

Country: Uzbekistan
Initiation Plan

Project Title: Support to Public Finance Management Reforms in Uzbekistan

Expected UNDAF Outcome 7. By 2020, the quality of public administration is improved for equitable access to quality public services for all.

Related Strategic Plan Outcome: 3. Countries have strengthened institutions to progressively deliver universal access to basic services

Expected CP Output 6. More transparent/accountable/ efficient public finance management for tackling vulnerabilities/inter-regional inequalities promoted.

Initiation Plan Start Date: 01 June 2016

Initiation Plan End Date: 31 December 2016

Implementing Partner: UNDP Direct Implementation / Ministry of Finance

Brief Description

The recent mission of international experts has found that despite some notable progress in certain areas, the reforms in public finance management area in Uzbekistan have progressed slowly and unevenly, with much more progress on the budget execution (ie, introduction of Treasury and streamlining budget control) than on the budget preparation issues (ie, transition to medium term budget framework and introduction of performance-based budgeting). The mission has also acknowledged the crucial role UNDP has played in advancing PFM reforms in the country and has recommended that this support should continue to further advance the important reforms and complete the unfinished business.

This Initiation Plan serves to help UNDP and the Ministry of Finance of Republic of Uzbekistan in formulating a new framework of cooperation in support of PFM reforms for more transparent and efficient use of the state and local budgets in Uzbekistan. The two major outputs of the IP will thus be:

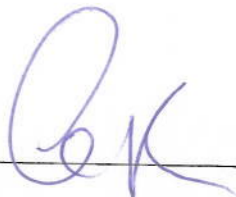
- i) the revision and development/updating of the PFM Reform Strategy in light of the implementation delays and uneven reform progress; and
- ii) the formulation of a new cooperation framework (a project document) in support of the PFM reforms outlined in the updated Strategy.

In addition, the IP will envisage producing a number of supporting knowledge products to meet the immediate needs of formulating the new strategy and the new cooperation framework.

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|---------------------------|----------------------|
| Programme Period: | 2016-2020 |
| CPAP Programme Component: | _____ |
| Atlas Award ID: | _____ |
| PAC Meeting Date | <u>30 June, 2016</u> |

| | |
|----------------------------|-----------|
| Total resources required | USD75,000 |
| Total allocated resources: | _____ |
| • Regular | USD75,000 |
| • Other: | |
| o Donor | _____ |
| o Donor | _____ |
| o Donor | _____ |
| o Government | _____ |
| Unfunded budget: | _____ |
| In-kind Contributions | _____ |

Agreed by UNDP:



I. PURPOSE

The Government of Uzbekistan has adopted a long-term strategic approach to advancing the PFM reform in Uzbekistan. A PFM Reform Strategy covering the period 2007-2018, which has been adopted by the Ministry of Finance (MoF), identifies three main pillars: (i) policy and priority based allocation of resources; (ii) efficiency in delivery of services; and (iii) fiscal discipline. The strategy contains an action plan, which foresees the following: (i) establishment of a fully functioning centralized treasury system; (ii) adoption and implementation of a modern, unified budget and accounting system; and (iii) introduction of a medium-term budget framework (MTBF) and program budgeting. As envisaged by the strategy, the focus of the reform over the medium term (3–5 years) is on improving the efficiency, effectiveness, transparency, and accountability of the budget execution process. Over the long term (10–12 years), the reform aims at improving the results of the budget.

The recent mission of experts¹ has found that **despite some notable progress in certain areas, reforms in public finance management area in Uzbekistan have progressed slowly and unevenly**, with much more progress on budget execution than on budget preparation issues. The mission attributes this to the fact that **the comprehensive reform plan appears rather ambitious in light of the multitude of change processes that were envisioned to take place in parallel.** According to the original PFM Reform Action Plan, three major change processes were scheduled to take place between 2007 and 2011, i.e. (i) the establishment of a Treasury, including changes to the Chart of Accounts (CoA) and introduction of a Treasury Single Account (TSA), (ii) the procurement (and customization) of a Government Financial Management Information System (GFMS), and (iii) budget preparation reforms, including the introduction of program budgeting.

Moreover, accounting reforms, resulting in IPSAS and GFSM 2001-compliant financial reports, were envisioned to be phased in from the beginning of 2009. The action plan was tightly clocked with very little slack in the critical path of reform activities. While the timelines even for some of the individual reform elements appear to be rather short, establishing a Treasury while in parallel introducing program budgeting and establishing a GFMS within roughly four years appears to be very ambitious. The establishment of a modern GFMS is often the lynchpin for budgeting and accounting reforms. For example, introducing a new COA and a new budget classification often requires upgrading or changing the GFMS. The information requirements of performance budgeting approaches are considerable and the GFMS is a critical element of the performance information strategy, which itself needs to be developed in light of the type of performance budgeting mechanism which it is desired to introduce. Besides, many envisioned technical changes require fundamental cultural changes in order to be effective.

