in place. However, the Asian Development Bank has recently approved two projects for computerization: one for the tax administration and the other for the customs administration. A comprehensive internal audit function, reporting directly to the management, is yet to be established in the tax and customs administrations. Limited audit of procedures, e.g., verifying the procedure to identify tax payers, followed by the various tax offices, monitoring of financial plans and verifying the accuracy of calculations for each type of tax, is carried out by the internal audit unit of the MSRD. Periodic independent compliance audits of the tax and customs administrations are also undertaken as a routine part of the audit carried out by the State Financial Control Committee (SFCC). However, neither the internal audit unit nor the SFCC undertakes any performance audit.

37. **The level of autonomy of the national tax and customs administrations has improved with the establishment of the MSRD and the promulgation of the new tax and customs codes.** A separate ministry (MSRD) was established in 2002 by merging the erstwhile customs and tax committees under the cabinet. Through the provision of extensive IMF technical assistance, substantial progress has been made in reshaping the legal and institutional frameworks for tax and customs administrations. In particular, the new tax and customs codes, approved in late 2004, have considerably enhanced the degree of independence enjoyed by the tax and customs administrations. The relationship of the tax administration with the MoF continues to evolve.³¹

Accounting and reporting on budget execution

38. **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, as discussed below, it is difficult to ensure that the accuracy of the reports is of an internationally-accepted quality. The accounting system 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. The treasury's accounting system incorporates the budget classification, but the budget organizations' chart of accounts diverges somewhat from the budget classification.

39. **Fiscal reporting appears to cover most if not all general government.** The reports cover extrabudgetary as well as budgetary transactions. However, it is possible that fiscal

³¹ The mission was informed that the annual budget drafted by the MoF provides detailed targets for collection under each category of tax which the tax department is required to achieve.

reporting does not cover some organizations that would, if classified correctly, be included within the general government sector. A comprehensive assessment of the status of government-controlled organizations for inclusion within the general government sector has not yet been undertaken.

40. Parliament and local legislatures receive quarterly budget execution reports but do not undertake mid-year reviews of budget execution. Article 56 of the *Law on State Finances* provides for the parliament and local legislatures to receive quarterly budget execution reports within two months of the end of the quarter. In practice, by presidential decree, this occurs by the end of the month following the end of the quarter. Article 56 of the *Law on State Finances* also requires the MoF to prepare the quarterly budget execution reports comparing actual and approved incomes, actual and approved expenses, grants, deficits, and borrowings of the budgets with explanations of divergences between approved estimates and outturns. The treasury prepares the quarterly budget execution reports for both central and local government budgets after aggregating the data received from 73 local treasuries located in oblasts and rayons. These reports are on a cash accounting basis as per the budget classification, and include extrabudgetary revenues and expenditures. The reliability of the disclosures made in the quarterly budget execution reports is undermined by the treasury's weak accounting system. It is on a single-entry basis and lacks the controls inherent to double-entry accounting. Moreover, it is reliant on manual record-keeping. Commitments are not consolidated by the treasury and reported in the quarterly budget execution reports.

41. Annual financial statements are submitted, to parliament and local legislatures respectively, within six months of the end of the fiscal year, but are not subject to external audit beforehand. Article 57 of the *Law on State Finances* stipulates the contents of the annual state budget execution report to be prepared at the end of each fiscal year, and requires the government to submit the annual financial statements to the parliament by June 1, i.e., within six months of the end of fiscal year. Article 8 of the Treasury Law 2001 also provides that the central treasury shall prepare within three months of the end of fiscal year, a consolidated annual budget execution report and submit it to the MoF. According to Article 10 of the same law, the treasury is also required to prepare each year a consolidated financial report on assets and liabilities/debts. These reports are part of the annual financial statements. The annual budget execution reports are consolidated on a cash accounting basis as per the budget classification. ministries, agencies, and other budget organizations submit their annual financial statements which are reconciled with the treasury data for preparation of the consolidated annual financial statements. The due dates for submission of annual budget execution reports to parliament were met in 2004 and 2005; in 2006 there was a slight delay.

42. The annual financial statements prepared by the government include information on: revenues and grants; expenditures according to budget classifications with comparisons between budget and outturns; treasury bank account balances; state financing transactions and the stock of external debt; and budget organization payables, receivables, and fixed assets. However, information on contingent liabilities and assets and the stock of domestic debt, loans, advances, and ownership are not included in the annual financial statements.

