

COVER PAGE

Country: Azerbaijan

UNDAF Outcome(s)/Indicator(s):	The State improves its delivery of services and its protection of rights – with the involvement of civil society and in compliance with its international commitments.
Expected Outcome(s)/Indicator (s):	<u>Country Programme Outcome # 2.3</u> ICT/MIS enhances efficiency, transparency and accountability in the public sector
Expected Output(s)/Annual Targets:	<ol style="list-style-type: none">1. Strengthened operational capacities of the Civil Service Commission through robust strategic capacity building;2. Key civil service reforms, and effective awareness raising, monitoring and evaluation in support of MDG 9 (Good Governance)
Executing Entity:	Civil Service Commission under the President of the Republic of Azerbaijan
Implementing agencies:	UNDP

Narrative

Azerbaijan is a country transitioning to the market economy and democracy while generating significant hydrocarbon revenue. Strengthening good governance and civil service reform will be critical to promoting economic development and reducing poverty, and necessary for alignment with European Union standards and norms.

UNDP has been requested to assist with operationalizing the new Civil Service Commission (CSC) to support public administration reform. The project will support this objective through two key outputs: a) strengthened operational capacities of the Civil Service Commission through robust strategic capacity building; and b) key civil service reforms, including the improvement of legal acts related to civil service, initiation of a strategy for civil service reform, establishment of competitive civil service entrance exams, and effective awareness raising, monitoring and evaluation in support of MDG9.

Programme Period: 2005-2009
Programme Component: MYFF Goal 2
Project Title: Good Governance through Civil Service Reform:
Implementing MDG 9 (draft SPPRSD 2006-2015)
Project ID: 00053053
Project Duration: 12 months
Management Arrangement: National execution

Total Budget	US\$ 376,325
Allocated resources:	
• Government	US\$ 188,647
• Regular	US\$ 107,678
• Other:	
○ DGTTF	US\$ 80,000
• In kind contributions	US\$ 48,000
Unfunded budget:	0

Agreed by (Government of Azerbaijan):

Khalilov
Mr. Bahram Khalilov, Chair
Civil Service Commission 22/02/07

Agreed by (Executing entity):

Khalilov
Mr. Bahram Khalilov, Chair,
Civil Service Commission 22/02/07

Agreed by (UNDP):

D. Eizenberg
Mr. David Eizenberg 23/02/07
Resident Representative a.i.

SITUATION ANALYSIS

Global Best Practice. Global experience demonstrates a strong correlation between “good governance” practices and effective poverty reduction and economic development. Good governance is dependent on a stable and efficient public administration, and requires a skilled, motivated, efficient and ethical civil service. However, governance reform requires a high degree of political commitment and will, and is therefore difficult to achieve as this imperative often conflicts with other state and political priorities (such as the maintenance of socio-economic and political stability). At the same time, access to quality public services dramatically improves when services are provided by skilled and motivated people, working according to meritocratic principles. As a result, governments that embrace public sector and civil service reforms increase efficiency, producing a significant positive effect on poverty reduction and economic development (as measured by the MDGs).

National Development Priorities. The Government of Azerbaijan is committed to development through a governance reform that will align it with European Union standards, and has linked its measure of performance to recognized international indicators¹. In 2006, the draft State Programme on Poverty Reduction and Sustainable Development (SPPRSD) identified “good governance” and institutional policy as an additional “ninth” Millennium Development Goal, signalling its recognition of the centrality of public sector and civil service reform to long term poverty reduction and economic development. In January 2005, the President of Azerbaijan established the Civil Service Commission and mandated it with the leading role in implementing a major reform of the civil service, including the introduction of competitive exams for entry into the civil service, the creation of the civil service code of ethics, and preparing a strategy for the civil service. The chairman of the Civil Service Commission served as the Chair of the Sectoral Working Group on Good Governance and Institutional Policy in the development of the draft SPPRSD (2006-2015).