The PFM reform efforts by the Government have been supported by different development partners, who provided both technical and financial assistance. Development partner support to PFM reform in Uzbekistan was initially not particularly well coordinated. This has changed with the development of the Government's PFM Reform Strategy, which created a framework for donors active in PFM reform to coordinate their efforts and present a unified approach to supporting PFM reforms in the country. Alongside UNDP, IMF, World Bank, ADB, JICA and KOICA have all been supporting wide range of PFM reform areas in Uzbekistan.

UNDP has been supporting the Government's PFM reform efforts through two dedicated projects since 2007. The focus of the *Public Finance Reform project* (2007-2009) was to assist the Government in

¹ Jorg Nadoll and Sheila Marnie (2016)

enhancing the efficiency of public expenditure through the introduction of medium-term and performance-based budgeting. Furthermore, the project provided support for improvement of accounting and audit systems and bringing them in compliance with International Financial Reporting Standards, International Financial Auditing Standards and revised Tax Code. The recently completed *Budget System Reform (BSR) project* has been under implementation since July 2010 and has intended to strengthen budgetary and public procurement legal frameworks, promote performance-based budgeting and mid-term budget planning methodologies, reform public sector accounting and reporting system, enhance fiscal decentralization through improving intergovernmental fiscal relations, and strengthen PFM capacity of civil servants.

In December 2015, UNDP's BSR project underwent an external evaluation to take stock of the project's progress, its successes and weaknesses. The evaluation found that "*UNDP made a significant positive contribution to advancing PFM reforms*"². The project was aligned with the Government's PFM reform strategy and delivered a considerable number of critical outputs, such as draft legislations and analytical papers on key reform issues. The extent to which these outputs contributed or will contribute to the achievement of higher level results cannot be determined with certainty at this point in time. The project's impact largely depends on whether or not the analytical papers will actually inform the Government's decision-making on respective issues and on whether draft legislations will actually be enacted by the parliament and followed by the executive. Among the critical outcomes achieved by the BSR project was the adoption of a new Budget Code, which had been drafted with the project support.

On the part of the national counterparts, **the Ministry of Finance has been highly appreciative of the UNDP support to budget system reform in Uzbekistan**, and has numerously (at project board meeting and through official exchange of letters) expressed strong will to continue the cooperation.

Given the above context, as well as the strong interest of the Ministry of Finance to continue receiving the support from UNDP in advancing PFM reforms, UNDP sees it necessary to implement a few important activities under the Initiation Plan modality before embarking on a full-fledged cooperation framework under a new joint project. An outline of these activities and outputs is provided in the following section.

2 Arkadi Toritsyn (2015, p. 13)

II. EXPECTED OUTPUT

Given the above context, as well as the strong interest of the Ministry of Finance to continue receiving the support from UNDP in advancing PFM reforms, UNDP sees it necessary to implement a few important activities under the Initiation Plan modality before embarking on a full-fledged cooperation framework under a new joint project. An outline of these outputs and activities is provided in below.

1. Revision of the PFM Reform Strategy

In light of the general delay in implementing reform activities and, especially, the uneven reform progress, there is a need to adjust the Reform Strategy. In its current form, the Strategy cannot serve as an adequate framework to guide PFM-related change processes and corresponding donor support. The Strategy should be revised to better reflect the current reform status and respective requirements for further reform activities. The project (IP) will facilitate the organization of round-table meetings involving key stakeholders from the Ministry of Finance and PFM experts in order to formally review achievements, challenges and lessons learned during the implementation of its PFM Reform Strategy. With the facilitation of the project (IP) the national stakeholders and experts will have to conceptualize on the priorities, goals, and sequencing of the PFM reforms. The team will be expected to come up with a draft of a revised PFM strategy, to be submitted for approval and adoption by the Ministry of Finance.

2. Development of a new joint full-scale project document

Upon adoption of the revised PFM Reform Strategy, the project (IP) will produce a joint full-scale project document with the Ministry of Finance aimed at supporting of the implementation of the revised PFM Reform Strategy. The concrete areas of intervention and their scale will depend on the roadmap of reforms outlined in the revised strategy, while also taking into account the donors' technical assistance plans in PFM reform area. Based on the recommendation of the international expert (Jorg Nadoll, 2016) the preliminary focus areas will consist of: i) medium-term budget planning; ii) transparency and accountability; iii) regional planning & budgeting; and iv) parliamentary oversight.