43. **The reliability of the disclosures made in the annual financial statements is undermined by undeveloped accounting systems in the treasury and budget organizations.** There is a lack of consistency between budget accounting carried out in the treasury and financial accounting done by the budget organizations. The accounting system in budget organizations is on a double-entry accrual basis, but the accrual basis does not conform to international standards and the system is reliant on manual record-keeping. These factors make the data difficult to reconcile and validate and, therefore, having regard also for the length of the annual financial statements, make them difficult to audit. External audits are undertaken by the SFCC every two years not of the annual financial statements specifically, but of budget execution more generally. As part of this, it checks the accuracy of the statements. However, it does not certify them.

Results-oriented budgeting and reporting

44. **The current budget documentation contains little discussion on expected outputs or outcomes from government activities.** The budget formulation process mostly focuses on inputs. Program objectives are not defined in terms of outputs or outcomes and performance measures or indicators are not used to evaluate program outcomes. A sound budget classification system including a program classification³² will have to be in place as a precondition to moving towards a performance-based budgeting system.

C. Public Availability of Information

45. **Fiscal information is readily available to the public and there is a clear commitment to provide information at approximate times, but its comprehensiveness is limited.** Quarterly information is disseminated within one month of the end of the quarter pursuant to the presidential decree referred to above. There is a 3–4 page press release and a media briefing. In addition, the summary information is published in specialist financial media, in the case of the central government budget, and in local newspapers, in the case of local government budgets. Article 62 of the *Law on State Finances* requires the annual budget execution report to be published. However, the annual financial statements are not publicly available; short summaries of aggregated data with some text are published in the print media. Limited summary information is published monthly by the statistics committee in its *Social and Economic Situation* report. Annual summary information is published by the statistics committee in *Finances of Tajikistan*. The statistics committee publishes a timeframe for publication of its documents, but it is not a legal requirement. Some of the statistics committee's fiscal information is available on its website.³³ The comprehensiveness of fiscal

³² A sound performance-based budgeting system would require a clear one-to-one correspondence between a program or a sub-program and the agency responsible to implement the same in order to monitor the agency's performance against the specified outputs or outcomes under the said program/sub-program. Currently in Tajikistan, on the one hand, a program or sub-program (shown as a subdivision of the functional classification of expenditure) could cut across multiple budget organizations; and on the other, a budget organization could also be in charge of multiple programs.

³³ See <http://www.stat.tj>.

information made publicly available is constrained by the scope of the budget, i.e., its cash accounting basis and its coverage, and by limited commentary.

The coverage and quality of budget documents

46. **The comprehensiveness of fiscal information presented with the annual budget has improved since the enactment of the Law on State Finances, but some extrabudgetary and QFAs are still not reflected.** The main budget documents inter alia include: (i) the draft law on the state budget together with an explanatory note; (ii) main macroeconomic forecasts, such as aggregate growth and inflation; and (iii) fiscal deficit and its financing. The state budget includes all the levels of the general government: republican (central) budget, budget of the subnational governments, and the budget of the social protection fund. The annual budget law shows budget revenues by major categories and expenditure provisions as per functional and economic classifications. Information on donor-funded projects is disclosed for donor assistance to the government. Although the overall debt and financing data are indicated in the budget, a public debt management report, covering both internal and external debts, is not included. As discussed above, some extrabudgetary and QFAs are not reflected in budget documents. There is no government website that publishes the financial and economic data presented with the annual budget documentation.³⁴ However, the annual budget law and the statement on economic and fiscal policies are published in the press, following approval of the budget by parliament.

47. **Defense expenditures are mostly included in the budget presented to parliament but are not published.** Defense expenditures are compiled in a separate volume and presented with the annual budget to parliament. However, information about these expenditures are not made public.

Past and forecast fiscal data in the budget

48. **The budget document discloses the main revenue and expenditure aggregates for two years prior to the budget year and forecasts for the next two years.** These data are provided in tables including tax and nontax revenues components, and expenditures by major functional and economic categories. As far as past data is concerned, actuals for the year preceding the prior year and provisional estimated outturn for the prior year are provided.

Budget treatment of off-budget fiscal activity

49. **No statement of contingent liabilities is included in the budget documents.** No information on contingent liabilities, such as loan guarantees granted by the government, is presented in the budget documents. It is understood that a number of claims against the government have been filed by the buyers of the erstwhile SOEs that have recently been privatized, and these claims are pending with various courts. Some record on the amount of

³⁴ The authorities have, however, expressed their intention to disseminate data more widely on the Internet (via the official website of the MoF) in the near future, in order to increase the level of transparency of the budget process.

these claims is being kept by the SPC but these are not reported in the budget although they imply contingent liabilities.