Alignment with UNDAF and UNDP Multiyear Funding Framework (MYFF) service lines and priorities. The project aligns with core UNDAF Priorities, and Outcomes, as well as UNDP Country Programme Outcomes and the MYFF. Specifically, the overall outcome of the project is consistent with UNDAF national priority 2, “the state improves its delivery of services and its protection of rights – with the involvement of civil society and in compliance with its international commitments.” The outcome and outputs of the project also address the core Country Programme Outcome: 2.3 “ICT /MIS enhances efficiency, transparency and accountability of the public sector” and indirectly contributes to the two Outcomes: 2.7 “Harmonized MDG monitoring system established”; and 2.8 “General public and stakeholders are aware of MGD progress”. The project is also in line with UNDP corporate priorities and service lines. The project addresses MYFF Goal 2, “Fostering Democratic Governance” and specifically service lines 2.5, “E-governance and access to information”; and, 2.7 “Public sector reform and anti-corruption”.

¹ World Bank Institute, Governance Indicators.

Building on previous cooperation with the Government of Azerbaijan. The project is an immediate response to the Government of Azerbaijan's prioritization of "Good Governance" in the draft SPPRS, and the adoption of an additional ninth Millennium Goal to measure progress, and effectiveness of the adopted policy measures. It responds to a request from the chairman of the Sectoral Working Group on Good Governance for the formulation of the draft SPPRS and the Office of the President of the Republic of Azerbaijan, for support to the establishment of the Civil Service Commission, and capacity building aimed at implementing rapid, effective reform. In 2006, UNDP provided support for the start-up of the Civil Service Commission by responding to renovation and equipment needs, initiation of awareness campaign by developing information materials and the creation of the initial website. The project will provide continuity to the "Governance" Sectoral Working Group, promote the intent of the draft SPPRS, and in particular raise awareness around the centrality of MDG 9 (Good Governance) to long term economic development and poverty reduction.

STRATEGY

A. Project Outcome and Outputs: The overall outcome sought by the project is to operationalize the government's commitment to "Good Governance" and public sector reform, as articulated in the draft 10 year Strategy on Poverty Reduction and Sustainable Development. (SPPRS). In the draft SPPRS, the Government of Azerbaijan committed itself to an additional ninth Millennium Development Goal – singling out good governance and institutional development as key priorities, and establishing policy measures, and a monitoring and evaluation framework that provides a three-tier system of measuring and assessing progress and impact.

As a result, the project focuses on the following strategic priority outputs:

a) Strengthened operational capacities of the Civil Service Commission through robust strategic capacity building. This capacity building exercise includes preparation of a strategic work plan and policies, establishment of management practices and public outreach, comprehensive training for new staff (including a peering arrangement with the Civil Service Commission of Estonia), and in-service/on-the-job training covering project management, ethics and public service administration.

b) Key civil service reforms, and effective awareness raising, monitoring and evaluation in support of MDG 9 (Good Governance). In line with policy measures included in the draft SPPRS, and specifically assigned to the CSC, the project will act on three key reforms: preparation of a National Strategy for Civil Service Reform; preparation of changes to the civil service legal base; and institution of competitive civil service entrance exam. The project will also initiate and operationalize the monitoring and evaluation for MDG 9, specifically through support of the work of the "Governance" Sectoral Working Group, and the preparation of an interim monitoring report. The effectiveness of these activities will be reviewed and discussed at a planned international conference on MDG 9, which will be held during the final quarter of the project, and will serve as a major evaluative milestone.

B. Implementation Strategy. The project will be implemented over a period of 12 months. The Civil Service Commission will act as both the implementing partner, and key beneficiary of the project. UNDP will provide project implementation support as indicated in the project work plan and via the project governance arrangements (see Management Arrangements section). Additional advisory services (as identified in the project Annual Work Plan - AWP), will be selected on the basis of competition, and draw on the support of UNDP's global practice networks.

C. Partnership Approach. The Government of Azerbaijan recognizes the necessity of establishing a robust capacity for the CSC, and its importance to the overall public sector and governance reform effort. It has authorized the CSC to allocate the amount of US\$188,647 as direct cost sharing, and US\$48,000 as in-kind contributions (staff costs and venue support) to this project. UNDP and the Government recognize the importance of Donor and Government coordination and agree to make all efforts to attract further cost-sharing. Another project partner is EU-TACIS. Its first technical assistance project to the CSC completed at the end of 2006 and they are at an early stage of defining its future support to the civil service reform. The project will maintain regular contact with the EU-TACIS to ensure information exchange and coordination of efforts.

