

Europe and Central Asia Region (ECA)

The Europe and Central Asia Region's strategy for public sector institutional reform reflects the formidable challenges stemming from the unique institutional legacy of the previous system and the institutional flux resulting from dramatic political and economic transition since the collapse of the Soviet Union. What distinguishes transition from reforms in other countries is the systemic change involved: reform must penetrate to the fundamental “rules of the game” that shape behavior and guide organizations. Reform programs in other countries often pale in comparison to the scale and intensity of the systemic transition from plan to market.

The Region's involvement in institutional reform is recent, and has intensified over the last two years. Key features of our recent work and forward-looking strategy are: (a) an emphasis on building in the users' perspective and strengthening public oversight, with the aim of focusing attention on outcomes and more importantly, generating external, demand-side pressures for reform in the face of powerful internal resistance and weak checks and balances on the state; (b)

diagnosing institutional dysfunction and developing quantitative performance indicators for benchmarking and monitoring progress; (c) an aggressive thrust on anticorruption in countries where corruption is blocking the process of policy and institutional reform and where entry points can be identified; (d) the establishment of a cohesive unit devoted to public sector reform with a balanced skill mix that can spearhead work on new dimensions (including “voice” and participation, and quantitative indicators); and (e) a recognition of the especially difficult and complex challenge of reform in ECA, our limited record of experience, and hence the imperative for managing expectations and actively learning from ongoing efforts.

Experience to date in the Region

The experience in the Region reflects an evolution of priorities from first-generation economic policy reforms with accompanying technical assistance to a greater focus recently on deeper institutional reforms.

The latter approach, however, is at an early stage, and the emphasis is on learning from early experience and refining the operational strategy in an iterative process.

Technical assistance: The early years. When the Bank began supporting ECA countries in the early 1990s, the most immediate challenge was to initiate the process of transition with extremely limited institutional capacity for policy design and implementation. These countries needed to implement quickly a series of policy measures to steer the economies away from heavy state intervention. At the same time, longer-term objectives of transition required building entirely different sets of institutions in both the public and private sectors.

At this early stage, the Bank concentrated on the more immediate policy reform measures with a strong emphasis on macroeconomic stabilization, liberalization, and privatization. The balance between economic policy and institutional reforms also reflected the belief that privatization, the creation of markets, and private sector development were essential for creating an effective *demand* for institutions and the required check and balance upon the state. During these years, the Bank's typical instrument was Institution-Building/Technical Assistance (IBTA) projects, which were designed to augment in the short run the weak institutional capacity of the client government to carry out the necessary policy and structural reforms. The IBTA projects were often the first Bank lending operations in these countries, and thus were designed with very limited country knowledge by Bank staff. They typically covered a wide range of reform areas without tight strategic linkages among them.

The performance of these TA projects seems to have been generally poor. According to a recent QAG review, the early ECA TA projects suffered from weak client commitment and turned into information technology projects with a limited prospect of sustainable impact on institution-building. A review of these projects' components also indicates that there was relative-

ly little variation across countries, suggesting country-specific factors were not adequately taken into account in their designs.⁴

Initiation of broader institutional reforms: The mid-1990s. In the mid-1990s the Region began to develop two types of approaches to supporting public sector institutional reform. The first addressed public resource management and aspects of administrative reforms in the context of adjustment operations. In the Kyrgyz Republic, a number of institutional improvements were accomplished, including a comprehensive modification of the Law on the Principles of the Budget, initiation of a medium-term financial planning process, inclusion of all public investments in the budget, and strengthening of the audit and public procurement systems. The Kazakhstan operation covered these areas, as well as public administration and CSR. The second type of approach aimed to support, in a focused manner, specific functions of the state, such as tax administration (Albania), public finance including the treasury system (Kazakhstan, Ukraine, Hungary), and legal systems (Russia) in order to build up both technical and organizational foundations for modern public administration.