50. **Some estimates of tax expenditures are included in the budget documents, but not in a comprehensive manner.** The information provided in budget documents mostly relate to the total amounts deductible from the gross tax liability in case of salaried individuals and certain exemptions for each type of tax that are allowed under special circumstances.³⁵ A simple methodology is used to arrive at these figures by taking into account the overall tax base and multiplying the rate of deduction or exemption with the number of eligible persons/cases. However, estimates of foregone tax revenue both due to extensive exemptions and concessions allowed under the tax and customs codes and due to any major tax policy changes introduced with the annual budget law are not systematically included in the budget documents. Moreover, the tax expenditure budget is not fully integrated with the budget process to determine the cost of government programs or services.

51. **There are potential fiscal risks from QFAs and their estimated cost is not included in the budget documents.** There are certain QFAs undertaken by the SOEs. Despite the ongoing privatization, some SOEs remain with different percentages of government ownership. They receive government equity injections, loans and subsidies and some of them, such as the energy and transport companies, incur quasi-fiscal deficits as a result of below-cost tariffs and poor collection rates. The quasi-fiscal deficit of the energy sector remains high and the economic losses due to large under pricing of electricity were estimated by the IMF staff at about 10 percent of GDP in early 2005.³⁶ However, there is no centralized reporting of the cost of these QFAs.

Publication of data on debt and financial assets

52. **Information is published on gross external public debt, but there is no publication of domestic public debt data.** Beginning in 2005, an annual *Status Report on the External Debt of Tajikistan* is being published by the MoF. This report discloses: debt ratios; public debt by individual creditor; external debt by borrower classification (public, public enterprises of which government-guaranteed, privately guaranteed,³⁷ non-guaranteed); external debt by currency composition; breakdowns of historical debt servicing by year and debtor and creditor category; comparisons between the external debt position of Tajikistan and other CIS countries; various types of analysis of these data; and a significant amount of commentary. However, the report does not disclose the time profile of future debt servicing obligations nor the fixed/floating mix.

53. **A public debt management strategy is under preparation.** According to agreements with the IMF, new borrowing should not exceed 4 percent of GDP in any one

³⁵ The estimates of deductible amounts are calculated separately for each type of tax, e.g., the land tax, the value-added tax, the customs duty, etc.

³⁶ IMF, Country Report No. 06/63, 2006.

³⁷ This is private sector borrowing of former public enterprises, guaranteed by the government. The data presented for this category of borrowing may not be complete.

year, and its terms should be at least 20 years, with a grace period of five years and interest not exceeding IMF rates. A domestic debt database is in the process of being established.

54. **Information on government financial assets, apart from receivables, is not published.** There is no comprehensive database of government equity holdings or domestic loans. There are no immediate plans to adopt the *Government Finance Statistics Manual 2001* framework and/or move to a full balance sheet presentation of government accounts.³⁸

Commitment to timely publication of fiscal data

55. **Formal commitments to more regular publication of fiscal data have not been made and advance release calendars are not announced.** Tajikistan currently participates in the General Data Dissemination Standard (GDSD) and intends to participate in the Special Data Dissemination Standard (SDDS) from the beginning of 2008.³⁹ The legal basis, timeliness and periodicity of the publication of fiscal data is discussed above.

D. Assurances of Integrity

Integrity of data processes

56. **Differences between budgeted and actual outturns have been substantial; the information identifying these differences in respect of the main fiscal aggregates is publicly available, but analysis of these differences for revenues and expenditures is limited.** In the 2002–04 period, the annual difference for the state budget averaged 18 percent. During this period, there was over-execution of budgeted revenues, and expenditure allocations were increased during the course of the year subject to the budget deficit not being exceeded. During 2002–04, revenue collection exceeded budget by more than 24 percent. In each local government, there is typically at least one supplementary budget each year, but in central government, the use of supplementary budgets is less frequent. There are legal requirements specifying reserve and contingency funds.⁴⁰ Article 46 of the *Law on State Finances* provides that an increase in expenditure of more than 10 percent requires the submission of a supplementary budget to parliament; this means that, provided that the approved deficit is not exceeded, in times of revenue over performance, the government may increase spending by up to 10 percent during the fiscal year without the approval of parliament. As a result of all these factors, much of the budget is allocated not during the formal budget process but as a result of intra-year adjustments depending on the

³⁸ Further details on Tajikistan's compliance with the provisions of the *Government Finance Statistics Manual 2001* can be found in *Republic of Tajikistan: Report on Observance of Standards and Codes (ROSC)—Data Module, Response by the Authorities, and Detailed Assessments Using the Data Quality Assessment Framework*, IMF Country Report No. 05/130, April 2005. See <http://www.imf.org>.