D. Sustainability Strategy. The project activities will only be beneficial if they can be maintained beyond the life of the project. This will only happen if:

- 1) the project has been designed to meet a real need,
- 2) there is a political commitment and an enabling legal and policy environment;
- 2) there is a national agency with the mandate and capacity to build on the project achievements.

The project addresses the need of improving the governance system through the civil service reform which was identified in a broad-based consultative process of formulating SPPRSD with participation of national agencies, regional authorities, local communities and international organizations. This need was recognized by the country's leadership and reflected in the draft SPPRSD through adoption of a localized MDG 9: Good Governance.

The country adopted the Law on the Civil Service providing for adequate legal environment, and established the Civil Service Commission under the President of Azerbaijan with the mandate of the lead agency in implementing a major reform of the civil service.

It is precisely the intention of this project to build the capacities of the Civil Service Commission to enable it to successfully realize its mandate through preparation of a strategic work plan, establishment of management practices and public outreach, provision of equipment and software, training for staff, further improvement of the legal framework regulating the civil service.

PROJECT RESULTS AND RESOURCES FRAMEWORK

<p>Intended Outcome as stated in the Country/ Regional/ Global Programme Results and Resource Framework:</p> <p>1. <u>Country Programme Outcome 2.3</u> ICT/MIS enhances efficiency, transparency and accountability in the public sector</p>				
<p>Outcome indicators as stated in the Country/ Regional/ Global Programme Results and Resources Framework, including baseline and targets. ITU digital access index (baseline 0.24, 2002); Internet users per 100 population (baseline unavailable); Indicators: % of population in poverty (baseline 49%, 2002); MDG indicators in first MDG Report</p>				
<p>Applicable MYFF Service Line:</p> <p>2.7 Public administration reform and anti-corruption</p> <p>2.5 E-governance and access to information</p>				
<p>Partnership Strategy: Direct cost-sharing with Government, coordination of efforts with EU-TACIS</p>				
<p>Project title and ID (ATLAS Award ID):</p> <p>Good Governance through Civil Service Reform: Implementing MDG 9 (draft SPPRSD 2006-2015) ID 00053053</p>				
Intended Outputs	Output Targets for (years)	Indicative Activities	Responsible parties	Inputs
<p>1.1 Strengthened operational capacities of the Civil Service Commission through robust strategic capacity building.</p>	<p>Strategic workplan for standing up the CSC and one year action plan</p>	<p>1.1.1 Preparation of a comprehensive strategy and workplan for the internal capacity building for the CSC that includes HR, training and functional components</p>	<p>CSC</p>	<p>International expert, one week: USD 5,500</p> <p>Equipment: USD 38,235</p> <p>CSC staff time (in-kind): USD 3,000</p>
	<p>Awareness raising materials and comprehensive website launched outlining rules and entry requirements for Civil</p>	<p>1.1.2 Conceptualization and drafting of requirements for interactive CSC website</p>		<p>CSC</p>

2.1 Key civil service reforms, and effective awareness raising, monitoring and evaluation in support of MDG 9 (Good Governance)	Service, announcing testing schedules, jobs competition and terms of services	1.1.3 Preparation and posting of substantive materials for the website	CSC	CSC staff time (in-kind): USD 5,000
		1.1.4 Production of awareness material for CSC activities	CSC	Subcontracts: USD 4,500
	Core staff improved competence in functions and tasks of CSC; HR specialists from ministries trained in civil service procedures	1.1.5 Study tour organized by E-governance Academy in Estonia	CSC	Travel and per diem: USD 10,000 Subcontract: USD 15,000
		1.1.6 Training for CSC core staff in a selected country	CSC	Travel and per diem: USD 20,972
		1.1.7 Trainings for human resource specialists from the government agencies on management of civil servants	CSC	National experts: USD, 4000 CSC staff time and venue support: USD 5,400
		1.1.8 On-going project management and monitoring	CSC	Project Manager: 11,000 Equipment: USD 25,000 Supplies: USD 11,171 Audit fees: USD 3,000
	Draft Strategy and Action Plan for civil service reform	2.1.1 Development of draft Strategy and Action Plan for civil service reform by team	CSC	National experts: USD 7,600 International experts: USD 6,400 CSC staff time: USD 3,000