Supporting deeper institutional reforms: The recent years. The last couple of years have witnessed a significant expansion in the scale, scope and depth of public sector institutional reform activities in the Region. The Region signaled its commitment and the importance of public sector institutional reform by setting up an enhanced unit on public sector institutional reform within PREM. Recent work has built upon reform efforts initiated during the mid-1990s, and is trying to deepen its approach to address more fundamental institutional reforms in *fiscal management* (effective linkage of policymaking and budgeting through the introduction of medium-term expenditure frameworks in Bosnia and Herzegovina), *public administration and civil service* (reforming cabinet decisionmaking, and instituting a merit-based civil

service in Kazakhstan and Ukraine) and *legal, regulatory, and judicial reform* (an informed and consultative system of legal drafting in Russia, toward an independent and accountable judiciary in Albania, and inspectorate reform in Latvia). Furthermore, we are working to integrate work across these thematic areas and forge closer links to develop truly integrated approaches to public sector institutional reforms (more closely linking the core legal and judicial reforms with administrative reform by developing a system of administrative law in Azerbaijan, strengthening the accountability mechanisms in the management of financial and human resources in Estonia, and introducing performance and financial performance monitoring in Latvia).

As laid out at the beginning of this paper, we have begun to introduce new strategic elements in our work. These include an enhanced and explicit focus on diagnosing and reforming incentives governing public sector performance, strengthening “voice” and participation, and addressing corruption and checks and balances. To this end, we have made a significant investment in building our knowledge base through analytic work, and we have increased lending operations in both adjustment and accompanying TA.

Diagnosing institutional dysfunction and developing quantitative performance benchmarks. Recent ESW and lending work is seeking to develop quantitative indicators of public sector performance, and link these with hard measurements of associated institutional arrangements (including civil service, policy capacity, and expenditure management). These are then used for setting benchmarks for improvement and designing methods for monitoring whether they have been improved.

Within ESW, the Institutional and Governance Review for Armenia illustrates the Region’s pioneering attempts to diagnose institutions in a systematic and rigorous fashion, and develop a program of actions to be supported by follow-up operations. This IGR examines quantitative indicators of public sector perform-

ance, and then focuses on the health sector as a microcosm to examine problematic outcomes, and the institutional weaknesses that help explain these outcomes, such as weaknesses in contracting mechanisms, civil service incentives, budget unpredictability, and arbitrariness in policy choice. This serves as the launching pad to examine cross-cutting issues in budget management, civil service and cabinet decisionmaking, and accountability and checks and balances on the Executive. The analysis will help us identify concrete entry points for reform to be supported by follow-up operations with explicit performance benchmarks.

Similarly, recent public sector reform loans explicitly develop quantitative benchmarks of public sector performance and associated institutional reforms that are monitored as an integral part of the operation. For instance, the Albania SAC and its companion technical assistance project develop performance and institutional reform benchmarks for each major component (policy formulation and coordination, legal and judicial reform, public administration, service delivery, and mechanisms for oversight). What makes this particularly powerful is the emphasis on public dissemination of these benchmarks and its monitoring by parliament and civil society.

In Azerbaijan, we deferred requests for immediate lending, and opted for an approach that aims to build consensus within government on reform priorities with a public sector strategy paper, and to involve non-governmental stakeholders in workshops to foster ownership. The strategy paper covers a broad gamut of issues such as budget management, audit, procurement, public administration and civil service, and legal and judicial reform. The emphasis is not only on building basic systems, but also on enhancing transparency and accountability by institutionalizing beneficiary surveys on the quality of service delivery. We are in the process of initiating medium-term programmatic lending with supporting TA.

Our approach to single-purpose TA operations is also to tightly weave together quantitative performance benchmarks, associated institutional reforms, and the user perspective. In Latvia, for example, we have supplemented the necessary information technology for modernizing the tax system with explicit measures to improve the management of the organization, including institutionalizing appeals processes and feedback mechanisms such as taxpayer surveys as performance benchmarks. The Russia Treasury operation is similarly using expenditure tracking surveys and deviations between budgets and actuals both to diagnose the underlying institutional dysfunction and to set explicit performance benchmarks for assessing improvements in systemic reforms being supported by the project.