³⁹ Further information arising from Tajikistan's participation in GDSD can be found on <http://www.dsbb.imf.org>.

⁴⁰ Article 42 of the *Law on State Finances* sets the size of the presidential reserve fund at 2 percent of state budget revenues. Article 43 sets the size of the local government reserve funds at 0.5 percent of the respective local budget revenues. Article 41 provides for a government contingency fund, the size of which is set in each annual budget; in 2005, it was equivalent to 1 percent of total expenditure.

actual revenues received; in principle, most of the reallocation in the central government budget is effected by MoF on the basis of submissions from line ministries six and nine months into the budget year.

57. There have also been significant differences in the composition of expenditure outturns compared with the originally approved budgets. Article 50 provides for wide virement limits, up to 20 percent of the budget allocation per expenditure item within a budget organization. The resulting variance in primary expenditure composition was about 4 percent during the period 2002–04. In all cases, the bulk of the reallocation during these years was in favor of general public services, and provided them between 35 and 60 percent additional resources. Similar adjustments to budget allocations are frequent for local budgets.

58. Statements on accounting policy are not included in the budget and final accounts documents. The basis of budget accounting by the treasury is defined in the MoF regulation *Treasury Accounting and Reporting on the Execution of the State Budget*. The basis of financial accounting by budget institutions is defined in the MoF regulation *Instructions on Accounting in Budget Institutions*. The accounting practices are described above, and they do not meet international standards. There have been no recent developments in government accounting standards.

59. The process of accounts reconciliation and fiscal reporting is effective with some limitations. The discrepancy between above-the-line (revenue minus expenditure) and below-the line (domestic and external financing) fiscal data has been reduced in recent years (0.1 percent of GDP in 2005). The timing and regularity of reconciliation of accounting data (see Box 5), which is undertaken manually, is adequate for payments but more limited for revenues. Article 9 of the *Treasury Law* and the corresponding instructions stipulate the arrangements for bank reconciliation.

Box 5. Reconciliation Process in Tajikistan

- For payments, the treasury cross-checks data contained in daily bank statements and compares them with payments authorized. At the end of every month, the bank provides a monthly consolidated statement about the daily operation of receipts and payments in the bank account. This is compared and reconciled by the treasury with the information on expenses. The amount of check float is small as the period of validity for check encashment is only 10 days from the date of payment order.
- For revenues, the revenue documents, daily bank statements (separately for amounts transferred to the republican and local budgets), and the memorial order indicating the share of republican and local revenues are sent to the treasury for accounting purposes. The daily bank statements are checked by the treasury and formal reconciliation between the treasury and the bank takes place at the end of every quarter. However, the reconciliation between the revenue assessment and the revenue collection is done by the tax authorities and the treasury does not play a role in this. Moreover, the arrangements to monitor the delay between the date of collection of revenue by the bank and its transmission to the relevant treasury bank account seem inadequate. The treasury comes to know of the delay only after the bank indicates the remittance on its bank statement. The NBT also does not play any role in monitoring such delays. This complicates the revenue reconciliation process.
- No suspense accounts are maintained by the treasury for e.g., material purchases, travel advances, and operational imprests. The payment and receipt transactions are accounted for only after the final purpose of the transaction is known. For certain categories of temporary advances, such as travel, it is only the budget organizations which monitor their adjustment.

60. **The quality of the reconciliations is undermined by the treasury's single-entry accounting system, the different accounting systems of the treasury and budget institutions, and the largely manual system of recording and consolidation both at the regional treasury offices and the budget organizations.** There is no reconciliation of deficit and debt data. Except for the report on budget deficit and financing in the annual financial statements, data reconciliations are not shown explicitly in accounting reports.