3. Knowledge products

During the course of its implementation period, the project (IP) will facilitate the production of several analytical notes, which were recommended by the international consultant (Jorg Nadoll, 2016) based on the immediate need and request from the Ministry of Finance:

- *A capacity assessment* (incl. functional review) of the MoF to determine capacity gaps in the context of the outlined move to *medium-term budget planning and program budgeting* (alternatively, this could be one of the first activities under a new project);
- *A review of a sample of development programs* prepared by line ministries in line with Article 85 of the new Budget Code, in order to assess overall quality, comprehensiveness and resulting needs for future support to strengthen them;
- *Assessment of the planning, forecasting, costing and budget management capacities* of line ministries and MoF staff in a sample of regions/ districts to determine needs for related capacity development under a new project;

- *Summary of experiences of other lower middle-income countries* that recently implemented *pension reform* and recommending case studies that could be explored in more details during a country visits.

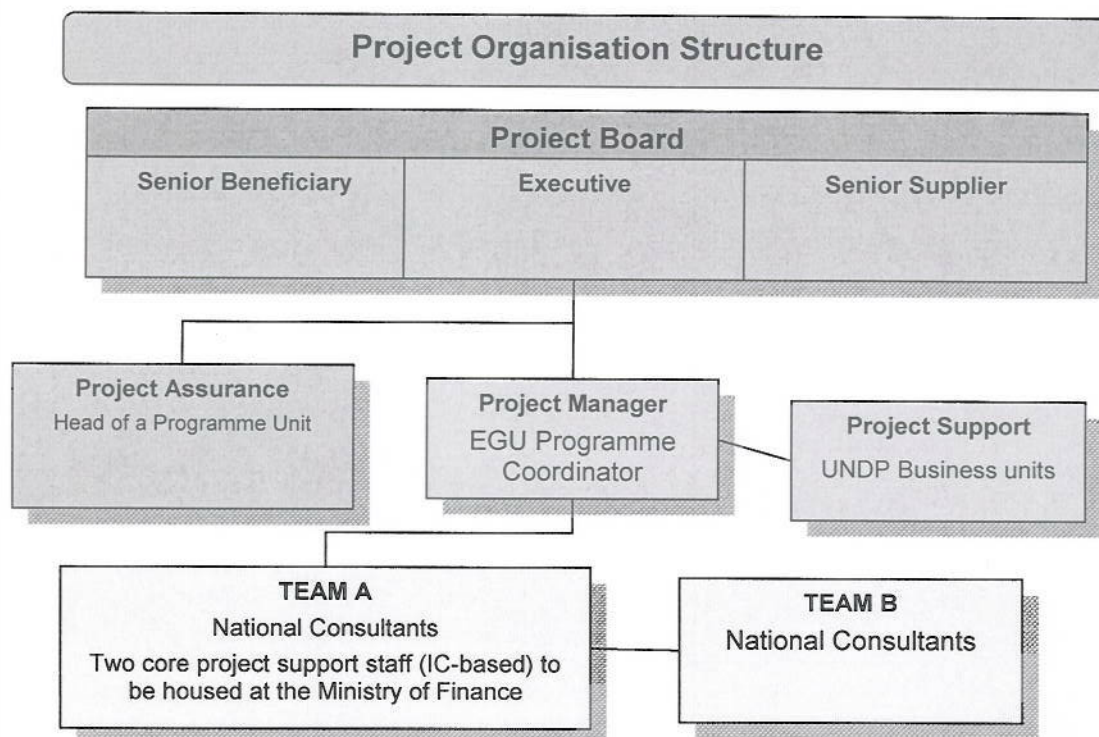
The first three knowledge products will likely require support from an external consultancy, while the work on the pension reform experiences and a possible exposure visit can be co-financed by the State Pension Fund.³

³ The Executive Director of the Pension Fund expressed strong interest in an assessment of the fiscal sustainability of the Uzbek pension fund and in lessons learned during pension reforms in other countries. He indicated his willingness to co-finance related activities.

III. MANAGEMENT ARRANGEMENTS

A short description of the individuals, organisations, and/or team structure required to conduct the activities of the Initiation Plan.

The project activities under this Initiation Plan will be implemented according to the UNDP procedures for direct implementation (DIM), with the Ministry of Finance being the direct beneficiary and key government partner.



Efforts shall be made to the extent possible to ensure gender balance among the members of the Project Board.