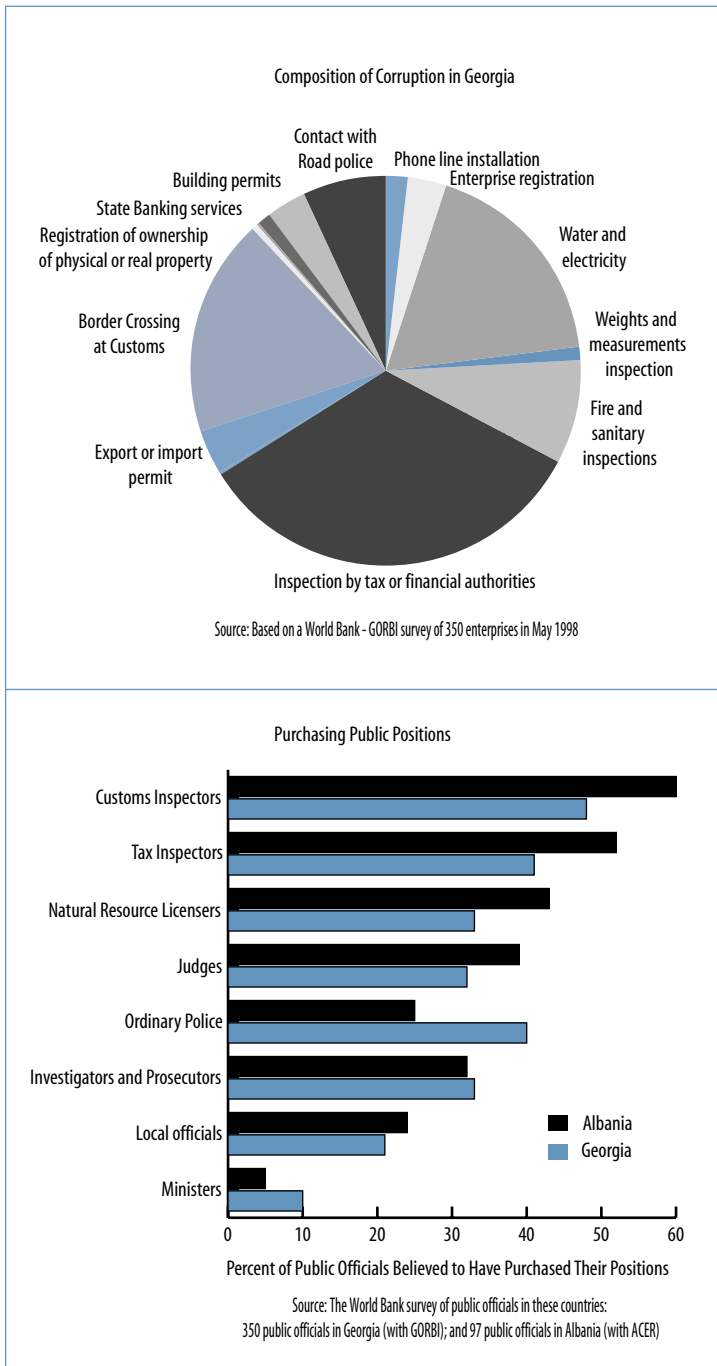
Enhanced emphasis on “voice” and participation. Closely related to the emphasis on benchmarking performance, the Region has begun to explore options other than strengthening internal systems and hierarchy, by strengthening citizen “voice.” As mentioned above, “voice” options have become common features of Bank lending operations, such as public monitoring of institutional reforms and public sector performance in recent adjustment and investment operations. The public dissemination of anticorruption surveys in Albania, Georgia, and Latvia is explicitly designed to build public oversight of the governments’ anticorruption programs and strengthen checks and balances. The People’s Voice Program in Ukraine is another innovative attempt to build civil society participation and institutionalize service delivery surveys at the local level. The Bank-funded Urban Land Management Project in Albania is mobilizing slum residents into formal community associations that contribute monetarily to the provision of certain infrastructure in exchange for a right to regularize and legalize their informal land titles. Such operations can contribute to strengthening public sector institutions in at least two ways: first, the development of strong community associations (social

capital) can result in effective partnership with the public sector for better service delivery; and second, the same community associations can serve as citizens’ watchdog organizations to provide oversight of the state at the local level.

Given the relative weakness of civil society organizations in the region, the incorporation of user perspectives in reform design through surveys is a promising approach. We intend to expand its use, while refining the methodology and developing more varied choices of survey instruments. Simultaneously, the workshops and anticorruption activities that we are supporting are helping to mobilize local NGOs in Georgia, Latvia, and Ukraine, so that they can play a more active role as both watchdogs of government actions and as alternative means of public service delivery. Our emerging conditionality in adjustment operations is requiring governments to publicize the findings of user surveys and their accompanying action plans, as well as periodically and publicly to report on progress in implementing actions and to repeat surveys as benchmarks.