	<p>Improvement of legal basis regulating civil service</p> <p>Competitive merit-based exams for entry into civil service established</p> <p>MDG 9 awareness raising, monitoring and evaluation</p>	<p>of national and international experts</p> <p>2.1.2 Establishment of legal working group, review of legal basis and development of proposals to improve laws and regulations concerning civil service</p> <p>2.1.3 Establishment of testing unit, development and launch of software for competitive exams and conduct of exams for at least 6 ministries</p> <p>2.1.4 Support working group on Governance to produce one monitoring report on Civil Service Reform</p> <p>2.1.5 Organize MDG 9 Conference on Public Sector Reform and Good Governance</p>	<p>CSC</p> <p>CSC</p> <p>CSC</p> <p>CSC</p>	<p>National experts: USD 3,000</p> <p>CSC staff time: USD 9,000</p> <p>Equipment: USD 97,563</p> <p>Subcontract (renovation): USD 29,678</p> <p>Subcontract (software): USD 15,000</p> <p>Subcontract for vacancies publication: USD 33,723</p> <p>National experts: 3,000</p> <p>CSC staff time: USD 9,000</p> <p>National experts: USD 2,000</p> <p>Report production: USD 3,000</p> <p>CSC staff time: USD 5,000</p> <p>International experts: USD 8,000</p> <p>National experts: USD 6,000</p> <p>Travel: USD 3,000</p> <p>Supplies: USD 1,000</p> <p>CSC staff time and venue support: USD 8,000</p>
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MANAGEMENT ARRANGEMENTS

A. National Execution (NEX). The project will be nationally executed, implemented by the CSC who will be both the Implementing Partner, and the Beneficiary, of the project. Implementation support will be provided by the UNDP Country Office (see, Project Governance Arrangements, below). In its capacity as Implementing Partner, the CSC will be responsible for overall project management. The CSC will ensure procurement and contracting will be consistent with the relevant UNDP Rules and Procedures for procurement and human resource management and RBM guidelines. As the Implementing Partner, the CSC will also be responsible for the facilitation of all international consultant missions undertaken within the context of this project and its related activities, ensuring appropriate access to project sites, relevant data, records, agencies and authorities. UNDP will provide support and services offered to the project as detailed in the project annual and quarterly work plans.

B. Project Governance Arrangements. The project will have a governance structure, aligned with UNDP's new rules for Results Based Management 2 (see Figure A Project Governance Arrangements below).

i. Project Executive Group: the Project Executive Group will be the executive decision making body for the project, providing guidance to the Project Manager, and approving project revisions. It will be responsible for reviewing and updating the project risk log, and the project monitoring and communication plan. The Project Executive Group, will consist of three members:

- The Chair (Implementing Partner) will convene the Project Executive Group. This position will be held by the Chairman of the CSC;
- The Senior Supplier This position will be held by the UNDP DRR (P), or a designated UNDP Development Advisor; and,
- The Beneficiary Representative, who will be designated by the CSC to represent the Government beneficiaries. The representative will not be a staff member of the CSC, or represent an entity directly subordinate to the CSC.

ii. Project Management. The Project Executive Group will select and designate a Project Manager who will be tasked with the day-to-day management of project activities, as well as with financial and administrative reporting. The Project Manager will be responsible for project implementation and will be guided by Annual and Quarterly Work Plans and follow the RBM standards. The Project Manager will prepare Quarterly Work plans in advance of each successive quarter and submit them to the Project Executive Group for approval. The Project Manager will be a UNDP contract holder and neither an employee of the CSC, nor a civil servant. Terms of Reference for the Project Manager are described in Annex 1.