Independent oversight

61. **External audit is not independent of the executive branch, and its mandate covers all government activities.** According to the *Law on the State Financial Control*,⁴¹ the SFCC is the national audit institution and reports to the president. The president appoints the chairman of the SFCC for an open-ended period and has also the power of dismissal. The president also approves the SFCC's regulations, structure, and number of staff and their salaries, although the SFCC's budget is included as a separate item in the annual budget law. The SFCC's audit plans are also subject to approval by the president. The president is also the sole recipient of the SFCC's detailed quarterly reports, although the SFCC submits a summarized annual report on the results of auditing to parliament. The audit body's mandate is broad and includes supervising and auditing the revenue and expenditures of the republican and local budgets, use of state funds and property, use of gold and foreign currency reserves, legitimacy and timeliness of the movement of public resources in state and commercial banks, and use of credit resources and external debt. It also reviews activities of the social protection fund and other (public and private) entities that use public funds. The SFCC reviews the financial transactions of government agencies once every two years, but does not provide any certification of final accounts, neither for individual agencies nor for the government as a whole. On balance, the external audit body's mandate is comprehensive, but it lacks the necessary independence in terms of the Lima declaration⁴² of the International Organization of Supreme Audit Institutions (INTOSAI) to carry out its mandate effectively.

62. **Audit capacity is weak.** The SFCC has about 160 staff members, most of them in field units. The staff mostly focuses on regularity and compliance audits. The SFCC does not yet use INTOSAI standards of auditing and many of its staff do not have a professional accounting qualification nor are trained in contemporary auditing techniques.

63. **The legislature discusses external audit reports to a limited extent, and does not systematically follow up on audit findings.** The economic and budget committee of

⁴¹ Law No. 66 of 2002.

⁴² According to Section 5 of the Lima Declaration of the INTOSAI: (i) Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence; (ii) Supreme Audit Institutions shall at least have the functional and organizational independence required to accomplish their tasks; and (iii) the establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the constitution, details may be set out in legislation, and in particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.

parliament discusses the annual summary audit reports to a limited extent, but does not follow up in the absence of a detailed report on audit findings. The general public do not have access to the SFCC's reports and findings. However, the SFCC has started a practice of holding a press conference every month to circulate its summary findings.

64. **External scrutiny of macroeconomic models and assumptions is not encouraged.** As the budget data is made publicly available after approval of the budget, this constrains an independent analysis and comments on the quality of fiscal data, especially regarding macroeconomic and macro fiscal forecasts, at the stage of parliamentary discussions. There is also limited discussion of the macroeconomic projections and their implications within the government and little public discussion of this topic.

65. **The National Statistics Office is given legislative assurance of its technical independence.** The State Committee of Statistics has been established under the *Law on State Statistics*⁴³ that grants it functional and technical independence from other government agencies that are required to provide it with statistical data for the purpose of verification, consolidation, and publication in its website (<http://www.stat.tj>). It follows a system of verifying the consistency of data sets and indicates the data sources during publication.

III. IMF STAFF COMMENTARY

66. **Tajikistan has made encouraging progress in recent years in improving fiscal transparency and meets the requirements of the fiscal transparency code in a number of areas.** The roles and responsibilities between the executive, legislative, and judiciary are relatively clearly defined. Reporting on the budget to parliament and the general public has strengthened in recent years. Consolidating all tax legislation into two organic codes (taxes and customs) has improved the transparency in taxation, albeit there remains scope for further improvement. Government operations are well distinguished from the activities of the central bank, and in most cases also from activities of the financial sector.

67. **In several areas, Tajikistan nearly meets fiscal transparency requirements but further improvements would be useful.** Donor-financed projects and some extrabudgetary revenues and expenditures are not yet well consolidated with the republican and local government budgets as part of general government. Transparency could also be improved further by undertaking more analytical work, for example on tax expenditures and exemptions, which should be published. QFAs in the energy and transport sectors remain sizable, which implies more intensive monitoring is needed. In tax policy and administration, all changes to laws and regulations should become more easily available to the general public. Financial relations between the republican and local governments need to be put on a sounder and more permanent footing. Any future changes to intergovernmental arrangements should address concerns about limited autonomy of local governments. Modernizing and consolidating treasury operations is a matter of urgency, as are reforms in external audit.

⁴³ Law No. 43 of 1997.

68. **Progress in transparency appears to move ahead very slowly in a few areas in recent years.** The regulatory environment remains complex and non-transparent and prone to corruption.⁴⁴ The monitoring of financial operations of SOEs deserves greater attention and scrutiny. Currently, the MoF as the key fiscal agency of the government plays no role in the monitoring of financial operations of SOEs, nor does any other central government agency monitors SOE finances comprehensively and systematically.

69. **The framework for budget preparation has improved in recent years, but does not yet meet the requirements of the fiscal transparency code in some areas.** The budget documents are quite comprehensive, but does not include: (i) a comprehensive explanation and sensitivity analysis of the macroeconomic framework to changes and uncertainties in underlying assumptions and parameters; and (ii) an assessment of important fiscal risks due to contingent liabilities and QFAs. The link between governmental policy priorities and budgeting is still weak and as a result the medium-term projections are mostly mechanical. There are still some shortcomings in the budget classification to clearly establish the administrative accountability in use of public funds.