Anticorruption initiatives. Countries in transition rank particularly poorly with respect to corruption, and some governments in the region have requested Bank assistance in combating it. Our approach has been to encourage a firmly country-driven program with the Bank playing only a catalytic role. We have had dialogue with the highest levels of government, and encouraged them to set up high-level working groups, consisting not just of the Executive but also of other branches of government and civil society. One aspect of this catalytic role has been for the Bank to show cross-country empirical evidence that corruption is not just a law enforcement problem, but a symptom of underlying problems stemming from a distorted policy environment and weak institutions of restraint. This has led us to advocate a multi-pronged strategy for combating corruption, combining economic policy reforms

FIGURE 6 Results of Diagnostic Surveys



(deregulation, delicensing), financial controls (audits, procurement), CSR, legal/judicial reform, and building public oversight and transparency.

To advance the anticorruption work, the Region has—in collaboration with DEC/WBI—pioneered the use of diagnostic surveys to identify the pattern and profile of corruption in particular countries. This has included administering three survey instruments: the first, for households ranking the extent of corruption and satisfaction with service delivery by public agencies; the second, for enterprises identifying activities and agencies for which they have to pay illicitly; and the third, for public officials asking how much they have to pay to purchase public positions (Figure 6). The results of these diagnostics have been presented in public workshops, often with powerful impact. They have helped to give concrete substance to the rhetoric of anticorruption, and helped generate a momentum in client countries to act on the specific patterns of corruption.

Recognizing the risk that governments may respond to such results and pressures by political scapegoating and firing individuals, we have emphasized the reforms to address directly underlying institutional dysfunction that create opportunities for corruption. For instance, the structural adjustment credit and supporting TA in Albania tackle two key sources of corruption: patronage in judicial appointments and the civil service. In particular, we are supporting measures to test the professional qualifications of all judges with less than 10 years of

experience, and take appropriate actions against those that do not qualify. We are also helping the government to institute a merit-based civil service for the first time, through introduction of competitive and transparent recruitment processes. And to strengthen public oversight and transparency, the program requires government to publicize its anticorruption action plan (including the findings of the diagnostics on the nature and profile of corruption), as well as monitor and publicly report progress in implementing the action plan, together with NGOs.

In Georgia, the diagnostic work reveals excessive licensing and regulations as the principal sources of corruption. Our strategy has been to leverage the Strategic Compact funds for upstream country dialogue and consensus-building among the various stakeholders; to utilize the existing procurement IDF and the SAC III to put in place the legal and institutional framework for procurement, licensing and tax administration reform; and to follow up with a future operation that deepens and extends the institutional reforms so far achieved.

In Latvia, the diagnostic revealed that high-level corruption is quite serious. The Government has clearly acknowledged this problem, and asked for our support in developing a strategy to address these and other problems of governance. Together, we prepared a programmatic SAL, which included a comprehensive three-year plan for reform of public administration, budget management, the judiciary, and regulation of infrastructure monopolies and other firms. A key feature of this program is the strengthening of institutions to reveal and resolve conflicts of interest, which are at the heart of the problem of high-level corruption.

Finally, we are seeking to mainstream a concern for corruption by building anticorruption measures into the design of sectoral projects, such as the competitive restructuring of gas sectors or in the reform of health systems. As explained further below, progress in this area has been slow, but we are advancing.

The challenges ahead

Mainstreaming. The Region has made only limited progress in mainstreaming an institutional focus in recent years. The challenge is to learn about institutional reform in other sectors and help fine-tune and facilitate such reforms in conjunction with the broader public sector reform strategy. While ECSPE concentrates its activities on reforming and developing core government functions, parallel efforts at strengthening policymaking, regulatory and service delivery capacities in various sectors are imperative for the Region's work in institutional reform as a whole to have an ultimate impact on the ground.

Efforts to mainstream institutional issues are underway. The recent CASs on Azerbaijan, Albania, Bulgaria, and Russia for instance, accord a central role to governance and public sector institutional reform. These CASs not only support reform of the core public sector and cross-cutting anticorruption initiatives as a principal priority, but also seek to improve governance and public sector reform in the design of sectoral projects. The CAS for Azerbaijan seeks to introduce governance indicators (user satisfaction from service delivery and reduction of corruption levels) as core benchmarks.