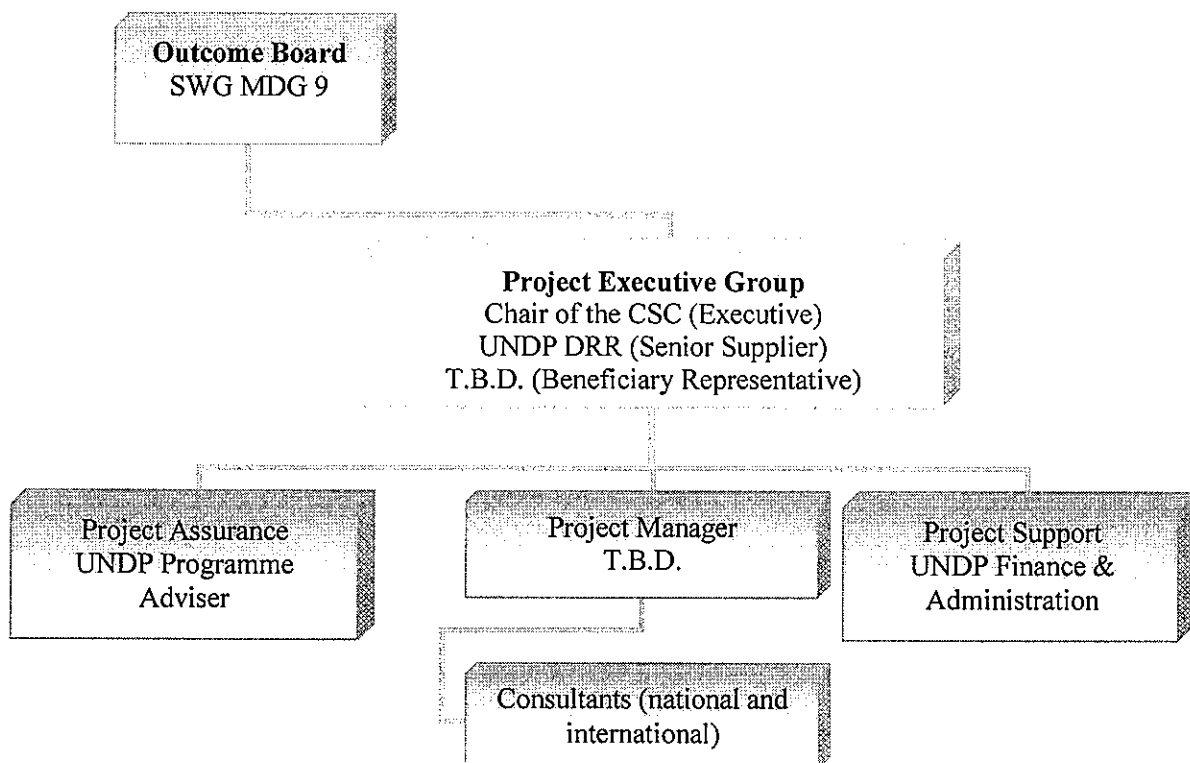
iii. Project Assurance. UNDP will designate a Development Advisor to provide independent project oversight and monitoring functions, to ensure that that project activities are managed and milestones accomplished. The UNDP Development Advisor will be responsible for reviewing

Risk and Lessons Learned logs, and ensuring compliance with the Monitoring and Communications Plan.

iv. Project Support. UNDP will provide financial and administrative support to the project including procurement, contracting, travel and International Consultants. UNDP will provide auditing in according to the relevant UNDP Rules and Procedures for auditing NEX projects.

v. Project Outcome Board. The SPPRSD Sectoral Working Group on Good Governance and Institutional Policy will act as the Outcome board for this project, providing independent advice to the project, and measuring performance according to the “MDG 9” goals set in the draft SPPRSD (2006 -2015).

Figure A. Project Governance Arrangements



C. Capacity assessment. The CSC was created in January 2005 by a decree of the President of Azerbaijan and mandated with the specific authority to reform and restructure the civil service. The Commission is presently in the initial stages of being established. The Ministry of Finance has assigned office space and budget, but implementation has not begun. The CSC's specific capacities consist of the authority to enact the reforms envisioned by its mandate (which form the substance of this project), and the financial capacity to sustain the activities identified in the project work plan. However, it is impractical to assess the actual capacities of the CSC as an Implementing Partner, as building these capacities is the intent of UNDP assistance envisioned under this project.