70. **There will be a need to integrate any internal control and internal audit reforms carefully with other public financial management and public administration reforms.** A proposal to undertake a sweeping modernization of the internal control system, including internal audit, in Tajikistan's government sector, to bring them up to international standards, is under consideration by the authorities. The proposal, if implemented, would have a major impact on the legal framework and institutional responsibilities of the public financial management system.

71. **The timing of the reform of commitment controls should be harmonized with the implementation of the new decentralized procurement system.** It is expected that, in the course of 2007, larger budget institutions in terms of procurement will start to undertake procurement themselves, and progressively thereafter the other budget institutions. One problem is that, outside the central procurement agency itself, there appears to be limited awareness of, or confidence in, the reform. Budget institutions will need to be trained in conducting procurement instead of the central procurement agency, which in turn will need to be reorganized to focus on supervision, analysis and advice. Hence, there remains much work to be done to implement the procurement reform successfully, and the design and implementation of the reformed commitment controls should take into account progress with the procurement reform.

72. **Against this background, the following recommendations are of high priority:**

Budget preparation, presentation, and reporting

- Undertake a thorough review of the activities of organizations providing fee-supported services (both self-financed ones and those receiving a transfer from the budget), public financial (and non-financial) corporations, etc. to clearly demarcate the boundaries

⁴⁴ Asian Development Bank, *Country Governance Assessment Report*, 2004.

between the general government sector and the broader public sector by defining the budget organizations, nonprofit/nonmarket institutions, nonprofit/market institutions, and public corporations, in line with the *GFSM 2001*.

- Develop a hierarchical organizational classification based on a logic reflecting the administrative hierarchy and structure for the purpose of: (i) parliamentary authorization of budgetary appropriations by organizational units and (ii) providing a clear framework for allocating budgets and monitoring their execution at various levels of budget organizations.
- Strengthen the link between policy and budgeting by: (i) assigning a lead coordinating role in budget consolidation and negotiation process, for both current and capital budgets, to a single institution, i.e., the MoF; and (ii) improving the sectoral policy formulation by clearly specifying the role of sectoral ministries.
- Further strengthen macroeconomic analysis and forecasting by: (i) advancing the date of preparing the macroeconomic forecasts to integrate them better with the preparation of budget submissions by budget organizations, (ii) include in the budget documents information on the underlying assumptions and the methodology used for macroeconomic forecasting and a sensitivity analysis in response to a range of prospective macroeconomic developments, and (iii) subjecting the macroeconomic model to public scrutiny by publishing the macro analysis and forecasts in the press to have an independent debate and analysis before the budget is presented to parliament.
- Submit a fiscal risk assessment report with the budget covering: (i) estimates of contingent liabilities including an assessment of fiscal risks arising from them; (ii) fiscal risks from changes or uncertainties in main macroeconomic assumptions underlying the submitted budget; and (iii) a detailed analysis of individual quasi-fiscal operations, including the policy objective they are aimed at, and an assessment of risks arising from them—and where possible, quantification of the costs of such activities.
- Show separately in the budget documents the extent of change in budget estimates for the ongoing policies due to cost changes and the budget estimates for the new policies.
- Computerize the operations of tax and customs administrations and establish an internal audit function, directly reporting to the head of both these administrations, to undertake systemic, financial, and performance audits.
- Strengthen the external audit function by: (i) upgrading the capacity of the SFCC staff in modern auditing approaches and techniques, including systemic, information technology, and performance audits; (ii) making available its reports and findings to the public and its detailed quarterly reports simultaneously to parliament,⁴⁵ and (iii) assuring the

⁴⁵ According to section 16 of the Lima Declaration of the INTOSAI, the Supreme Audit Institution shall be empowered and required by the Constitution to report its findings independently to parliament or any other responsible public body and this report shall be published. This will ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution.

independence of the SFCC at least through an amendment to the *Law on State Financial Control* to ensure that the head of the national audit body could be removed only by parliament through a procedure independent of the executive.⁴⁶

- Establish a MoF website to disseminate publicly budget preparation and execution data, as well as information on Tajikistan's public financial management system, including reforms being considered or under way.
- Compile a database for domestic debt and financial assets and publish in the same format together with the foreign debt data, including receivables, payables, and a reconciliation of deficit against changes in stocks.
- Expand the publicly disseminated quarterly and annual budget execution report summaries to include a full analysis of variations between the originally approved and adjusted budget allocations and outturns.