Mainstreaming also requires giving attention to cross-cutting institutional issues. One such issue is the role of project implementation units (PIUs) in Bank-financed projects, and their impacts on institutional development. PIUs play useful roles in project management, particularly in those countries where the government's capacity to manage development projects is minimal. But there is now evidence that use of stand-alone PIUs often frustrates long-term institutional development by creating enclaves within the public sector and distorting incentives of the staff both within and outside the PIUs. The Region is conducting a systematic review of PIUs, with a view toward enhancing institutional development while still ensuring effective project implementation.

To support efforts at mainstreaming, we propose a three-part strategy of collaboration with country and sector units in the Region.

- *Country Focus:* ECSPE in collaboration with other sector units will work with a country unit to develop a comprehensive approach to institutional reform across major sectors in a given country. Such an effort could start with an IGR or a public sector strategy paper. Needless to say, strong leadership and coordination by the country director will be essential for such an arrangement to be effective. This strategy has been piloted in Latvia. Armenia and Azerbaijan also may be appropriate candidates for piloting this approach.
- *Sector Focus:* In addition, ECSPE will collaborate with a particular sector unit to develop a coherent sector institutional reform strategy across several countries. Given the progress made in the Armenia IGR, the health sector seems to be a promising area for such a collaboration. This collaborative effort will entail helping conduct institutional assessments for the particular sector (health) in a few key countries and participating in the design and supervision of institutional reform and development components of sector projects.
- *Thematic Focus:* The third modality is to pick a cross-cutting institutional issue—for instance, public expenditure management—and work with several sector units in several countries. ECSPE could provide support in assessing public expenditure management at the sectoral level and contribute to designing and supervising project components in this area.

Assessing political readiness for reform and building consensus. Institutional reform alters the incentives facing politicians, bureaucrats and other social elites. Thus, even if reform is necessary for development, the political leadership may not find it desirable. Even if the leadership desires change, the opposition may block implementa-

tion. We first look for the credible commitment of the highest-level government officials as a necessary step to initiate a dialogue. For those countries with more tentative commitment, we ask the government to take an even tougher set of up-front actions to demonstrate its readiness.⁵ Despite these attempts, it remains to be seen whether powerful losers from reform will nevertheless prevail in blocking institutional reforms that the Region is supporting.

Activities and instruments. We envisage an enhanced emphasis on ESW to improve continuously our understanding of “what exists on the ground” and to draw lessons from reform experiences. We expect the Armenia IGR to serve as a useful pilot for providing an analytical and empirically rigorous but practical document to inform our understanding of institutional realities and the sequence of operations to support. PERs will inextricably weave in institutional dimensions of public expenditure management as a regular feature. For example, the Macedonia Public Expenditure and Institutional Review will analyze not only the sustainability of the fiscal program, but also its institutional drivers, particularly the rigidity in the expenditure program and the decision-making process. Other ESW, such as the CEMs on EU accession countries, will also continue to have institutional chapters diagnosing realities on the ground relative to the requirements of accession.

An important ECA initiative that has contributed to our understanding of the problem of corruption in the post-communist world is the preparation of a report entitled *Anticorruption in Transition: A Contribution to the Policy Debate*. This report, which was released at the 2000 Annual Meetings in Prague, examines forms of corruption in transition economies, including the problem of “state capture” in some countries whereby powerful economic interests purchase decrees and legislation for their private benefit. The report traces the origins and consequences of corruption, and highlights the reforms that lead to improvement. While the document itself has been valuable for the audience at the Annual Meetings,

the process of developing the report has afforded ECSPE an opportunity to step back and evaluate the state of knowledge about anticorruption reforms. Next year, we are planning an initiative that more broadly examines the performance of public sector, as well as private sector institutions, with the goal of developing a strategy to promote the mainstreaming of institutional reforms.

As for lending instruments, ECSPE plans to move more systematically and aggressively toward longer-term programmatic lending instruments (PSALs, and APLs), with disbursements conditional upon improvements in system performance. Presently, we envisage PSAL-type operations for Macedonia, Bulgaria, Armenia and Georgia. We expect these longer-term programmatic adjustment loans to be accompanied by supporting TA. We also envisage more operations like the Ukraine Public Sector APL, which will approach reform of institutions in key areas on a sequential basis over a period of time.