D. Project Inputs. The following inputs will be provided by the Government of Azerbaijan and UNDP in order for the successful implementation of project outputs and activities:

Government inputs

- \$ US 188,647 contributed as a direct financial input by the government;
- \$ US 48,000 contributed as in-kind staff time and venue support directly related to the project key activities and outputs;
- Cost free and functional office premises for project related activities; and such access to government information as is necessary for project staff and consultants to complete their tasks;
- The Chair and Beneficiary Representative who are members of the Project Executive Group, and who are paid by the Government for the entire duration of the project;
- Administrative support for all project objectives;
- Coordination and provision of the support required from other Government entities;
- Distribution of all project materials.

UNDP inputs:

- \$US 107,678 from UNDP Azerbaijan TRAC and \$US 80,000 from Democratic Governance Thematic Trust Fund as a direct financial input to the project;
- The services of a Project Developer, responsible for preparing the Project Document, Work Plan, and Project Resource and Results Framework;
- Coordination of the project activities to ensure concordance with other UNDP-financed projects and activities;
- Direct support for identification, selection and recruitment of a Project Manager and International and National Advisors (in support of decisions taken by the Project Executive Group);
- Support services for procurement, contracting and direct payments, as requested by the CSC;
- Participation in the Quarterly Work Plan formulation, selection of equipment suppliers and vendors, and organization of public relations functions and events.

E. Risks

Political Risk.

1. The project directly challenges the system of appointments and promotions in the public service which has traditionally served as a mechanism for ensuring loyalty and patronage. The government has expressed its intent and will to professionalize the public service. To this end it has created the Civil Service Commission tasked to begin the process of eliminating “rent seeking”, and promoting a professional civil service based on meritocratic principles. However, if these reforms are to work, they will have to be implemented across the government, and affect ministries where the potential to use positional authority to seek rents is high, or where political loyalty is critical (depending on the functions the ministry performs). Resistance from key ministries may be a “spoiler” that affects the effectiveness of the CSC, and potentially undermines the political will to support reform, or the refuse to recognize the authority of the CSC.

2. The impetus for reform in Azerbaijan may lessen as unexpectedly high revenues resulting from escalating oil prices have allowed the government to cover expenses without necessarily having to address inefficiencies in the system of public administration. Continued revenues from the oil sector may create inertia against change, and lead to a decline in political support for the CSC.

Implementation Risk.

1. Output 1 requires the completion of major recruitment and capacity building activities -- selection and recruitment of staff, and a major training initiative. Many of these activities are highly complex and governed by intangibles (the availability of materials, and equipment, procurement delivery schedules, suitability of candidates, scheduling of training). While these intangibles have been anticipated in the project work plan, they remain an unquantifiable risk to the implementation schedule.

2. Output 2 is dependent on the ability of the CSC to be “stood up” within the timeframe within the work plan (Output 1). A delay in this output will have a cascading effect on the ability to implement Output 2, and may require a re-phasing and extension of the project.

Security Risk.

1. At present Baku is not under any security phase, and the rest of the country, except for the regions bordering the occupied territories, are not under any UN security phase. Security risks will be assessed in accordance to UN security standards. The project will maintain a security risk log as required by UNDP guidelines.

F. Audit Arrangements

The project will be subject to an independent audit as required by UNDP/NEX Guidelines.

G. Other issues:

All project's publications and other visual products should comply with UNDP publication policy.