Clarifying responsibilities and coordination

- Introduce more regular consultations with local governments, with the objective to establish a sounder and more permanent system for revenue sharing and expenditure transfer formulae. This might entail the development of a new regulatory framework as well.
- Identify extrabudgetary activities and consolidate them with mainstream line ministry activities for the purpose of fiscal analysis and presentation.
- Streamline responsibilities for SOEs between the State Property Committee and line ministries.

State-owned enterprises and QFAs

- Strengthen the monitoring of financial operations of SOEs, for example by requiring line ministries to provide the MoF with draft annual financial plans for SOEs for review and approval, and regular reports on SOE financial performance.
- Identify and report on contingent liabilities and QFAs in the energy and transport sectors and disclose this as well as policy recommendations to parliament and the general public, either as part of the draft budget or separately. Such information could help informing debates on strategies for further reforms.

⁴⁶ According to Section 6 of the Lima Declaration of the INTOSAI, the independence of the members of the Supreme Audit Institution, shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members.

Treasury reforms, accounting, and reporting on budget execution

- Complete the establishment of a Treasury Single Account by consolidating all domestic currency bank accounts used in the general government sector into a single Somoni Bank account operated by the treasury.
- Design and implement a reformed and comprehensive commitment control system in harmony with the implementation of the new decentralized procurement system.
- Expand the functions of the cash management unit to include all the functions of modern government cash planning and management.
- Integrate any internal control and internal audit reforms carefully with other public financial management and public administration reforms, such as the reforms in regard to the commitment control and cash management systems.

Public sector accounting and oversight

- Consider government accounting reform after completion of the above first generation treasury reforms.
- Strengthen accounting and auditing standards for SOEs, and tasked the government to publish their audited annual accounts.

Appendix I. A Summary Assessment of Practice

Code Reference	Summary Assessment	Comment
Overall summary Tajikistan complies with the <i>Code of Good Practices on Fiscal Transparency</i> in a few instances, and has improved compliance in a number of areas in recent years. A number of areas require further improvement, the most important being the modernization of budget preparation procedures and treasury operations, as well as reforms to the external audit function.		
Clarity of roles and responsibilities		
1.1.1	General government is defined in a manner that is largely consistent with the GFS principles.	
1.1.2	The fiscal roles of the executive, legislative, and judicial branches are mostly clear and defined in law. The responsibilities of different levels of government could be improved upon.	The revenue and expenditure assignments of the different levels of government are not clearly defined and could vary from year to year.
1.1.3	Mechanisms for the coordination and management of budgetary and extrabudgetary activities should be improved.	Recent initiatives promoting the introduction of user charges and fees could complicate the defining of boundaries of the general government sector and its consistent coverage in the budget process.
1.1.4	There is a clear separation between the monetary and fiscal authorities, and the NBT has independence.	
1.1.5	Government regulation of the nonfinancial private sector is complex, as government involvement in the economy is still substantial with an expansive inspection system. The legal framework for privatization is relatively clear.	
1.2.1	The legal framework for management of public funds is mostly clear but somewhat fragmented.	
1.2.2	The legislative basis for taxation is comprehensive, but might not always be clear to the tax payer.	
1.2.3	The conduct of government employees is subject to a variety of laws and regulations.	
Public availability of information		
2.1.1	The budget documents and annual budget execution reports cover most general government fiscal activities, and report the consolidated fiscal position of government.	Comprehensiveness of fiscal information presented with the annual budget has improved since the enactment of the Law