One of the lessons of experience is the importance of ensuring that adjustment and TA operations complement each other. Adjustment operations tend to bring high-level financial leverage to place appropriate institutional issues on the government's agenda and to induce necessary policy changes. But they do not allow the Bank to offer day-to-day input into the quality and nature of the technical assistance, which is still critical for supporting concrete actions for institutional reform and development. TA operations alone, on the other hand, run the risk of supporting discrete activities without an overall strategic program that is required for comprehensive and sustained implementation of the reform efforts. TA operations may also lack leverage to bring about difficult, yet necessary, policy actions. Furthermore, many countries in the region have been reluctant to borrow from the Bank for TA partly because other donors offer TA on a grant basis. As long as TA serves an important purpose of transferring our technical knowledge to the client countries, the Region needs to reflect further on how best to use TA in considering the appropriateness of some of the newly proposed lending instruments, such as PSALs.

Organization, staffing, and partnerships. The Region has set up a strong unit on public sector institutional reform. The group is staffed with specialists who, as a group, combine thematic specialization in core areas, analytic skills, as well as practitioner experience. The demand for public sector work from country units has increased rapidly, which has been reflected in the growth of ECSPE to around 30 staff, including some in the field. No further expansion is planned at this stage except in audit and tax administration, where we are seeking a sharing arrangement with other Regions or the network anchor. Rather than spread ourselves too thin, the objective is to consolidate, focus on existing commitments, and go deeper in existing areas with a view to achieving demonstrable success. The challenge is for the team to continue to function as a cohesive unit, sharing experiences and seeing reforms in our client countries through over a period of time.

A major goal of our strategy work is to solidify existing external and internal partnerships and build new ones. Only a comprehensive approach is likely to pay real dividends, and the Bank simply cannot do it all by itself, given the limitations of expertise and the constraints imposed by its role and mandate. Indeed, other multilateral and bilateral aid organizations, such as SIGMA, EU-Tacis, and EU-Phare, have considerable experience in assisting ECA countries in public sector reform. Close collaboration with the EU is an integral part of our strategy to support EU accession in general, and to strengthen public sector institutional capacity in particular. Close relationships should also be maintained with various public administration commissions and concerned foundations and NGOs, as well as relevant academic and other institutions.

Managing expectations and institutionalizing learning. Our work with public sector institutional reform is at an early stage. Reform in this area is complex, often politically very difficult, and takes time. The Soviet legacy and the dynamics of the transition make our tasks even more challenging. One central challenge is to manage the

expectations of quick fixes. Another is to institutionalize a learning process to adapt and fine-tune our operational strategy as we proceed. We have yet to see whether our emerging knowledge base, the design of our operations, and the implementation of reforms indeed yield intended results. It will be critical to build evaluation and performance monitoring into our work. We are using both the Bank-wide and the cluster

thematic groups to engage in a learning process. However, results of learning are not always easy to measure, and therefore expectations about outcomes should be appropriately modulated.

The importance of these lessons have also been disseminated in the Prague 2000 report *Anticorruption in Transition*, which highlights the magnitude of the challenge and the importance of managing expectations.

Armenia: Institutional and Governance Review

Type of Activity: Analytic and Advisory Activity

Timing: Fiscal 2000

Summary of Contents

The Armenia IGR focuses on:

- Country-level empirical diagnostics, detailed examination of specific potential targets of reform, and the resulting implications for strengthening public institutions consistent with the political realities that emerge from the analysis. The IGR is examining: (a) the current status of public sector performance and development of key public institutions and (b) the underlying causes.
- The hypothesis is that the two critical institutional issues confronting Armenia are the unbalanced development of policy capacity, and underdeveloped institutions of accountability. The IGR attempts to draw conclusions for expected future outcomes, providing policy recommendations, especially on sequencing reform for achieving sustainable institutional development. The policy recommendations cover core institutional and governance-related reform areas such as public expenditure management, public service reform and decisionmaking processes.
- Moreover, the IGR emphasizes the importance of explicitly addressing institutional concerns to improve sectoral policymaking and service delivery (using the health sector as an example).
- It takes into account the broader political and institutional context, as well as exogenous shocks that influence or constrain reform opportunities. An assessment of the political economy behind institutional constraints and opportunities has been a crucial input into the IGR. This considerably expands the boundaries of work so far since it explores political economy issues.
- It emphasizes the importance of institutional reforms and issues for sectoral policymaking and implementation, an area that has been neglected so far. The IGR is an important step in mainstreaming institutional concerns into the Bank's broader agenda, as it shows that institutional reforms should be an integral part of any sectoral reform agenda and that institutional dysfunction, if not taken into account, can affect or even counter sectoral reform approaches.
- It is a pioneering attempt to develop quantitative tools for assessing public sector performance and a range of specific assessment instruments and approaches for replication in other countries.