MONITORING AND EVALUATION

Project monitoring will be performed through four primary mechanisms:

1. **Project Work Plans.** Achievement of project outputs will be tracked through adherence to the output, activity and financial indicators embedded in the Quarterly, Annual and the Total Project Work Plans.
2. **Project Assurance** through the validation of activities and outputs. A designated UNDP Development Advisor will independently verify project milestones and validate the completion of Quarterly Work Plans and review requested changes to the Annual Project Work Plan. Changes to the project Annual Work Plan will be reviewed and approved by the Project Executive Group.
3. **Substantive Performance and Outcome Monitoring and Evaluation.** The draft SPPRSD adopts a three tier monitoring framework for MDG 9. The "Governance" Sectoral Working Group, will continue to meet to review the programme of the CSC in implementing outputs linked to the draft SPPRSD monitoring framework, and will commission an independent report to be presented at an International MDG 9 conference, which will represent the final major milestone of the project. The project will also be evaluated in accordance with UNDP guidelines for Outcome Evaluation.
4. **Monitoring and Communications Plan.** The project will establish, maintain and update a Monitoring and Communications Plan as well as Risk, Issues and Lessons Learned logs (as required under UNDP RBM). These logs will be established concurrently with the preparation of the first Quarterly Work Plan at the inception of the project. They will be maintained by the Project Manager, and reviewed by as part of Project Assurance. The Project Executive Group will consider recommendations arising from the quality assurance reviews and introduce such changes to the project as are deemed necessary for effectiveness, performance and risk mitigation.

The Annual Work Plan (AWP) Monitoring Tool

Year 2007

CP Component: MYFF Goal 2

Executing Entity: Civil Service Commission under the President of the Republic of Azerbaijan

EXPECTED OUTPUTS AND INDICATORS including annual targets	PLANNED ACTIVITIES <i>List all the activities including monitoring and evaluation activities to be undertaken during the year towards stated CP outputs</i>	EXPENDITURES <i>List actual expenditures against activities completed</i>	RESULTS OF ACTIVITIES <i>For each activity, state the results of the activity</i>	PROGRESS TOWARDS ACHIEVING OUTPUTS Using data on annual indicator targets, state progress towards achieving the CP outputs. Where relevant, comment on factors that facilitated and/or constrained achievement of results including: <ul style="list-style-type: none"> ▪ <i>Whether risks and assumptions as identified in the CP M&E Framework materialized or whether new risks emerged</i> ▪ <i>Internal factors such as timing of inputs and activities, quality of products and services, coordination and/or other management issues</i>
OUTPUT 1: E-governance for public service delivery further developed INDICATOR 1.1 WITH TARGET FOR THE YEAR: E-governance introduced into state entities; baseline 6; target: 10	Establishment of testing unit, development and launch of software for competitive exams and conduct of exams for at least 6 ministries			
OUTPUT 2: Components of MDG/SPRED strategy implemented INDICATOR 2.1 WITH TARGET FOR THE YEAR: Components of strategy;	Preparation of strategy and workplan CSC Trainings and study tours for CSC staff on tasks and function of the CSC			

<p>baseline 0, target 3</p> <p>OUTPUT 3: MDG/SPRED awareness raised among public/decision-makers; public participation in the process ensured;</p> <p>INDICATOR 3.1 WITH TARGET FOR THE YEAR: Activities; baseline 10, target 20</p>	<p>Trainings for HR specialists from the government agencies on management of civil servants</p>				
	<p>Development of draft Strategy and Action Plan for civil service reform</p>				
	<p>Development of proposals to improve laws and regulations concerning civil service</p>				
	<p>Conceptualization and drafting of requirements for interactive CSC website;</p>				
	<p>Preparation and posting of materials for the website</p>				
	<p>Production of awareness material for CSC activities</p>				
	<p>Production and dissemination of one monitoring report on Civil Service Reform</p>				

	Organization of MDG 9 Conference on Public Sector Reform and Good Governance			
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LEGAL CONTEXT

The project document shall be the instrument referred to as such in the Article 1 of the Standard Basic Assistance Agreement between the Government of Azerbaijan and the United Nations Development Programme signed on 6 February 2001. The following types of revisions may be made to this project document with the signature of the UNDP Resident Representative only, provided he or she is assured that the other signatories of the document have no objection to the proposed changes.

1. Revisions in, or addition to, any of the annexes of the project document;
2. Revisions which do not involve significant changes in the immediate objectives, outputs or activities of a project, but are caused by the rearrangements of inputs already agreed to or by cost increases due to inflation; and
3. Mandatory annual revisions which re-phase the delivery of agreed project inputs, or reflect increased expert or other costs due to inflation, or take into account agency expenditure flexibility.