Code Reference	Summary Assessment	Comment
		on state finances, but some extrabudgetary and QFAs are still not reflected.
2.1.2	The budget documents disclose the main fiscal aggregates for the two prior years, and present projections of expenditure, revenue, or financing for coming years.	
2.1.3	The budget documents do not provide information on QFAs and contingent liabilities, and contain limited information on and tax expenditures.	
2.1.4	Some information on debt and financial liabilities is made available.	There is currently no publication of information on domestic debt.
2.1.5	The consolidated fiscal position of general government is reported.	
2.2.1	The publication of fiscal information is not a legal obligation.	
2.2.2	Advance release dates for fiscal information are not announced.	
Open budget preparation, execution, and reporting		
3.1.1	Medium-term fiscal policy objectives are not always stated, and the link between these objectives and the concrete fiscal policy measures in annual budgets is unclear.	
3.1.2	No fiscal rules have been articulated.	
3.1.3	Budget forecasts and underlying macroeconomic assumptions are presented in the budget.	
3.1.4	Estimates of the cost of new initiatives and of ongoing government policies are not clearly distinguished in the budget documents.	
3.1.5	The budget documents contain little information on, or discussion of, fiscal risks, including those related to government guarantees.	
3.2.1	Expenditure is classified by economic and functional category. The budget is normally approved only on a functional basis.	The budget classification does not include an organizational classification to allow for accountability before parliament for the collection and use of public funds.
3.2.2	The objectives and expected results from government activities are discussed only in general terms.	
3.2.3	The overall balance of general government is reported.	
3.2.4	The public sector balance is not reported.	
3.3.1	There is a basic government accounting system.	
3.3.2	Procurement rules and practices are not clear and reforms are needed to bring it in line with international best practice. Civil service employment procedures have been unclear and inconsistent, although efforts are underway to improve it.	A government reform strategy was approved by the president in 2006 and a sweeping civil service reform

Code Reference	Summary Assessment	Comment
		process has begun.
3.3.3	Internal audit processes could be more effective.	
3.3.4	The national tax administration's autonomy has improved with the establishment of the MSRDC and promulgation of the new tax and customs codes.	
3.4.1	The legislature does not undertake a mid-year budget review, but it does receive quarterly budget execution reports.	
3.4.2	Audited final accounts are presented to the legislature within eight months of the conclusion of the budget year.	
3.4.3	No performance information is presented to the legislature.	
Assurances of integrity		
4.1.1	Budget estimates are not a reliable indicator of the actual budget outcome.	
4.1.2	Accounting policy is generally well defined but no formal statements of accounting policy are included in the budget documents and final accounts.	
4.1.3	The process of accounts reconciliation is effective with some limitations.	
4.2.1	External audit is not fully independent of the executive branch, and it does not provide regular reports to the legislature and public on the financial integrity of government accounts.	The mandate of the SFCC is very broad.
4.2.2	No significant external scrutiny of macroeconomic models and assumptions is carried out.	
4.2.3	The national statistics office is provided with legislative assurance of technical independence.	

Appendix II. Summary Tables

Table 1. Public Availability of Information—A Summary

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
1.	Central government (CG) budget estimates.	Yes	Yes	46	2.1.1
2.	CG defense expenditures	Yes	No	47	2.1.1
3.	CG EBFs (social protection fund)	Yes	Yes	46	2.1.1
4.	CG budget outturns	Yes	Limited summary information is publicly available.	45	2.1.1
5.	CG budget forecasts	Yes	Yes. Information is available in the press after approval by parliament.	25, 48	2.1.2
6.	CG contingent liabilities	No	No	49	2.1.3
7.	CG tax expenditures	Some limited information on deductible amounts from the gross income tax liability of the salaried individuals and estimates of certain exemptions available to special categories of persons are included in the budget documents.	No	50	2.1.3
8.	CG QFAs	No	No	51	2.1.3
9.	Macroeconomic assumptions	Information on main macroeconomic indicators are included in the budget documents, but the underlying assumptions	No	24, 46	2.1.1 & 3.1.3

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
		and the methodology used for macro forecasts is not clearly explained.			
10.	Analysis of fiscal risks/sensitivity analysis	No	No	25, 28, 51	3.1.5
11.	CG debt	Information on external debt only is reported.	Information on external debt only is publicly available.	42, 52	2.1.4
12.	CG financial assets	No	No	54	2.1.4
13.	Sustainability analysis	No	No	25	2.1.1 & 3.1.1
14.	General government budget estimates	Yes	In respect of budgets of the subnational governments, the publicly available information relates only to the budgetary transfers received from the republican (central) budget.	46	2.1.5
15.	CG monthly reports on fiscal outturn	Yes.	Limited summary information is publicly available.	38, 45	3.4.1
16.	General government quarterly reports on fiscal outturn	Yes	Limited summary information is publicly available.	45	3.4.1
17.	CG final accounts	Information on contingent liabilities and assets and the stock	Except for external debt, only short	42, 45	3.4.2

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
		of domestic debt, loans, advances and ownership are not included.	summaries of aggregated data with some text are published in the print media.		
18.	Consolidated general government final accounts	Information on contingent liabilities and assets and the stock of domestic debt, loans, advances, and ownership are not included.	Except for external debt, only short summaries of aggregated data with some text are published in the print media.	42, 45	3.4.2