Use the diagram below for the composition of the Project Board, if there is a need to establish such a board depending on the size and scope of the Initiation Plan. Please refer to the section "Programme & Project Management Organization Structure".

IV. MONITORING

A description of the monitoring requirements for the Initiation Plan.

Please refer to the Section 2.3 Monitoring Framework and Reporting under the process *Initiating a Project*, to determine how the output and associated activity results shall be monitored, reviewed and assessed, depending on the scope and duration of the Initiation Plan (i.e. an Initiation Plan with a 9 months duration to start-up pilot activities shall require the combination of various monitoring tools and mechanisms, as opposed to a short Initiation Plan established to hire a consultant for the finalization of the Project Document).

As minimum requirement, a Progress Report should be prepared at the end of the Initiation Plan, using the standard format available in the Executive Snapshot. (see *Running a Project*).

Mainstreaming gender issues into project also implies developing monitoring and evaluation mechanisms that will enable to track progress on gender equality goals (if these are included in the project) or to assess the extent to which the project has addressed gender issues and needs and has made an impact on women's and men's lives and gender issues in the country (if gender equality does not figure specifically as a project goal). This should involve developing indicators that provide sex-disaggregated data (data for women and men separately) and information on the positive and negative impact of the project on women and men.

V. RESULTS FRAMEWORK⁴

Intended Outcome as stated in the UNDAF/Country [or Global/Regional] Programme Results and Resource Framework:

Outcome indicators as stated in the Country Programme [or Global/Regional] Results and Resources Framework, including baseline and targets:

Applicable Output(s) from the UNDP Strategic Plan:

Project title and Atlas Project Number:

| EXPECTED OUTPUTS | OUTPUT INDICATORS ⁵ | DATA SOURCE | BASELINE | | TARGETS (by frequency of data collection) | | | | DATA COLLECTION METHODS & RISKS |
|---|--|---|----------|-------------|---|--|---|--|---------------------------------|
| | | | Value | Year | Q2 | Q3 | Q4 | | |
| <p>Output 1 A full-fledged project document developed aimed at supporting the government of Uzbekistan in further advancing Public Finance Management (PFM) reforms in line with a newly revised PFM</p> | <p>1.1 Availability of a revised/new Public Finance Management (PFM) Reform Strategy (Yes/No).</p> | <p>UNDP project reports, Website of the MoF</p> | No | April, 2016 | <p>Working group consisting of national experts formed to review the existing PFM reform strategy</p> | <p>Consultations and round-table discussion held</p> <p>First draft of the revised Strategy prepared and shared among stakeholders</p> | <p>The final draft of the new PFM Reform Strategy is prepared submitted to the government</p> | | |

⁴ UNDP publishes its project information (indicators, baselines, targets and results) to meet the International Aid Transparency Initiative (IATI) standards. Make sure that indicators are S.M.A.R.T. (Specific, Measurable, Attainable, Relevant and Time-bound), provide accurate baselines and targets underpinned by reliable evidence and data, and avoid acronyms so that external audience clearly understand the results of the project.

⁵ It is recommended that projects use output indicators from the Strategic Plan IRRF, as relevant, in addition to project-specific results indicators. Indicators should be disaggregated by sex or for other targeted groups where relevant.

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|-----------------|--|--|----|-------------|--|--|---|--|
| Reform Strategy | 1.2 Availability of a full-scale project document outlining the UNDP support to the Government of Uzbekistan in further advancing Public Finance Management (PFM) reforms in line with a newly revised PFM Reform Strategy | UNDP project reports | No | April, 2016 | | The first draft of the prodoc is developed based on the activities and sequencing of reforms outlined in the new draft PFM Reform Strategy | The prodoc is finalized based on the consultations with the stakeholders (including other donors) | |
| | 1.3 Four new knowledge products produced: | UNDP project reports, Website of the MoF | 0 | | | The draft is shared among UNDP programme staff and discussed internally at a pre-PAC meeting | LPAC conducted | |
| | a. A capacity assessment (incl. functional review) of the MoF to determine capacity gaps in the context of the outlined move to medium-term budget planning and program budgeting | | | | | | | |
| | b. A review of a sample of development programs prepared by line ministries in line with Article 85 of the new Budget Code | | | | | | | |

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|--|---|--|--|--|--|--|---|--|
| | <p>c. <i>Assessment of the planning, forecasting, costing and budget management capacities of line ministries and MoF staff in a sample of regions/ districts</i></p> | | | | | | X | |
| | <p>d. <i>Summary of experiences of other lower middle-income countries that recently implemented pension reform and recommending case studies that could be explored in more details during a country visits</i></p> | | | | | | X | |