Partnerships

During the preparation of the IGR all development partners including UNDP have been consulted. It is expected that the IGR will form the basis for subsequent operational work in this area. Since institutional reforms require substantive technical assistance, this will involve close coordination with UNDP.

Innovative / Risky Elements

The Armenia IGR is the pilot IGR for the ECA Region.

Latvia: Governance PSAL

Type of Activity: Loan

Timing: 2000 – 2003

Loan Amount: \$100 million (tentative)

Summary of Contents

To support the Government of Latvia in its reform process, the Bank has prepared a Governance PSAL. The PSAL considers a 3-year reform horizon, emphasizing in the first year, the design of the reform program and in subsequent years, its implementation. A special set of benchmarks consists of achievements in anticorruption at the legislative and executive level and in the judiciary, including specific actions to target conflict of interest and to support the separation of powers. Further benchmarks measure achievements in introducing greater efficiency and transparency in the public sector. They include: (a) strengthening the institutions that coordinate and monitor public sector and anticorruption reform; (b) supporting the development of instruments for multi-year planning and control, including budget management and performance monitoring; (c) reforming the institutional structure of the public sector; (d) strengthening the incentives and accountability of public sector employees; (e) rationalizing the interaction between the public and private sectors by streamlining the system of regulation and fostering privatization; (f) introducing mechanisms for the public to provide feedback on the performance of the public sector as well as to litigate against the state; and (g) increasing the access of public to public sector information.

Innovative / Risky Elements

One of the most innovative and politically challenging elements of this agenda is the reform of public sector agencies. In a number of developed countries, a decision has been taken to devolve some public sector functions to autonomous agencies. These agencies are designed to operate based on private sector principles that combine flexibility in personnel and budget management with adequate accountability mechanisms. The types of functions that are best delegated to agencies are those functions whose performance is most easy to monitor using quantitative indicators. Unfortunately, GoL has devolved a broader set of functions to autonomous agencies, most of which cannot be easily monitored because appropriate accountability mechanisms were not put in place. Agencies favor this status for this reason and because the restrictive system of public sector pay, as well as other regulations, do not bind them. The overuse of autonomous agencies has resulted in much informality, waste, and abuse, and is believed to be an important source of corruption in the system and of loss of control over budget resources. The PSAL agenda includes establishing a legal framework for the creation and transparent operation of agencies, and implementing it within a two-year framework. The success of this reform is closely linked to success in other parts of the PSAL agenda, most notably the reform of public sector pay and promotion practices.

Russia: Russian Federation Treasury

Type of Activity: Loan

Timing: Fiscal 2000-06

Loan Amount: \$200 million

Summary of Contents

The project has been designed as a response to the Government's request for assistance in developing a modern treasury. While the proposed project will address the core requirements for establishing treasury functions, the design of the program has been developed from an assessment of broader institutional weaknesses in the budget management system. As core support for treasury development, the project will provide technical assistance, computer equipment and software and training to enable the Government to design and implement procedures and systems, related regulations and training programs for budget execution, treasury operations and cash management. Design of the project also includes institutional review of the treasury function, its interdependence with other functions of budget formulation and audit, and subsidiary components of the project are expected to provide support in these areas. The investment is designed as an APL. A broad set of monitoring indicators capture not only effectiveness of treasury controls, but also other aspects of the budget system, especially budget formulation and audit, which are essential for the treasury

reform to lead to substantial improvements in budget performance and transparency. The indicators will be used in adjusting the focus of later phases of the program to ensure support for any emerging weak areas in the broader program.

Innovative / Risky Elements

Implementation of the treasury system in Russia is a key requirement for strengthening public expenditure control and the transparency of the fiscal system. The project follows other experience in the Region and elsewhere in supporting treasury development, but locates such support within a broader budget management agenda and proposes to use some recently developed monitoring tools in order to identify primary bottlenecks in the program. The project and the treasury development program are linked with the wider country program. First, implementation of the treasury program is included as a key element in CAS triggers. In line with the new guidelines proposed for adjustment lending, the counterpart funds from SAL3 and other adjustment loans are tracked to ensure disbursement into an account under treasury control and supporting only public expenditure funded from the Treasury Single Account, thus reinforcing support for treasury development and encouraging rapid expansion of the scope of the coverage of the treasury system.